

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.



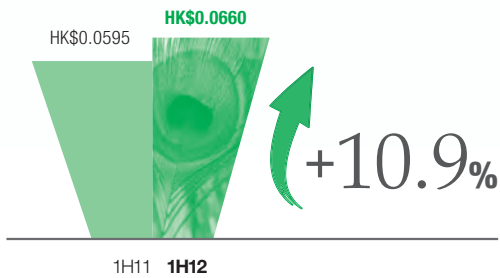
“In Chinese culture, peacock is a symbol of wealth and prosperity. Its delicate and splendid feather structure symbolizes the sustainable growth of Prosperity REIT based on the solid foundations diligently established over the years and the high quality of the properties under the portfolio. Its noble and resplendent feather signifies the strong results delivered by Prosperity REIT to its unitholders.”

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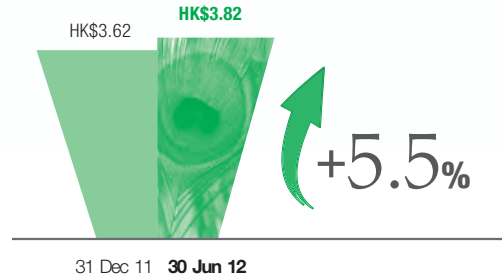
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Performance Highlights

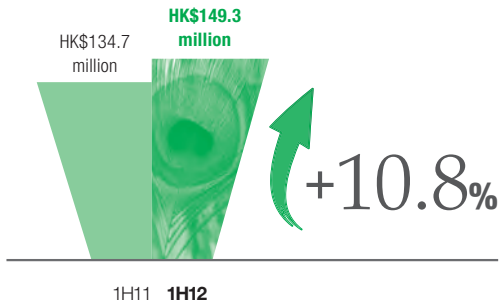
Distribution Per Unit¹



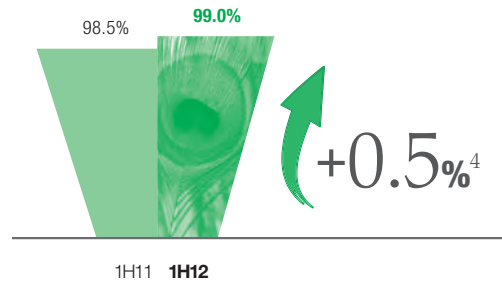
Net Asset Value Per Unit²



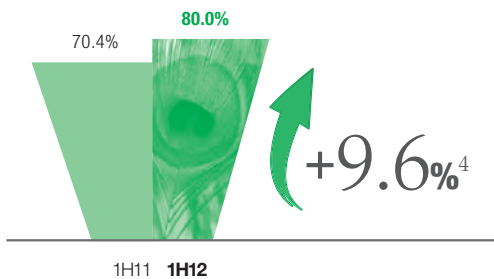
Revenue¹



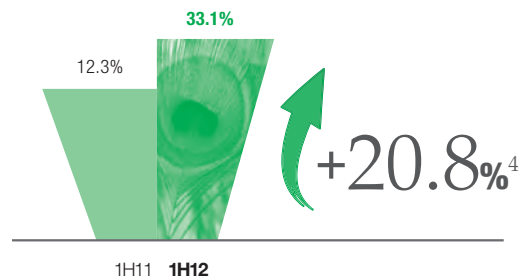
Occupancy Rate³



Tenant Retention Rate¹



Rental Reversion Rate¹



¹ Year-on-year comparison ² As at year/ period end ³ As at 30 June ⁴ Absolute change

	Six months ended 30 Jun 2012 (unaudited)	Six months ended 30 Jun 2011 (unaudited)	Percentage change Increase (Decrease)
Distribution per unit ("DPU")	HK\$0.0660	HK\$0.0595	10.9%

Key Financial Figures

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

Operation Data

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

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

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

¹ Absolute change

Management Discussion and Analysis

Operations Review

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

Information about the properties in the portfolio, as at 30 June 2012, are as follows:

	Location	Gross rentable area Sq. ft.	No. of car park spaces	Valuation HK\$ Million	Occupancy rate
Grade A Office					
The Metropolis Tower	Hung Hom	271,418	98	2,637	99.2%
Prosperity Millennia Plaza	North Point	217,955	43	1,539	100.0%
Harbourfront Landmark (portion)	Hung Hom	77,021	—	414	100.0%
Industrial/Office					
Prosperity Place	Kwun Tong	240,000	60	1,056	97.7%
Trendy Centre	Lai Chi Kok	173,764	79	759	97.4%
Prosperity Center (portion)	Kwun Tong	149,253	105	667	100.0%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	240	100.0%
Total		1,215,579	407	7,312	99.0%

