



Prosperity Real Estate Investment Trust

(a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))
(Stock Code: 808)

Managed by



ARA Asset Management (Prosperity) Limited

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2007

Prosperity Real Estate Investment Trust ("**Prosperity REIT**") is a real estate investment trust incorporated by a trust deed entered into on 29 November 2005, as amended by a first supplemental deed dated 12 December 2005 and a second supplemental deed dated 15 May 2007 (collectively, the "**Trust Deed**") entered into between ARA Asset Management (Prosperity) Limited, as the manager of Prosperity REIT (the "**Manager**"), and HSBC Institutional Trust Services (Asia) Limited, as the trustee of Prosperity REIT. Prosperity REIT was the first private sector Real Estate Investment Trust ("**REIT**") to list on The Stock Exchange of Hong Kong Limited on 16 December 2005 ("**Listing Date**"). Prosperity REIT owns a diverse portfolio of seven high-quality commercial properties in Hong Kong.

The Manager is pleased to announce the audited consolidated results of Prosperity REIT and its subsidiaries for the year ended 31 December 2007 together with comparative figures for the corresponding period in 2006 as follows:

Performance Highlights

| | <u>Year ended 31 Dec 2007</u> | <u>Year ended 31 Dec 2006</u> | <u>Percentage change Increase/(Decrease)</u> |
|-------------------------------|-------------------------------|-------------------------------|--|
| Distribution per unit ("DPU") | HK\$0.1298 | HK\$0.1201 | 8.1% |

| <u>Operation data</u> | <u>Year ended 31 Dec 2007</u> | <u>Year ended 31 Dec 2006</u> | <u>Percentage change Increase/(Decrease)</u> |
|------------------------------|-------------------------------|-------------------------------|--|
| Revenue | HK\$244.6 million | HK\$217.1 million | 12.7% |
| Net property income | HK\$192.8 million | HK\$167.5 million | 15.1% |
| Cost-to-revenue ratio | 21.2% | 22.8% | (7.0%) |
| Occupancy rate (as at 31/12) | 98.4% | 97.4% | 1.0% |
| Tenant retention rate | 59.5% | 74.9% | (20.6%) |
| Average effective unit rent | HK\$13.38 per sq. ft. | HK\$11.98 per sq. ft. | 11.7% |

| <u>Key financial figures</u> | <u>As at 31/12/2007</u> | <u>As at 31/12/2006</u> | <u>Percentage change Increase/(Decrease)</u> |
|------------------------------|-------------------------|-------------------------|--|
| Net asset value per unit | HK\$2.50 | HK\$2.38 | 5.0% |
| Property valuation | HK\$5.225 billion | HK\$4.864 billion | 7.4% |
| Gearing ratio ** | 33.5% | 35.0% | (4.3%) |

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

DISTRIBUTABLE INCOME

The annual distributable income of Prosperity REIT to unitholders for the year from 1 January 2007 to 31 December 2007 (the “**Reporting Year**”), amounted to HK\$165,727,000, which was 9.4% higher than in 2006. The annual distributable income for the Reporting Year is calculated by the Manager as representing the consolidated net profit of Prosperity REIT and the subsidiaries of Prosperity REIT for that distribution period, after provision for tax, as adjusted to eliminate the effects of adjustments (as defined in the Trust Deed) including finance cost of HK\$68,675,000 (equivalent to HK\$0.0538 per unit) due to the interest rate swap, which have been recorded in the consolidated income statement.

DISTRIBUTION

It is the policy of the Manager to distribute to unitholders an amount equal to 100% of Prosperity REIT's annual distributable income for the financial year ended 31 December 2007. 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.

The distributable income of the half year from 1 July 2007 to 31 December 2007 is HK\$84,396,000, equivalent to a DPU of HK\$0.0659. The interim DPU for the six months from 1 January 2007 to 30 June 2007 was HK\$0.0639, and the total DPU for the Reporting Year is HK\$0.1298, exceeding 2006's total DPU of HK\$0.1201 by 8.1%. The distribution will be paid on Friday, 25 April 2008.

RESULTS

A solid performance was delivered by Prosperity REIT in the 2007 financial year. Total DPU to unitholders increased by 8.1% as total revenue and net property income improved significantly by 12.7% and 15.1% respectively, year-on-year (“**YoY**”). Prosperity REIT's property valuation rose by 7.4% YoY and the net asset value per unit improved to HK\$2.50. This reflects the strong organic growth achieved through the Manager's professional expertise, as well as the steady uptrend in Hong Kong's commercial property sector.

