



## 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



Asset Management (Prosperity) Limited

### ARA Asset Management (Prosperity) Limited INTERIM RESULTS ANNOUNCEMENT FOR 2008

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, a second supplemental deed dated 15 May 2007 and a third supplemental deed dated 14 May 2008 (collectively the "**Trust Deed**") and made 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 (the "**Stock Exchange**") on 16 December 2005 (the "**Listing Date**"). Prosperity REIT owns a diverse portfolio of seven high-quality commercial properties in Hong Kong.

The Manager is pleased to announce the unaudited interim results of Prosperity REIT and its subsidiaries for the six months ended 30 June 2008 (the "**Reporting Period**") together with comparative figures for the corresponding period in 2007 as follows:

#### Performance Highlights

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

	<u>2008</u>	<u>2007</u>	<u>Percentage change Increase/(Decrease)</u>
<b>Distribution per unit</b>	HK\$0.0690	HK\$0.0639	8.0%

**Six months ended 30 June (unaudited)**

<b><u>Operation data</u></b>	<b><u>2008</u></b>	<b><u>2007</u></b>	<b><u>Percentage change</u></b> <b><u>Increase/(Decrease)</u></b>
<b>Revenue</b>	HK\$128.9 million	HK\$119.7 million	7.7%
<b>Net property income</b>	HK\$103.6 million	HK\$94.0 million	10.2%
<b>Cost-to-revenue ratio</b>	19.6%	21.5%	(8.8%)
<b>Occupancy rate (as at 30 June)</b>	99.1%	97.0%	2.2%
<b>Tenant retention rate</b>	51.3%	56.1%	(8.6%)
<b>Average effective unit rent</b>	HK\$14.07 per sq. ft.	HK\$13.29 per sq. ft.	5.9%

<b><u>Key financial figures</u></b>	<b><u>As at 30 Jun 2008</u></b> <b><u>(unaudited)</u></b>	<b><u>As at 31 Dec 2007</u></b> <b><u>(audited)</u></b>	<b><u>Percentage change</u></b> <b><u>Increase/(Decrease)</u></b>
<b>Net asset value per unit</b>	HK\$2.58	HK\$2.50	3.2%
<b>Property valuation</b>	HK\$5,408 million	HK\$5,225 million	3.5%
<b>Gearing ratio **</b>	32.5%	33.5%	(3.0%)

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

**DISTRIBUTABLE INCOME FOR THE PERIOD**

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$89,024,000, representing distribution per unit of HK\$0.0690. The distributable income for the Reporting Period is calculated by the Manager as representing the consolidated net profit of Prosperity REIT and the subsidiaries of Prosperity REIT for the Reporting Period, as adjusted to eliminate the effects of certain non-cash adjustments (as defined in the Trust Deed) including finance cost of HK\$34,126,000 (equivalent to HK\$0.0265 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. 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 interim distribution per unit is HK\$0.0690, representing an annualized distribution yield of 9.2% based on the last traded price of HK\$1.50 as of 30 June 2008, outperforming the last corresponding half year by 8.0%. The payment date of interim distribution will be on Tuesday, 28 October 2008.

### **Business Overview**

Prosperity REIT delivered an outstanding performance during the Reporting Period. Distribution per unit (“DPU”) rose 8.0% year-on-year (“YoY”) as revenue and net property income grew by 7.7% YoY and 10.2% YoY, respectively. With the upward valuation of our property portfolio, net asset value per unit also increased to HK\$2.58 as at 30 June 2008. Healthy organic growth was achieved through proactive asset management efforts and prudent cost management. The continued uptrend in the Hong Kong commercial property sector also contributed to Prosperity REIT’s strong performance.

I am pleased to announce that our unitholders will receive an interim DPU of HK\$0.0690 for the Reporting Period, representing an attractive annualized distribution yield of 9.2%, based on Prosperity REIT’s closing unit price of HK\$1.50 on 30 June 2008.

### **Market Review**

Hong Kong’s economy continued to grow in the first half of 2008, led by increased exports and further economic development in Mainland China. Trade flows with Mainland China achieved stable growth, rising by 9.3% YoY in the first half of the year. As Hong Kong offers a number of competitive edges in the provision of high value-added services, the demand for expertise in the banking, finance, sales and marketing services sectors are expected to remain strong as Mainland China moves up the value chain. In the first half of 2008, Hong Kong’s Gross Domestic Product (“GDP”) grew by 5.8% from a year ago, while the unemployment rate fell to a 10-year low of 3.3% in the second quarter.