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

Proactive leasing strategies and strong tenant relations have always been the key pillars of Prosperity REIT’s business strategies, serving as the important contributing factors to its outstanding business performance during the six months ended 30 June 2012 (the “Reporting Period”). During the Reporting Period, the tenant retention rate of Prosperity REIT’s portfolio recorded a strong 80.0%, while the average effective unit rent rose to HK\$16.22 per sq. ft..

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

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

Investment Review

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

Asset Enhancement

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

Management Discussion and Analysis

The Metropolis Tower

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

Prosperity Place

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

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

Outlook

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

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

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

Financial Review

The revenue and net property income of each property in the portfolio for the Reporting Period are summarized as follows:

	Turnover	Rental related income	Revenue	Net property income
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Grade A Office				
The Metropolis Tower	39,454	9,292	48,746	38,572
Prosperity Millennia Plaza	25,134	6,090	31,224	24,824
Harbourfront Landmark (portion)	8,395	2,550	10,945	9,117
Industrial/Office				
Prosperity Place	21,104	68	21,172	15,453
Trendy Centre	14,965	2,917	17,882	14,078
Prosperity Center (portion)	12,225	1,399	13,624	10,246
Industrial				
New Treasure Centre (portion)	4,879	845	5,724	4,197
Total	126,156	23,161	149,317	116,487

Management Discussion and Analysis

Revenue

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

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

Net Property Income

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

Distributable Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$90.8 million, representing a DPU of HK\$0.0660. This represents an annualized distribution yield of 7.5%² per unit. The distributable income for the Reporting Period is calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial period, as adjusted to eliminate the effects of certain Adjustments (as defined in the trust deed constituting Prosperity REIT (the "Trust Deed")) including a finance cost of HK\$5 million (equivalent to HK\$0.0037 per unit) due to the interest rate swap, which have been recorded in the condensed consolidated statement of comprehensive income for the Reporting Period.

Distribution

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

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

Liquidity and Financing

As at 30 June 2012, Prosperity REIT had facilities in an aggregate of HK\$2,200 million, comprising a HK\$1,770 million term loan facility and a HK\$430 million revolving credit facility, each for a term of five years expiring on 16 August 2015. The whole term loan facility was fully drawn on 16 December 2010 and a revolving credit facility of HK\$10 million was drawn as at 30 June 2012. The term loan is repayable in five years from 16 August 2010 and will mature and become payable on 16 August 2015. The revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity.

The term loan facility and the revolving credit facility bear interest at a variable rate. In order to hedge against the interest rate fluctuations under the term loan, Prosperity REIT through its wholly-owned finance company, entered into a plain vanilla interest rate swap agreement to fix the interest rate of 80% of the term loan, being HK\$1,416 million, for a period from 16 December 2010 to 16 June 2015 at the swap rate of 1.335%, excluding the spread of 0.81%.

The total borrowings of Prosperity REIT, excluding the origination fees, as a percentage of Prosperity REIT's gross assets was 24.2% as at 30 June 2012, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 29.4%.

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

Management Discussion and Analysis

Investment Properties and Property Valuation

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

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

Charges on Assets

As at 30 June 2012, certain properties of Prosperity REIT, with an aggregate carrying value of HK\$7,251 million, were pledged to secure bank loan facilities of Prosperity REIT's finance company.

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

Employees

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

Corporate Governance

The REIT Manager was established for the purpose of managing Prosperity REIT. 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.

The REIT Manager is committed to the establishment of good corporate governance practices and procedures. During the Reporting Period, the terms of reference of the Audit Committee and the terms of reference of the Board of Directors of the REIT Manager (the “Board”) in respect of corporate governance functions as stated in the Compliance Manual were revised by reference to the recent amendments on the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) in order to further enhance corporate governance practices of the REIT Manager. The Compliance Manual was also amended to expressly allow, among other things, the use of electronic means and Prosperity REIT’s website for corporate communication to unitholders in order to reflect the amendments made on 29 December 2011 to the Trust Deed in relation to the electronic communication.

Board of Directors of the REIT Manager

The Board 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.