I am pleased to announce that our unitholders will be entitled to a total DPU of HK\$0.1298 for the year ended 31 December 2007, representing an attractive distribution yield of 8.4%, based on its closing price of HK\$1.54 on 31 December 2007.

MARKET REVIEW

Hong Kong's economy continued to thrive in 2007, fuelled by robust domestic demand and booming economic growth in Mainland China. Hong Kong's Gross Domestic Product grew by 6.3% in 2007 as compared to the year before.

Buoyant economic conditions are expected to persist in 2008 as trading activities benefit from a weak US dollar, domestic consumption gets boosted by negative real interest rates, and the highly anticipated 2008 Olympics in Beijing further propels the Mainland economy. On the back of upbeat market sentiment and China's impressive economic growth of 11.4% YoY in 2007, it is expected that Hong Kong's business and property sectors will continue to enjoy a positive spillover effect.

The Hong Kong economy, and particularly the real estate sector, will also benefit from the current low interest rate environment. Since the beginning of the year, local banks have already reduced best lending rates by 1%. The US Federal Reserve is expected to adopt a more relaxed monetary policy over the medium term in order to promote economic stability, and further rate cuts appear imminent. The low interest rate environment will reduce funding costs for capital expenditure and also facilitate Prosperity REIT's growth via opportunistic acquisitions.

Amidst the continued expansion of the Mainland and Hong Kong economies, companies engaged in trading, transportation and service industries have seen steady growth. This has contributed to the demand for commercial and industrial space in Hong Kong. With a strategic geographical location and established legal system, Hong Kong continues to attract new market players. Coupled with the mounting expansion needs of the financial and professional services sectors, demand for office space in Hong Kong has escalated and resulted in soaring rents in the core business districts and intensified relocation into decentralized business districts. Prosperity REIT's portfolio of high-quality office and industrial/office buildings in strategic locations has been able to capitalize on this trend of decentralization and achieve strong organic growth.

Leasing activities in the industrial and industrial/office sectors have also been boosted by the opening of the Hong Kong-Shenzhen Western Corridor in July 2007 and further trade liberalization under the Closer Economic Partnership Arrangements. The Hong Kong government's recent announcement of 10 major infrastructure projects is expected to further facilitate the development of logistics business in the territory and reinforce Hong Kong as a regional logistics and trading centre.

OPERATION REVIEW

Prosperity REIT recorded another strong performance in 2007, supported by robust economic growth, together with proactive leasing and asset management efforts. In 2007, revenue grew by 12.7% YoY to HK\$244.6 million, while net property income rose by 15.1% YoY to reach HK\$192.8 million.

As at 31 December 2007, Prosperity REIT's portfolio occupancy improved to 98.4% from a year ago. The average effective unit rent rose by 11.7% YoY to HK\$13.38 per sq. ft., reflecting the Manager's proactive and effective leasing strategies.

With increased revenue and continuous cost rationalization, the cost-to-revenue ratio improved to 21.2% from 22.8% in the previous year. Gearing ratio was also lowered to 33.5% as at the end of 2007, enhancing Prosperity REIT's financial foundation for future acquisitions and growth.

GOING FORWARD

Looking ahead, we are confident that 2008 will be another good year for Prosperity REIT. With the low interest rate environment and thriving economic growth in both Hong Kong and Mainland China, the demand for office and industrial space is expected to maintain its strong momentum. The Manager is committed to implementing well-planned asset enhancement initiatives and proactive business strategies, as well as pursuing yield accretive acquisitions with a view to generating greater returns to unitholders.

ACKNOWLEDGEMENT

I would like to express my gratitude to the outstanding efforts of the management team of the Manager, Goodwell-Prosperity Property Services Limited as the property manager of Prosperity REIT, as well as my fellow Board members. Most of all, I thank you, our unitholders, for your continued support and confidence in Prosperity REIT.

Chiu Kwok Hung, Justin
Chairman
ARA Asset Management (Prosperity) Limited
as manager of Prosperity REIT

Hong Kong, 12 March 2008

MANAGEMENT DISCUSSION AND ANALYSIS

Operation Review

Prosperity REIT owns a geographically diversified 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, with a total gross rentable area of 1,215,579 sq. ft., and 407 car park spaces.