GDP has continued to increase in Mainland China, with a high growth rate of 10.1% YoY recorded in the second quarter of 2008. This is poised to generate positive spillover effects as Hong Kong and Mainland China’s economies are closely linked. The trading, manufacturing and real estate sectors are expected to benefit from improved trade links and business cooperation between the two economies. The current low interest rate environment has also contributed to the uptrend in the property sector as funding costs lowered. Local banks have reduced the best lending rates by 1.5% in the first half of 2008. Such low costs will facilitate Prosperity REIT’s growth through accretive acquisition opportunities.

On the back of tight supply, rents in the central business districts continued to rise. The widening rental gap between central and decentralised business districts has shifted focus to the rapidly emerging decentralized business districts. Tenants from diversified industries, from banking, accounting, to retail and travel sectors, have been seen to relocate to high quality office space in decentralized areas. With Prosperity REIT’s portfolio of quality office and industrial/office properties strategically located in these emerging business districts, we expect to capitalize on this decentralization trend for organic growth.

The industrial/office and industrial sectors continue to benefit from trade liberalization under the Closer Economic Partnership Arrangements. Coupled with the government's plan to launch 10 major infrastructure projects, the territory's logistics and trading business are expected to enjoy improved prospects. We are confident that Prosperity REIT's leasing activities will continue to generate stable returns for our unitholders.

### **Operation Review**

Prosperity REIT delivered strong results during the Reporting Period on the back of the Manager's professional management expertise and a buoyant property market. Prosperity REIT's net property income of HK\$103.6 million and revenue of HK\$128.9 million rose 10.2% YoY and 7.7% YoY, respectively.

As a result of proactive leasing efforts and efficient tenant recruitment strategies, the average effective unit rent of the portfolio increased by 5.9% YoY to HK\$14.07 per sq. ft., complemented by a high occupancy rate of 99.1% as at 30 June 2008.

The cost-to-revenue ratio decreased to 19.6%, which is 8.8% lower than a year ago. Gearing ratio has improved to 32.5% as at the end of June 2008, enhancing Prosperity REIT's financial foundation for future growth.

### **Prospects**

Looking ahead, the ongoing economic slowdown in the US and global financial market turbulence could affect business sentiment as uncertainty persists. However, Hong Kong's economy has remained resilient, supported by strong business links with Mainland China. We expect domestic demand to remain healthy, boosted by the low interest rate environment and firm job market conditions. It is expected that the Hong Kong commercial property market will continue to experience steady demand on the back of corporations seeking expansion opportunities. The Manager will implement more asset enhancement initiatives and effective cost control measures to enhance returns for unitholders.

### **Acknowledgement**

I would like to express my gratitude to the outstanding efforts of the management team of the Manager, the property manager of Prosperity REIT, and 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, 18 August 2008

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operation Review

Prosperity REIT owns a diversified portfolio of seven high-quality 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 about 1.22 million sq. ft. and 407 car park spaces. As at 30 June 2008, the appraised value of the portfolio rose to HK\$5,408 million.

Information on the properties in the portfolio as at 30 June 2008 is as follows:

	<b>Location</b>	<b>Gross rentable area</b> <i>Sq. ft.</i>	<b>No. of car park spaces</b>	<b>Valuation</b> <i>HK\$ Million</i>	<b>Occupancy rate</b>
<b>Grade A Office</b>					
The Metropolis Tower	Hunghom	271,418	98	2,022	100.0%
Prosperity Millennia Plaza	North Point	217,955	43	1,181	100.0%
Harbourfront Landmark (portion)	Hunghom	77,021	–	350	100.0%
<b>Industrial/Office</b>					
Modern Warehouse	Kwun Tong	240,000	60	618	98.1%
Trendy Centre	Cheung Sha Wan	173,764	79	581	97.4%
Prosperity Center (portion)	Kwun Tong	149,253	105	490	98.5%
<b>Industrial</b>					
New Treasure Centre (portion)	San Po Kong	86,168	22	166	100.0%
<b>Total</b>		<b>1,215,579</b>	<b>407</b>	<b>5,408</b>	<b>99.1%</b>

During the Reporting Period, Hong Kong's economy remained healthy, underpinned by solid fundamentals and the territory's strong economic ties with the Mainland. Under these sound economic conditions, corporations in the office and industrial/office sectors continued to expand, enabling Prosperity REIT to record steady growth through higher rents and occupancy in the first half of this year. As at 30 June 2008, the portfolio's occupancy rate hit 99.1%, as compared to 97% as of 30 June 2007.

Through the Manager's proactive leasing efforts, the rental reversion rate was able to achieve a dynamic growth of 24.6%, for leases which were successfully renewed in the Reporting Period. The average effective unit rent of the portfolio also climbed to HK\$14.07 per sq. ft., representing an increase of 5.9% YoY.

Due to the Manager's efficient streamlining of operations, the cost-to-revenue ratio was lowered to 19.6% from 21.5% in the last corresponding period. Gearing ratio also narrowed to 32.5% as at 30 June 2008, which will provide Prosperity REIT a better financial foundation for future growth.