Corporate Governance

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 of the Board and Chief Executive Officer (“CEO”) 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 CEO.

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. 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. 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 CEO and an Executive Director, and Mr. Lan Hong Tsung, David, an INED. Ms. Wong Lai Hung, Mavis is the chairman of the Disclosures Committee.

Designated (Finance) Committee

The REIT Manager has 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 CEO 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.

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 executive officers and other employees of the REIT Manager.

Specific enquiry has been made with the Management Persons, executive 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 during the Reporting Period.

Corporate Governance

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 2011 of Prosperity REIT, the REIT Manager received notifications regarding the following changes of Directors' information during the Reporting Period:

1. Mr. Lim Hwee Chiang ceased to be the Senior Vice President of Asia Pacific Real Estate Association and the Vice President of Hong Kong-Singapore Business Association with effect from 31 January 2012 and 15 June 2012 respectively.
2. Ms. Wong Lai Hung, Mavis has become a Member of The Hong Kong Institute of Directors with effect from 1 June 2012.
3. Mr. Wong Kwai Lam has become a member of the Nomination Committee of K. Wah International Holding Limited established on 22 March 2012.

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 Friday, 7 September 2012 to Wednesday, 12 September 2012, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the interim distribution, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on Thursday, 6 September 2012. The payment date of interim distribution will be on Tuesday, 18 September 2012.

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 2012	Rental deposit received as at 30 June 2012
			HK\$	HK\$
Goodwell Property Management Limited	Subsidiary of a significant holder ¹	Tenancy of property of Prosperity REIT ³	626,994	335,433
E-Park Parking Management Limited	Subsidiary of a significant holder ¹	Tenancy of property of Prosperity REIT ⁴	130,528	61,064
Hutchison Telephone Company Limited	Subsidiary of an associate of a significant holder ²	Licence of property of Prosperity REIT ⁵	34,000	18,912
Total			791,522	415,409

¹ Significant holder being Cheung Kong (Holdings) Limited ("Cheung Kong").

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

³ For 2/F, Units 302–303, 306–307 & 703, New Treasure Centre.

⁴ For Unit 306, Prosperity Place.

⁵ For installation of micro-transmission station equipment at Prosperity Place.

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 2012 HK\$
Goodwell Property Management Limited ¹	Subsidiary of a significant holder ³	Remuneration of DMC Manager	88,723
Goodwell Property Management Limited ²	Subsidiary of a significant holder ³	Remuneration of Carpark Manager	3,549
Citybase Property Management Limited ¹	Subsidiary of a significant holder ³	Remuneration of DMC Manager	129,453
Citybase Property Management Limited ²	Subsidiary of a significant holder ³	Remuneration of Carpark Manager	30,000
Harbourfront Landmark Premium Services Limited ¹	Subsidiary of an associate of a significant holder ⁴	Remuneration of DMC Manager	105,337
Total			357,062

¹ 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.

² 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.

³ Significant holder being Cheung Kong.

⁴ 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 2012 HK\$
Goodwell-Prosperity Property Services Ltd	Subsidiary of a significant holder ¹	Property management and lease management fee	3,393,110
Goodwell-Prosperity Property Services Ltd	Subsidiary of a significant holder ¹	Marketing service fee	4,879,250
E-Park Parking Management Limited	Subsidiary of a significant holder ¹	Carpark lease agency fee	915,027
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee fee	1,054,644
ARA Asset Management (Prosperity) Limited	REIT Manager	Base fee and variable fees	17,758,437
Cheung Kong Companies ²	Subsidiaries and associates of a significant holder ¹	Back-office support service fee	474,594
Total			28,475,062

¹ Significant holder being Cheung Kong.

² 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).

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 2012 are as follows:

Name of Connected Party	Amount payable HK\$
Goodwell-Prosperity Property Services Limited	3,340,116
Goodwell Property Management Limited	7,544,036
E-Park Parking Management Limited	315,246
Citybase Property Management Limited	189,524
Harbourfront Landmark Premium Services Limited	374,348
Total	11,763,270

Purchase, Sale or Redemption of Units

During the Reporting Period, other than the disposal of 10,549,000 units by the REIT Manager which the REIT Manager had received as payment of its management fee, there was no purchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or its subsidiaries.