Information on the portfolio of properties as at 31 December 2007 is as follows:

| | Location | Gross rentable area <i>Sq. ft.</i> | No. of car park spaces | Valuation <i>HK\$ Million</i> | Occupancy rate |
|---------------------------------|----------------|---------------------------------------|------------------------|----------------------------------|----------------|
| Grade A Office | | | | | |
| The Metropolis Tower | Hunghom | 271,418 | 98 | 1,970 | 99.3% |
| Prosperity Millennia Plaza | North Point | 217,955 | 43 | 1,080 | 99.4% |
| Harbourfront Landmark (portion) | Hunghom | 77,021 | – | 350 | 100.0% |
| Industrial/Office | | | | | |
| Modern Warehouse | Kwun Tong | 240,000 | 60 | 609 | 98.6% |
| Trendy Centre | Cheung Sha Wan | 173,764 | 79 | 568 | 94.7% |
| Prosperity Center (portion) | Kwun Tong | 149,253 | 105 | 482 | 100.0% |
| Industrial | | | | | |
| New Treasure Centre (portion) | San Po Kong | 86,168 | 22 | 166 | 95.9% |
| Total | | 1,215,579 | 407 | 5,225 | 98.4% |

The commercial property markets in Hong Kong flourished in 2007, fueled by expansion of the finance and professional services sectors. Coupled with the Manager's professional management expertise, Prosperity REIT was able to deliver an impressive performance in the Reporting Year.

| | Occupancy rate (%) <i>As at 31 Dec 07</i> | Occupancy rate (%) <i>As at 31 Dec 06</i> | Percentage change Increase/(Decrease) |
|---------------------------------|--|--|--|
| Grade A Office | | | |
| The Metropolis Tower | 99.3 | 96.5 | 2.9% |
| Prosperity Millennia Plaza | 99.4 | 100.0 | (0.6%) |
| Harbourfront Landmark (portion) | 100.0 | 100.0 | - |
| Industrial/Office | | | |
| Modern Warehouse | 98.6 | 96.5 | 2.2% |
| Trendy Centre | 94.7 | 94.1 | 0.6% |
| Prosperity Center (portion) | 100.0 | 97.4 | 2.7% |
| Industrial | | | |
| New Treasure Centre (portion) | 95.9 | 100.0 | (4.1%) |
| Portfolio | 98.4 | 97.4 | 1.0% |

A high occupancy rate of 98.4% was recorded as at 31 December 2007. The average effective unit rent rose 11.7% YoY, reflecting the Manager's progressive and effective leasing strategies.

As a result of increased revenue coupled with the Manager's efficient streamlining of operations, the cost-to-revenue ratio improved to 21.2%. Gearing ratio also narrowed to 33.5% as at end 2007, which will offer more financing headroom for yield accretive acquisitions.

Investment Review

The Manager is focused on delivering growth to unitholders by capitalizing on acquisition opportunities in the commercial and industrial sectors in Hong Kong. In January 2007, we successfully completed two acquisitions - the entire 10th floor and additional units on the 26th floor in Prosperity Center, thereby increasing Prosperity REIT's ownership control in Prosperity Center. We believe that the acquisition will contribute to higher economies of scale in operations management.

The Manager is now assessing potential acquisition opportunities in the Grade A office sector of major cities in the Mainland with expanding business catchments. The properties to be acquired must not only provide sustainable cash flow returns but possess further growth potential from asset enhancements initiatives.

Financial Review

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

| | Turnover <i>HK\$'000</i> | Rental related income <i>HK\$'000</i> | Revenue <i>HK\$'000</i> | Net property income <i>HK\$'000</i> |
|---------------------------------|------------------------------------|---|-----------------------------------|---|
| Grade A Office | | | | |
| The Metropolis Tower | 68,169 | 15,242 | 83,411 | 68,964 |
| Prosperity Millennia Plaza | 35,837 | 10,842 | 46,679 | 35,766 |
| Harbourfront Landmark (portion) | 13,864 | 2,161 | 16,025 | 13,934 |
| Industrial/Office | | | | |
| Modern Warehouse | 34,117 | 384 | 34,501 | 26,392 |
| Trendy Centre | 23,672 | 5,559 | 29,231 | 21,895 |
| Prosperity Center (portion) | 21,740 | 2,854 | 24,594 | 19,371 |
| Industrial | | | | |
| New Treasure Centre (portion) | 8,462 | 1,725 | 10,187 | 6,458 |
| Total | <u>205,861</u> | <u>38,767</u> | <u>244,628</u> | <u>192,780</u> |

Revenue

During the Reporting Year, revenue stood at HK\$244.6 million, which was HK\$27.5 million or 12.7% higher than 2006.

