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## **Prosperity Real Estate Investment Trust**

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

**(Stock Code: 808)**

**Managed by**



**ARA Asset Management (Prosperity) Limited**

## **UNWINDING OF INTEREST RATE SWAP**

The board of directors (the "**Board**") of ARA Asset Management (Prosperity) Limited (the "**Manager**") announces that Prosperity Real Estate Investment Trust ("**Prosperity REIT**"), has on 8 July 2008 (the "**Agreement Date**"), through its special purpose vehicle, entered into an agreement to unwind the interest rate swap arrangement.

The proceeds from the unwinding of the interest rate swap in the sum of approximately HK\$71.0 million (the "**Proceeds**") will be received on 10 July 2008 (the "**Effective Date**") and will form part of the assets of Prosperity REIT.

### **Introduction**

In connection with the initial public offering of units by Prosperity REIT in December 2005 (the "**IPO**"), Prosperity REIT, through its wholly owned subsidiary, Progain Group Limited (the "**Interest Rate Swap Company**") entered into interest rate swap arrangement (the "**Interest Rate Swap**") pursuant to the terms of the interest rate swap agreement (the "**Interest Rate Swap Agreement**") dated 28 November 2005 between the Interest Rate Swap Company and two independent third parties of Prosperity REIT, being JPMorgan Chase Bank, London NA and Merrill Lynch International Bank Limited (formerly known as Merrill Lynch Capital Markets Bank Limited) (collectively referred to as the "**Interest Rate Swap Counterparties**"). The Interest Rate Swap was entered into in connection with the term loan of HK\$1,770 million (the "**Term Loan**") granted to Prosperity REIT at the time of IPO. Please refer to the offering circular of Prosperity REIT dated 5 December 2005 for details on the Interest Rate Swap.

The Interest Rate Swap was effective on 16 December 2005 with a life span of 5 years until 16 December 2010 (the “**Maturity Date**”). Under the terms of the Interest Rate Swap, the Interest Rate Swap Company agreed to pay an average rate of 1.4% per annum on the notional amount of the Interest Rate Swap to the Interest Rate Swap Counterparties. In return, the Interest Rate Swap Counterparties agreed to pay the Interest Rate Swap Company, at the floating rate of 3-month HIBOR + 0.49%, for an aggregate amount equivalent to the amount of the Term Loan until the Maturity Date, on which date the Term Loan has to be repaid in full.

The Interest Rate Swap has a “step-up” interest rate structure whereby the aggregate amount of the cash finance costs payable by the Interest Rate Swap Company under the Interest Rate Swap gradually increases annually over the life of the Interest Rate Swap until the Maturity Date.

### **Unwinding of the Interest Rate Swap**

The Interest Rate Swap Company has, on the Agreement Date, executed an agreement to unwind the Interest Rate Swap. As a result of unwinding the Interest Rate Swap, the interest rate of the Term Loan will be kept as floating with reference to the prevailing interest market rate at HIBOR + 0.49%.

Upon unwinding of the Interest Rate Swap, the Interest Rate Swap Company will receive the Proceeds on the Effective Date, which represents the present value (as at the Effective Date) of the difference between: (1) the amounts payable at the swap rates under the Interest Rate Swap for the period from the Effective Date to the Maturity Date (the “**Calculation Period**”); and (2) the amounts payable at the floating rate after unwinding for the Calculation Period. The method applied by the Manager in deriving the amount of the Proceeds is in accordance with market practice.

Assuming that the notional amount of HK\$1,770 million and the Maturity Date remain unchanged, and also assuming that the prevailing market interest rates will be the same as that on the Agreement Date, the table below presents additional interest that would be payable by the Interest Rate Swap Company as a result of the unwinding of the Interest Rate Swap.

	<b>2008<sup>(1)</sup></b>	<b>2009</b>	<b>2010<sup>(2)</sup></b>
a. Assumed prevailing floating market interest rates payable by the Interest Rate Swap Company <sup>(3)</sup>	2.79%	2.79%	2.79%
b. Swap rates payable by the Interest Rate Swap Company under the Interest Rate Swap <sup>(4)</sup>	0.98%	2.15%	2.58%
c. Additional interest payable by the Interest Rate Swap Company <sup>(5)</sup>	1.81%	0.64%	0.21%
d. Additional interest payable by the Interest Rate Swap Company (HK\$ million) <sup>(6)</sup>	15.4	11.3	3.6

Notes:

(1) For the period from the Effective Date to 31 December 2008.

(2) For the period from 1 January 2010 to 16 December 2010.