Connected Party Transactions

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 2012		As at 31 December 2011
	Number of Units	Percentage of Unitholdings ⁵	Number of Units
Total Win Group Limited ¹	176,328,129	12.86%	176,328,129
Wide Option Investments Limited ¹	98,883,559	7.21%	98,883,559
HKSCC Nominees Limited ²	1,003,206,303	73.17%	993,587,385
HSBC ³	250	0.00002%	35,437
ARA Asset Management (Prosperity) Limited ⁴	506	0.00004%	307

Notes:

- (1) 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 2012. 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 2012. 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 2012. Wide Option is a wholly-owned subsidiary of HWL, which in turn is 49.9% owned by Cheung Kong.

Cheung Kong was therefore deemed to hold 275,211,688 units as at 30 June 2012, of which 176,328,129 units were held by Total Win and 98,883,559 units were held by Wide Option.

- (2) 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 2012. So far as the REIT Manager is aware of, HKSCC Nominees Limited held such units as a nominee.

- (3) 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 2012 and 31 December 2011. The directors, senior executives, officers and their associates of the Trustee were not beneficially interested in any units as at 30 June 2012 and were beneficially interested in 35,187 units as at 31 December 2011. The controlling entity, holding company, subsidiary or associated company of the Trustee were beneficially interested in 250 units as at 30 June 2012 and 31 December 2011.
- (4) 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 2012.
- (5) The total number of issued units as at 30 June 2012 is 1,370,991,728.

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 2012.

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

As at 30 June 2012, 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 ²
	Direct Interest	Indirect Interest	
ARA Asset Management (Prosperity) Limited	506		0.00004%
Lim Hwee Chiang ¹		506	0.00004%

Notes:

- (1) Mr. Lim Hwee Chiang is deemed to be interested in 506 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.
- (2) The total number of issued units as at 30 June 2012 is 1,370,991,728.

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 2012.

Report on Review of Condensed Consolidated Financial Statements



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

Introduction

We have reviewed the condensed consolidated financial statements set out on pages 24 to 47, which comprises the condensed consolidated statement of financial position of Prosperity Real Estate Investment Trust as of 30 June 2012 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 condensed consolidated financial statements 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 condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on the condensed consolidated financial statements 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 condensed consolidated financial statements 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.

Conclusion

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

16 August 2012

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2012

	Notes	Six months ended 30 June	
		2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)
Revenue	4	149,317	134,736
Property management fees		(3,393)	(3,122)
Property operating expenses	6	(29,437)	(27,010)
Total property operating expenses		(32,830)	(30,132)
Net property income		116,487	104,604
Interest income		44	338
Manager's fee		(17,759)	(15,615)
Trust and other expenses	7	(3,722)	(3,532)
Increase in fair value of investment properties		314,547	702,275
Finance costs	8	(21,824)	(22,292)
Profit before taxation and transactions with unitholders		387,773	765,778
Taxation	9	(11,617)	(10,074)
Profit for the period, before transactions with unitholders		376,156	755,704
Distribution to unitholders		(90,844)	(80,593)
Profit for the period, after transactions with unitholders		285,312	675,111
Other comprehensive income			
Change in fair value of cash flow hedge		(12,292)	32,732
Total comprehensive income for the period, after transactions with unitholders		273,020	707,843
Income available for distribution to unitholders		90,844	80,593
Basic earnings per unit (HK\$)	10	0.27	0.56

Distribution Statement

For the six months ended 30 June 2012

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

Notes:

- (i) In accordance with the Trust Deed, Prosperity Real Estate Investment Trust ("Prosperity REIT") is required to distribute to unitholders not less than 90% of its distributable income for each financial period and it is the ARA Asset Management (Prosperity) Limited (the "REIT Manager")'s stated policy to distribute 100% of the distributable income. Pursuant to the Trust Deed, distributable income is defined as the amount calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial period, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) which have been recorded in the condensed consolidated statement of comprehensive income for the relevant financial period.