The revenue comprised HK\$205.9 million of rental and car park income, plus HK\$38.7 million of rental related income. Rental and car park income was HK\$25.5 million or 14.1% above 2006. The increase was mainly due to an effective and proactive lease management leading to overall improvement in average effective rent.

Net Property Income

Net property income was HK\$192.8 million, exceeding 2006 by HK\$25.3 million or 15.1%. The cost-to-revenue ratio also improved to 21.2% from 22.8% in 2006. The improvement was a result of the increase in revenue and Manager's effective cost control measures.

Liquidity and Financing

As at 31 December 2007, Prosperity REIT had a facility of HK\$1,900 million, comprising a HK\$1,770 million term loan facility and a HK\$130 million revolving credit facility, each for a term of five years. The whole term loan facility was fully drawn on the Listing Date and revolving credit facility balance was HK\$25 million as at 31 December 2007. The term loan is repayable five years from the date of the drawdown. The revolving facility will be repaid on each maturity date and can be redrawn upon maturity.

Each of the term loan facility and the revolving credit facility bears interest at a variable rate. In order to hedge against fluctuations in interest rate under the term loan, effective on the Listing Date, Prosperity REIT's finance company entered into interest rate swap agreement for a total notional amount equivalent to HK\$1,770 million. Under the terms of the interest rate swap arrangement, the interest rate of the term loan portion of the facility will be fixed from the Listing Date until 16 December 2010 at an average interest rate of 1.4% per annum.

The total borrowings of Prosperity REIT, excluding the origination fees, as a percentage of Prosperity REIT's gross assets was 33.5% as at 31 December 2007, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 41.5%.

Prosperity REIT with a cash balance of HK\$23.9 million and available revolving credit facility of approximate HK\$105 million as at 31 December 2007, has sufficient financial resources to satisfy its commitments and working capital requirements.

Balance Sheet Highlights

Investment properties and property valuation

For the year ended 31 December 2007, Prosperity REIT's portfolio recorded an investment property revaluation surplus of HK\$309.8 million, based on a professional valuation performed by an independent valuer, Knight Frank Petty Limited. The movements of fair values are tabulated below:

| | 31 Dec 2007 HK\$' 000 | 31 Dec 2006 HK\$' 000 |
|---|---------------------------|---------------------------|
| Fair value at beginning of the financial year | 4,864,000 | 4,548,000 |
| Acquisitions | 43,403 | - |
| Additional expenditure | 7,760 | - |
| Increase in fair value during the year | 309,837 | 316,000 |
| Fair value at the end of year | <u>5,225,000</u> ===== | <u>4,864,000</u> ===== |

Charges on Assets

As at 31 December 2007, the seven properties of Prosperity REIT, with aggregate carrying value of HK\$5,182 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\$1,900 million, comprising a HK\$1,770 million term loan facility and a HK\$130 million revolving credit facility.

Employees

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

REPURCHASE, SALE OR REDEMPTION OF UNITS

Under the Trust Deed, the Manager is not permitted to repurchase or redeem any of the units in Prosperity REIT until permitted to do so by the relevant codes and guidelines issued by the Securities and Futures Commission from time to time. During the Reporting Year, other than the disposal of 15,527,000 units by the Manager which the Manager received as payment of its management fee, there was no purchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or subsidiaries of Prosperity REIT.

CORPORATE GOVERNANCE

The Manager was established for the purpose of managing Prosperity REIT. The Manager is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Manager emphasize a quality board, sound internal control, transparency and accountability to all unitholders. The Manager has adopted its compliance manual (the "**Compliance Manual**") 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 regulation and legislation. A summary of the key components of the corporate governance policies that have been adopted and complied with by the Manager and Prosperity REIT will be set out in the annual report of Prosperity REIT for the Reporting Year. During the Reporting Year, both the Manager and Prosperity REIT have complied with the provisions of the Compliance Manual.