- (3) *Prevailing market interest rate payable by the Interest Rate Swap Company is the prevailing market rate plus a spread of 49 basis points. The prevailing market rate is projected based on 3-month HIBOR as at the Agreement Date.*
- (4) *Average Swap Rate payable in each period by the Interest Rate Swap Company assuming the Interest Rate Swap is still in place.*
- (5) *Calculated by deducting row "b" from row "a".*
- (6) *Calculated by multiplying row "c" by the amount of the Term Loan (being HK\$1,770 million).*

Based on the projected 3-month HIBOR forward curve with a spread of 49 basis points as of the Agreement Date, the Interest Rate Swap Company will receive the Proceeds on the Effective Date, being the aggregate of HK\$16.0 million, HK\$27.7 million and HK\$27.3 million as the respective portion of the Proceeds in 2008, 2009 and 2010<sup>1</sup>.

Unitholders should note that prevailing market interest rates are subject to change and the actual interest rates to be payable by the Interest Rate Swap Company may be either higher or lower than the above indicative table.

The value of the Interest Rate Swap as at the Effective Date, being HK\$71.0 million, would be removed from the balance sheet of Prosperity REIT in accordance with applicable accounting standard.

Unwinding of the Interest Rate Swap does not require the approval of the unitholders of Prosperity REIT (the "**Unitholders**") on the basis that under the Code on Real Estate Investment Trusts (the "REIT Code") and the deed of trust constituting Prosperity REIT dated 29 November 2005, as amended by a first supplemental deed dated 12 December 2005, a second supplemental deed dated 15 May 2007 and a third supplemental deed dated 14 May 2008 (collectively referred to as the "**Trust Deed**"), it is within the Manager's discretionary power to manage the financial arrangements of Prosperity REIT (including without limitation, any use of derivative instruments). Further, the unwinding of Interest Rate Swap does not constitute a connected party transaction as the Interest Rate Swap Counterparties are not connected persons of Prosperity REIT under the REIT Code.

### **Discretionary Distribution**

The unwinding of Interest Rate Swap may lead to a decrease in the amount for distribution to Unitholders in 2008 (the "**2008 Distribution**") due to higher floating interest expenses compared to the lower interest rates under the Interest Rate Swap. The Manager may make discretionary distribution, as part of and in addition to the 2008 Distribution, to the Unitholders using part of the Proceeds to mitigate any potential shortfall in distributions when compared to the financial year 2007 distributions. Such additional discretionary distribution will be made in accordance with Clause 11 of the Trust Deed. Any amount of the Proceeds which is not distributed to the Unitholders will form part of the assets of Prosperity REIT.

### **Benefits of the Unwinding of Interest Rate Swap and Discretionary Distribution**

The Manager believes that the current low interest rate environment presents a strategic opportunity to unwind the Interest Rate Swap and deliver a clean yield to Unitholders. Unitholders will benefit from greater financial transparency and will better appreciate the underlying strength and growth potential of the cash flow from the properties. It is also an opportunity to capture a more competitive cost of capital to facilitate growth through accretive acquisitions in the future. Further, Unitholders may receive cash proceeds through a

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<sup>1</sup> The amount is derived from the present value of the additional interest payable by the Interest Rate Swap Company using the 3-month HIBOR forward curve interest rates with a spread of 49 basis points amounting to 3.03%, 3.87% and 4.42% in 2008, 2009 and 2010.

discretionary distribution in 2008 from the Proceeds to mitigate any dilution to the current distribution enjoyed by Unitholders.

The Manager believes that the unwinding of the Interest Rate Swap is beneficial to Prosperity REIT and the Unitholders under current market conditions. The interest rate of the Term Loan will be kept on floating interest rates according to the prevailing market rate which, as at the Agreement Date, is lower than the average in the past 3 years.

With due consideration to the reasons for, terms of, and other relevant factors in connection with the unwinding of the Interest Rate Swap, the Board considers that the unwinding is carried out at arm's length on normal commercial terms, is fair and reasonable, and is in the interest of Unitholders as a whole.

Upon unwinding of the Interest Rate Swap, Prosperity REIT will be able to capitalize on the current low interest rate environment and deliver distributions which are free of financial engineering to Unitholders. However, it will still be exposed to interest rate fluctuations and prevailing market conditions. The Manager will continue to monitor interest rate movements closely and put in place prudent financial arrangement, as and when necessary, for the benefit of Unitholders.

This announcement is made pursuant to paragraph 10.3 of the Code on Real Estate Investment Trusts.

By order of the board of directors of  
**ARA Asset Management (Prosperity) Limited**  
**(as manager of Prosperity Real Estate Investment Trust)**  
**Yip Kam Thai**  
*Executive Director and Acting Chief Executive Officer*

Hong Kong, on 8 July, 2008

*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.*