Distribution Statement

For the six months ended 30 June 2012

These Adjustments for the half year comprise:

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2012

	Notes	30 June 2012 HK\$'000 (unaudited)	31 December 2011 HK\$'000 (restated)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	11	7,312,000	6,991,000
Current assets			
Trade and other receivables	12	8,851	8,265
Tax recoverable		—	44
Bank balances and cash		37,834	52,945
Total current assets		46,685	61,254
Total assets		7,358,685	7,052,254
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments	13	33,470	21,178
Secured term loan	14	1,738,319	1,733,270
Deferred tax liabilities		126,235	119,777
Total non-current liabilities, excluding net assets attributable to unitholders		1,898,024	1,874,225
Current liabilities			
Trade and other payables	15	136,557	133,038
Amounts due to related companies	16	11,763	11,431
Secured revolving loan	14	10,000	35,000
Provision for taxation		5,434	320
Manager's fee payable		9,010	8,640
Distribution payable		90,844	82,925
Total current liabilities		263,608	271,354
Total liabilities, excluding net assets attributable to unitholders		2,161,632	2,145,579
Net assets attributable to unitholders		5,197,053	4,906,675
Units in issue ('000)	17	1,370,992	1,360,443
Net asset value per unit (HK\$) attributable to unitholders	18	3.82	3.62

Condensed Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 30 June 2012

	Issued units HK\$'000 (unaudited)	Unit issue costs HK\$'000 (unaudited)	Hedging reserve HK\$'000 (unaudited)	Retained profits HK\$'000 (unaudited) (restated)	Total HK\$'000 (unaudited)
Net assets attributable to unitholders as at 1 January 2012, as previously reported	2,858,584	(91,278)	(21,178)	1,706,155	4,452,283
Prior year adjustments in respect of change in accounting policy	—	—	—	454,392	454,392
Net assets attributable to unitholders as at 1 January 2012, as restated	2,858,584	(91,278)	(21,178)	2,160,547	4,906,675
OPERATIONS					
Profit for the period, before transactions with unitholders	—	—	—	376,156	376,156
Distribution paid and payable	—	—	—	(90,844)	(90,844)
	—	—	—	285,312	285,312
Change in fair value of cash flow hedge	—	—	(12,292)	—	(12,292)
Total comprehensive income for the period	—	—	(12,292)	285,312	273,020
UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS					
Units issued to REIT Manager	17,358	—	—	—	17,358
Net assets attributable to unitholders as at 30 June 2012	2,875,942	(91,278)	(33,470)	2,445,859	5,197,053

For the six months ended 30 June 2011

	Issued units HK\$'000 (unaudited)	Unit issue costs HK\$'000 (unaudited)	Hedging reserve HK\$'000 (unaudited)	Retained profits HK\$'000 (unaudited) (restated)	Total HK\$'000 (unaudited)
Net assets attributable to unitholders as at 1 January 2011, as previously reported	2,827,131	(91,278)	(32,311)	890,581	3,594,123
Prior year adjustments in respect of change in accounting policy	—	—	—	281,993	281,993
Net assets attributable to unitholders as at 1 January 2011, as restated	2,827,131	(91,278)	(32,311)	1,172,574	3,876,116
OPERATIONS					
Profit for the period, before transactions with unitholders	—	—	—	755,704	755,704
Distribution paid and payable	—	—	—	(80,593)	(80,593)
	—	—	—	675,111	675,111
Change in fair value of cash flow hedge	—	—	32,732	—	32,732
Total comprehensive income for the period	—	—	32,732	675,111	707,843
UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS					
Units issued to REIT Manager	14,975	—	—	—	14,975
Net assets attributable to unitholders as at 30 June 2011	2,842,106	(91,278)	421	1,847,685	4,598,934

Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2012

	Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Net cash from operating activities	115,998	103,793
Net cash used in investing activities	(6,409)	(6,387)
Net cash (used in) from financing activities:		
Origination fees	—	(799)
(Repayment) drawdown of secured revolving loan	(25,000)	284,000
Interest payment of term loan and revolving loan	(16,775)	(17,261)
Distribution to unitholders	(82,925)	(73,534)
	(124,700)	192,406
Net (decrease) increase in cash and cash equivalents	(15,111)	289,812
Cash and cash equivalents at beginning of the period	52,945	29,832
Cash and cash equivalents at end of period, represented by bank balances and cash	37,834	319,644

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

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 ARA Asset Management (Prosperity) Limited (the “REIT Manager”) and HSBC Institutional Trust Services (Asia) Limited (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, 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 “Interim Financial Reporting” and the relevant disclosure requirements set out in Appendix C of the REIT Code issued by the Securities and Futures Commission of Hong Kong.