CLOSURE OF REGISTER OF UNITHOLDERS

The register of unitholders will be closed from Thursday, 17 April 2008 to Thursday, 24 April 2008, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited at Rooms 1806-07, 18/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 16 April 2008. The payment date of final distribution will be on Friday, 25 April 2008.

REVIEW OF FINAL RESULTS

The final results of Prosperity REIT for the Reporting Year have been reviewed by the Audit Committee and the Disclosures Committee of the Manager.

PUBLIC FLOAT

As far as the Manager is aware, more than 25% of the issued units of Prosperity REIT were held in public hands as of 31 December 2007.

ISSUANCE OF ANNUAL REPORT

The Annual Report 2007 of Prosperity REIT for the Reporting Year will be dispatched or sent to unitholders on or before Wednesday, 30 April 2008.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of Prosperity REIT will be held on Wednesday, 14 May 2008. Notice of the annual general meeting will be published and issued to unitholders in the manner as required by the Trust Deed in due course.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

| | <i>Notes</i> | 2007 | 2006 |
|--|--------------|----------------|----------------|
| | | HK\$'000 | HK\$'000 |
| Turnover | 3 | 205,861 | 180,349 |
| Rental related income | | 38,767 | 36,778 |
| Revenue | | 244,628 | 217,127 |
| Property management fees | | (5,676) | (4,988) |
| Property operating expenses | | (46,172) | (44,604) |
| Total property operating expenses | | (51,848) | (49,592) |
| Net property income | | 192,780 | 167,535 |
| Interest income | | 693 | 2,265 |
| Manager's fee | | (25,986) | (24,104) |
| Trust and other expenses | | (10,379) | (11,297) |
| Increase in fair value of investment properties | | 309,837 | 316,000 |
| Finance costs | 5 | (85,931) | (82,244) |
| Profit before taxation and transactions with unitholders | | 381,014 | 368,155 |
| Taxation | 6 | (54,002) | (57,411) |
| Profit for the year, before transactions with unitholders | | 327,012 | 310,744 |
| Earnings per unit and diluted earnings per unit (HK\$) | 7 | 0.26 | 0.25 |

DISTRIBUTION STATEMENT

For the year ended 31 December 2007

| | 2007 HK\$'000 | 2006 HK\$'000 |
|---|------------------|------------------|
| Profit for the year, before transactions with unitholders | 327,012 | 310,744 |
| Adjustments: | | |
| Manager's fee | 25,875 | 24,104 |
| Increase in fair value of investment properties | (309,837) | (316,000) |
| Finance costs | 68,675 | 74,998 |
| Deferred tax | 54,002 | 57,703 |
| Income available for distribution (note (i)) | 165,727 | 151,549 |
| Distributions to unitholders: | | |
| HK\$0.0639 (2006: HK\$0.0577) per unit for the six month ended 30 June (note (ii)) | 81,331 | 72,636 |
| HK\$0.0659 (2006: HK\$0.0624) per unit for the six month ended 31 December (note (iii)) | 84,396 | 78,913 |
| TOTAL | 165,727 | 151,549 |
| Distribution per Unit (HK\$) | 0.1298 | 0.1201 |

Notes

- (i) These adjustments for the current year include:
- managers fee paid in units of HK\$25,875,000 out of the total managers fee of HK\$25,986,000 (the difference of HK\$111,000 are paid in cash);
 - increase in fair value of investment properties of HK\$309,837,000;
 - the adjustment is the difference between the accounting finance cost of HK\$85,931,000 less cash finance cost of HK\$17,256,000; and
 - deferred tax of HK\$54,002,000.
- 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 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 Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial year, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) which have been recorded in the income statement for the relevant financial year.
- (ii) The distribution per unit of HK\$0.0639 (2006: HK\$0.0577) for the half year ended 30 June 2007 is calculated based on Prosperity REIT's income available for distribution of HK\$81,331,000 (2006: HK\$72,636,000) over 1,272,267,245 units (2006: 1,257,494,730 units), as at 30 June 2007 plus the number of units issued after the distribution period to the Manager as Manager's fee for the second quarter of 2007. The distribution was paid to unitholders on 26 October 2007.
- (iii) The distribution per unit of HK\$0.0659 (2006: HK\$0.0624) for the half year ended 31 December 2007 is calculated based on Prosperity REIT's income available for distribution of HK\$84,396,000 (2006: HK\$78,913,000) over 1,280,666,612 units (2006: 1,264,613,795 units), as at 31 December 2007 plus the number of units issued after the distribution period to the Manager as Manager's fee for the last quarter of the relevant distribution year.

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

| | <i>Notes</i> | 2007 HK\$'000 | 2006 HK\$'000 |
|--|--------------|------------------|------------------|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Investment properties | | 5,225,000 | 4,864,000 |
| Derivative financial instruments | | 108,288 | 190,375 |
| Total non-current assets | | <u>5,333,288</u> | <u>5,054,375</u> |
| Current assets | | | |
| Trade and other receivables | 8 | 7,856 | 7,855 |
| Purchase deposit for investment properties | | - | 4,115 |
| Tax recoverable | | 302 | 609 |
| Bank balances and cash | | 23,854 | 41,737 |
| Total current assets | | <u>32,012</u> | <u>54,316</u> |
| Total assets | | <u>5,365,300</u> | <u>5,108,691</u> |
| Non-current liabilities, excluding net assets attributable to unitholders | | | |
| Secured term loan | | 1,758,266 | 1,754,996 |
| Deferred tax liabilities | | 250,548 | 196,546 |
| Total non-current liabilities, excluding net assets attributable to unitholders | | <u>2,008,814</u> | <u>1,951,542</u> |
| Current liabilities | | | |
| Trade and other payables | 9 | 95,986 | 74,790 |
| Amount due to related companies | | 6,332 | 9,434 |
| Secured revolving loan | | 25,000 | 20,000 |
| Manager's fee payable | | 6,719 | 6,264 |
| Distribution payable | | 84,396 | 78,913 |
| Total current liabilities | | <u>218,433</u> | <u>189,401</u> |
| Total liabilities, excluding net assets attributable to unitholders | | <u>2,227,247</u> | <u>2,140,943</u> |
| Net assets attributable to unitholders | | 3,138,053 | 2,967,748 |
| Units in issue ('000) | <i>10</i> | <u>1,276,453</u> | <u>1,260,927</u> |
| Net asset value per unit (HK\$) | <i>11</i> | <u>2.50</u> | <u>2.38</u> |

Notes

(1) Application of new and Revised Hong Kong Financial Reporting Standards (“HKFRSs”)

In the current year, Prosperity REIT, has applied, for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Accountants (the “HKICPA”), which are effective for the financial year beginning from 1 January 2007.

| | |
|--------------------|--|
| HKAS 1 (Amendment) | Capital Disclosures |
| HKFRS 7 | Financial Instruments: Disclosures |
| HK(IFRIC) – Int 7 | Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies |
| HK(IFRIC) – Int 8 | Scope of HKFRS 2 |
| HK(IFRIC) – Int 9 | Reassessment of Embedded Derivatives |
| HK(IFRIC) – Int 10 | Interim Financial Reporting and Impairment |

The adoption of the new HKFRSs has resulted in changes to Prosperity REIT's financial statements in the following areas.

Prosperity REIT has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year

Prosperity REIT has not early adopted the following new and revised standards or interpretations that have been issued but are not yet effective.

| | |
|--------------------|---|
| HKAS 1 (Revised) | Presentation of Financial Statements ¹ |
| HKAS 23 (Revised) | Borrowing costs ¹ |
| HKFRS 8 | Operating Segments ¹ |
| HK(IFRIC) - Int 11 | HKFRS 2 - Group and Treasury Share Transactions ² |
| HK(IFRIC) - Int 12 | Service Concession Arrangements ³ |
| HK(IFRIC) - Int 13 | Customer Loyalty Programmes ⁴ |
| HK(IFRIC) - Int 14 | HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³ |

¹ Effective for annual periods beginning on or after 1 January 2009.

² Effective for annual periods beginning on or after 1 March 2007.

³ Effective for annual periods beginning on or after 1 January 2008.

⁴ Effective for annual periods beginning on or after 1 July 2008.

The Manager anticipates that the application of these standards or interpretations will have no material impact on the results and the financial position of Prosperity REIT.

(2) Significant Accounting Policies

Basis of preparation of financial statements

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the financial statements include the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts issued by the Securities and Future Commission and the Rules Governing the Listing of Securities on the HKSE.