The REIT Manager is of the opinion that, taking into account the fair value of investment properties, presently available banking facilities and internal financial resources, 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 2012

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

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

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

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

Amendments to HKAS 12 "Income Taxes"

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

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

3 Principal Accounting Policies (Continued)

Amendments to HKAS 12 “Income Taxes” (Continued)

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

Summary of the effect of the above change in accounting policy

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

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

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

3 Principal Accounting Policies (Continued)

Summary of the effect of the above change in accounting policy (Continued)

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:

	As at 31 December 2011 (originally stated) HK\$000		As at 31 December 2011 (restated) HK\$000	
		Adjustment HK\$000		
Total effects on net assets attributable to unitholders				
Deferred tax liabilities	574,169	(454,392)		119,777
	As at 1 January 2011 (originally stated) HK\$000		As at 1 January 2011 (restated) HK\$000	
		Adjustment HK\$000		
Total effects on net assets attributable to unitholders				
Deferred tax liabilities	388,340	(281,993)		106,347

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

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

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

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

4 Revenue

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

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

6 Property Operating Expenses

	Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Building management expenses	14,541	13,549
Utilities	3,422	2,836
Car park operating expenses	1,909	2,038
Marketing service fee	4,879	4,219
Lease commission	768	729
Repairs and maintenance	1,307	858
Valuation fees (paid to principal valuer)	150	85
Audit fee	553	537
Back-office support service fee	454	416
Others	1,454	1,743
	29,437	27,010

7 Trust and Other Expenses

	Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Audit fee	123	119
Trustee's fee	1,055	893
Bank charges	617	550
Legal and professional fees	253	240
Registrar fee	300	300
Back-office support service fee	21	35
Public relations-related expenses	86	160
Trust administrative expenses	1,267	1,235
	3,722	3,532

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

8 Finance Costs

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

9 Taxation

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

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

Deferred tax is provided on temporary differences relating to accelerated tax depreciation and tax losses using the estimated tax rate.

10 Earnings Per Unit

The basic earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$376,156,000 (2011 (restated): HK\$755,704,000) by the weighted average of 1,370,881,375 (2011: 1,350,666,123) units in issue during the period, taking into account the units issuable as manager's fee for its service in the last quarter of the relevant distribution period.

11 Investment Properties

	30 June 2012 HK\$'000 (unaudited)	31 December 2011 HK\$'000 (audited)
FAIR VALUE		
At beginning of the period/year	6,991,000	5,934,000
Additional expenditure	6,453	12,946
Increase in fair value of investment properties	314,547	1,044,054
At end of the period/year	7,312,000	6,991,000

On 30 June 2012 and 31 December 2011, an independent valuation was undertaken by Colliers International (Hong Kong) Limited. The firm is an independent qualified professional valuer not connected to the Group and have 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 and cross-checked by sales evidences available on the market. 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.

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.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

11 Investment Properties (Continued)

Certain of the Group's investment properties as at 30 June 2012, with aggregate carrying value of HK\$7,251,000,000 (31 December 2011: HK\$6,933,000,000), have been pledged to secure banking facilities granted to the Group.

12 Trade and Other Receivables

	30 June 2012 HK\$'000 (unaudited)	31 December 2011 HK\$'000 (audited)
Trade receivables	424	204
Less: allowance for doubtful debts	(66)	(108)
	358	96
Deposits, prepayments and other receivables	8,493	8,169
	8,851	8,265

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

	30 June 2012 HK\$'000 (unaudited)	31 December 2011 HK\$'000 (audited)
1–30 days	116	96
31–90 days	126	—
Over 90 days	116	—
	358	96

13 Derivative Financial Instruments

	30 June 2012 HK\$'000 (unaudited)	31 December 2011 HK\$'000 (audited)
Cash flow hedges — interest rate swap		
Non-current liabilities	33,470	21,178

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 entered in 2010 will mature on 16 June 2015. This contract has fixed interest payments at 1.335% per annum and has floating interest receipts at three months HIBOR for periods up until 16 June 2015. The REIT Manager designated the interest rate swap as effective hedging instrument.

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 2012

14 Borrowings

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

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 is repayable on demand.

Both the term loan and revolving loan are 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.

The origination fees consist of advisory fee and front-end fee with respect to the banking facility and are included in measuring the borrowings at amortised cost.

15 Trade and Other Payables

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

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

	30 June 2012 HK\$'000 (unaudited)	31 December 2011 HK\$'000 (audited)
1–30 days	1,311	2,217
31–90 days	162	134
Over 90 days	1,275	117
	2,748	2,468

Tenants' deposits represent the deposits refundable to tenants upon termination or cancellation of operating lease arrangements and amounts outstanding for ongoing costs. The tenants' deposits are refundable to tenants within 45 days upon the termination of the tenancy agreement. The tenants' deposits to be settled after twelve months from the reporting period based on the lease terms amounted to HK\$61,159,000 (2011: HK\$54,852,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

16 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.

17 Units in Issue

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

Subsequent to the period end date, 4,770,590 units at HK\$1.8854 per unit were issued to the REIT Manager as settlement of base fee and variable fee for the period from 1 April 2012 to 30 June 2012.

18 Net Asset Value Per Unit Attributable to Unitholders

The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve, amounting to HK\$33,470,000 (31 December 2011: HK\$21,178,000), and the total number of 1,370,991,728 units in issue as at 30 June 2012 (31 December 2011: 1,360,442,529).

19 Major Non-Cash Transaction

During the period, the REIT Manager earned a fee of HK\$17,759,000 (2011: HK\$15,615,000) of which HK\$17,728,000 (2011: HK\$15,589,000) was paid or payable through the issuance of units to the REIT Manager. An amount of HK\$8,733,000 (2011: HK\$7,411,000) had been settled through the issuance of units to the REIT Manager while the balance of HK\$8,995,000 (2011: HK\$8,178,000) included in other payables will be paid in units subsequent to the period end.

20 Net Current Liabilities

As at 30 June 2012, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$216,923,000 (31 December 2011: HK\$210,100,000).

21 Total Assets Less Current Liabilities

As at 30 June 2012, the Group's total assets less current liabilities amounted to HK\$7,095,077,000 (31 December 2011: HK\$6,780,900,000).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2012

22 Connected and Related Party Transactions

In addition to the information disclosed above, during the period, the Group entered into the following transactions with connected and related parties:

	Notes	Six months ended 30 June	
		2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Rent and rental related income from			
E-Park Parking Management Limited	(a)	131	116
Goodwell Property Management Limited	(a)	627	627
Hutchison Telephone Company Limited	(b)	34	24
Tremayne Investments Limited	(b)	—	9,399
Carpark lease agency fee for the operations of the Group's carpark			
E-Park Parking Management Limited	(a)	915	710
Property management fee			
Goodwell-Prosperity Property Services Limited	(a)	3,393	3,122
Marketing service fee			
Goodwell-Prosperity Property Services Limited	(a)	4,879	4,219
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited		1,055	893
Manager's fee			
ARA Asset Management (Prosperity) Limited		17,759	15,615
Back-office support service fee			
Cheung Kong Companies	(c)	475	451

22 Connected and Related Party Transactions (Continued)

Balances with connected and related parties are as follows:

	Notes	30 June 2012 HK\$'000 (unaudited)	31 December 2011 HK\$'000 (audited)
Amount due to			
Cheung Kong (Holdings) Limited	(a)	—	2
Citybase Property Management Limited	(a)	190	1,136
Goodwell-Prosperity Property Services Limited	(a)	3,340	3,262
Goodwell Property Management Limited	(a)	7,544	6,067
Harbourfront Landmark Premium Services Limited	(b)	374	705
E-Park Parking Management Limited	(a)	315	259
Deposits placed with the Group for the lease of the Group's properties			
E-Park Parking Management Limited	(a)	61	61
Goodwell Property Management Limited	(a)	335	335
Hutchison Telephone Company Limited	(b)	19	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 subsidiaries, an associate and a jointly controlled entity of CKH being Cheung Kong Real Estate Agency Limited, Randash Investment Limited, Hutchison Hotel Hong Kong Limited and Harbour Plaza Metropolis Limited.

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\$357,000 (2011: HK\$292,000).

Performance Table

Results Analysis

	Six months ended 30 June	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited) (restated)
Revenue	149,317	134,736
Net property income	116,487	104,604
Profit for the period, before transactions with unitholders	376,156	755,704
Income available for distribution	90,844	80,593
Basic earnings per unit (HK\$)	0.27	0.56
Distribution per unit (HK\$)	0.0660	0.0595

Major Assets and Liabilities

	30 June 2012 HK\$'000 (unaudited)	31 December 2011 HK\$'000 (restated)
Investment properties	7,312,000	6,991,000
Secured bank loans, excluding origination fees	(1,780,000)	(1,805,000)
Net assets attributable to unitholders	5,197,053	4,906,675
Net asset value per unit (HK\$)	3.82	3.62
Other Information		
The highest traded price during the period/year (HK\$)	1.84	2.00
The highest discount of the traded price to net asset value	(51.8%)	(44.8%)
The lowest traded price during the period/year (HK\$)	1.52	1.33
The lowest discount of the traded price to net asset value	(60.2%)	(63.3%)
The net yield per unit based on market price at the end of period/year ¹	7.5%¹	8.0% ¹