The consolidated financial statements are prepared on the historical basis, except for certain properties and certain financial instruments, which are measured at fair values, as explained in the accounting policies in our annual report.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Prosperity REIT and the subsidiaries controlled by Prosperity REIT. Control is achieved when Prosperity REIT has the power to govern the financial and operating policies of the subsidiaries so as to obtain benefits from their activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances are eliminated on consolidation.

- (3) Turnover of Prosperity REIT is as follows:

| | 2007 | 2006 |
|-----------------|----------------|----------------|
| | HK\$'000 | HK\$'000 |
| Rental income | 190,512 | 166,148 |
| Car park income | 15,349 | 14,201 |
| | <u>205,861</u> | <u>180,349</u> |

- (4) Business and Geographical segment

During the year, the sole principal activity of Prosperity REIT is to own and invest in a portfolio of offices and commercial properties located in Hong Kong and accordingly, no analysis of business and geographical segment is presented.

- (5) Finance costs:

| | 2007 | 2006 |
|---|---------------|---------------|
| | HK\$'000 | HK\$'000 |
| Interest expense on | | |
| – Secured term loan | 87,848 | 87,861 |
| Reduction of interest expense through cashflow hedges | (3,140) | (7,554) |
| | <u>84,708</u> | <u>80,307</u> |
| – Secured revolving loan | 1,223 | 1,937 |
| | <u>85,931</u> | <u>82,244</u> |

- (6) No provision for Hong Kong profits tax is required as Prosperity REIT did not have any assessable profits for the year. Deferred tax is provided on temporary differences using the current applicable rates.

| | 2007 | 2006 |
|--------------------|---------------|---------------|
| | HK\$'000 | HK\$'000 |
| Current tax credit | - | (292) |
| Deferred tax | 54,002 | 57,703 |
| | <u>54,002</u> | <u>57,411</u> |

- (7) The calculation of earnings per unit is based on the profit for the year, before transactions with unitholders of HK\$327,012,000 and on the weighted average of 1,269,189,951 units in issue during the year. The diluted earnings per unit is based on the profit for the year, before transactions with unitholders of HK\$327,012,000 and on the weighted average of potential units (units issued for manager's fee) of 1,272,498,124.

- (8) Ageing analysis of Prosperity REIT's trade receivables at the balance sheet date is as follows:

| | 2007 | 2006 |
|-------------------|------------|------------|
| | HK\$'000 | HK\$'000 |
| Current – 1 month | 503 | 162 |
| 2 – 3 months | 1 | - |
| | <u>504</u> | <u>162</u> |

Prosperity REIT maintains a defined credit policy. The collection of rental income is closely monitored to minimise any credit risk associated with receivables.

- (9) Ageing analysis of Prosperity REIT's trade payables at the balance sheet date is as follows:

| | 2007 | 2006 |
|-------------------|--------------|------------|
| | HK\$'000 | HK\$'000 |
| Current – 1 month | 75 | 96 |
| 2 – 3 months | 1,070 | 275 |
| Over 3 months | 147 | 196 |
| | <u>1,292</u> | <u>567</u> |

- (10) Issued Units

| | Number of units | HK\$'000 |
|--|----------------------|------------------|
| Balance at 1 January 2007 | 1,260,927,196 | 2,720,789 |
| Payment of Manager's base fee and variable fee through issuance of new units during the year | <u>15,526,142</u> | <u>25,451</u> |
| Balance at 31 December 2007 | <u>1,276,453,338</u> | <u>2,746,240</u> |

- (11) The net asset value per unit is calculated based on the net assets of Prosperity REIT excluding hedging reserve and the total number of units used for computing the net asset value per unit is 1,276,453,338 (2006: 1,260,927,196).
- (12) At the balance sheet date, Prosperity REIT's net current liabilities, defined as current assets less current liabilities, amounted to HK\$186,421,000 (2006: HK\$135,085,000) and Prosperity REIT's total assets less current liabilities amounted to HK\$5,146,867,000 (2006: HK\$4,919,290,000).
- (13) The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.
- (14) The results have been reviewed by the Disclosures Committee and Audit Committee.

The directors of the Manager as at the date of this announcement are Mr. Chiu Kwok Hung, Justin (Chairman), Mr. Lim Hwee Chiang and Mr. Ma Lai Chee, Gerald as Non-executive Directors; Mr. Yip Kam Thai as Executive Director; Mr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Robert Douglas Pope as Independent Non-executive Directors.