- (1) Annualised yield based on the distribution per unit of HK\$0.0660 for the six months ended 30 June 2012 and last traded price of HK\$1.77 as of 29 June 2012. For the year ended 31 December 2011, the yield is based on the distribution per unit of HK\$0.1202 and the closing market price of HK\$1.50 as at 30 December 2011.

Investment Properties Portfolio

As at 30 June 2012

Property	Type	Lease term	Lease expiry date	Location	Valuation
					30 June 2012
					HK\$ Million
The Metropolis Tower	O	Medium-term lease	30 June 2047	10 Metropolis Drive Hung Hom Kowloon Hong Kong	2,637
Prosperity Millennia Plaza	O	Medium-term lease	30 June 2047	663 King's Road North Point Hong Kong	1,539
Harbourfront Landmark (portion)	O	Medium-term lease	30 June 2047	11 Wan Hoi Street Hung Hom Kowloon Hong Kong	414
Prosperity Place	I/O	Medium-term lease	30 June 2047	6 Shing Yip Street Kwun Tong Kowloon Hong Kong	1,056
Trendy Centre	I/O	Medium-term lease	30 June 2047	682 Castle Peak Road Lai Chi Kok Kowloon Hong Kong	759
Prosperity Center (portion)	I/O	Medium-term lease	30 June 2047	25 Chong Yip Street Kwun Tong Kowloon Hong Kong	667
New Treasure Centre (portion)	I	Medium-term lease	30 June 2047	10 Ng Fong Street San Po Kong Kowloon Hong Kong	240
Total					7,312

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
*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
Independent Non-executive Director

Company Secretary of the REIT Manager

Seng Sze Ka Mee, Natalia

Trustee

HSBC Institutional Trust Services (Asia) Limited

Auditor of Prosperity REIT

Deloitte Touche Tohmatsu

Principal Valuer

Colliers International (Hong Kong) Limited

Principal Bankers

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

Legal Advisers

Baker & McKenzie

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, Wan Chai
Hong Kong

Stock Code

The Stock Exchange of Hong Kong Limited: 808

Investor Relations

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Fax: +852 2169 0968
Email: prosperityenquiry@ara.com.hk

Website

www.prosperityreit.com

Key Dates

Interim Results Announcement
16 August 2012

Closure of Register of Unitholders
for interim distribution
7 September 2012 to
12 September 2012 (both days inclusive)

Payment of interim distribution
18 September 2012

This interim report 2012 (in both English and Chinese versions) ("Interim Report") has been posted on Prosperity REIT's website at www.prosperityreit.com and the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk. Unitholders who have chosen (or are deemed to have consented) to receive Prosperity REIT's Corporate Communication (including but not limited to annual report, interim report, notice of meeting, listing documents, circular and proxy form) by electronic means through Prosperity REIT's website and who for any reason have difficulty in receiving or gaining access to the Interim Report on Prosperity REIT's website may request the printed copy of the Interim Report free of charge.

Unitholders may at any time change their choice of means of receipt (i.e. in printed form or by electronic means through Prosperity REIT's website) and/or language of Prosperity REIT's Corporate Communication by reasonable prior notice in writing to Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited either by post or by email to prosperityreit.ecom@computershare.com.hk.

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Portfolio Map 物業分佈圖



- | | | |
|--|--|---|
| <p>1 The Metropolis Tower
都會大廈</p> <p>2 Prosperity Millennia Plaza
泓富產業千禧廣場</p> <p>3 Harbourfront Landmark
Property*
海名軒物業*</p> <p>4 Prosperity Place
泓富廣場</p> | <p>5 Trendy Centre
潮流工貿中心</p> <p>6 Prosperity Center Property*
創富中心物業*</p> <p>7 New Treasure Centre
Property*
新寶中心物業*</p> | <p> Airport Express
機場快線</p> <p>  MTR
港鐵</p> |
|--|--|---|

* Portion
部份

www.prosperityreit.com

Prosperity REIT is managed by
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泓富產業信託
由泓富資產管理有限公司管理



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