### **Investment Review**

Backed by the strong performance of the existing portfolio and the sound financials, the Manager has been actively pursuing acquisition opportunities in the property sector within Hong Kong and beyond. The Manager is obliged to prudently assess acquisition targets as to asset enhancement potential, existing tenant base, as well as the synergies with the portfolio.

In May, Prosperity REIT obtained unitholders' approval to expand its scope of acquisition coverage to invest in office, commercial and retail properties, with no geographical restrictions. In July, Prosperity REIT unwound its interest rate swap arrangement to deliver a clean yield to unitholders.

These enable the Manager to seize greater investment opportunities and capture a more competitive cost of capital to facilitate growth through yield-accretive acquisitions, with a view to generate greater returns to unitholders in the future.

### **Asset Enhancement**

Asset enhancement is the Manager's ongoing and integral strategy to upgrade tenants' business environment for continual growth in rental income and maintaining high occupancy. Asset enhancement initiatives also increase the properties' value accordingly.

The Manager has been proactively planning and executing asset enhancement initiatives with large-scale works in Modern Warehouse and Trendy Centre. A number of asset enhancement works were completed in the Reporting Period and more plans will be put in place within the portfolio of properties going forward.

#### **Modern Warehouse**

Modern Warehouse is a high-rise industrial/office building. Ground-floor lobby and upper-floor passenger lift lobbies have been renovated to a modern design with an office ambience. All floors' renovation work will be completed in the second half of 2008. The façade of the building will also be uplifted, and is scheduled to be completed by the first quarter of 2009.

Upon completion of the said renovation works, Modern Warehouse will be completely re-branded into a commercial landmark in Kwun Tong district. The building name will also be changed from "Modern Warehouse" to "Prosperity Place" to enhance the property's image.

### Trendy Centre

Trendy Centre is a high-rise industrial/office building. The passenger lift lobby and common corridor of each floor are undergoing a face-lift to a modern office ambience. Together with the successful upgrade of the ground-floor lobby in 2007, the building is now transformed into a high-quality accommodation for business and this will raise Trendy Centre's competitiveness and attractiveness within the locality.

### Outlook

The Manager has been effectively managing and operating Prosperity REIT since its public listing with impressive results. The office and industrial/office leasing markets are expected to remain buoyant on the back of strong economic growth in Hong Kong and Mainland China. Given the Manager's professional experience and management expertise, as well as the diligent devotion of Goodwell-Prosperity Property Services Limited as the property manager of Prosperity REIT, we are confident of delivering stable and sustainable returns to unitholders.

### Financial Review

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

	<b>Turnover</b>	<b>Rental related income</b>	<b>Revenue</b>	<b>Net property income</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Grade A Office</b>				
The Metropolis Tower	35,866	7,954	43,820	36,836
Prosperity Millennia Plaza	19,287	5,961	25,248	18,837
Harbourfront Landmark (portion)	6,932	1,080	8,012	7,135
<b>Industrial/Office</b>				
Modern Warehouse	17,279	250	17,529	13,620
Trendy Centre	13,054	3,013	16,067	13,012
Prosperity Center (portion)	11,406	1,606	13,012	10,151
<b>Industrial</b>				
New Treasure Centre (portion)	4,442	832	5,274	3,990
<b>Total</b>	<u>108,266</u>	<u>20,696</u>	<u>128,962</u>	<u>103,581</u>

### Revenue

During the Reporting Period, revenue stood at HK\$128.9 million, which was HK\$9.2 million or 7.7% higher than the last corresponding half year.

The revenue was made up of HK\$108.2 million of rental and car park income, plus HK\$20.7 million of rental related income. Rental and car park income was HK\$7.7 million or 7.7% above the last corresponding half year. The increase was mainly due to an increase in average effective unit rent and occupancy rate.

#### Net Property Income

Net property income was HK\$103.6 million, exceeding the last corresponding half year by HK\$9.6 million or 10.2%. The growth was attributed to higher revenue generated during the Reporting Period. The cost-to-revenue ratio has improved to 19.6% from 21.5% in the last corresponding half year.

#### Liquidity and Financing

As at the end of the Reporting Period, 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 the revolving credit facility amounted to HK\$25 million was drawn down. The term loan is repayable in 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 agreements 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. Subsequent to the end of the Reporting Period, Prosperity REIT entered into an agreement to unwind the interest rate swap arrangement effective on 10 July 2008.

The total borrowings of Prosperity REIT, excluding the origination fees, as a percentage of Prosperity REIT's gross assets was 32.5% as at the end of the Reporting Period, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 41.0% as at the end of the Reporting Period.

Prosperity REIT with a cash balance of HK\$32.3 million and available revolving credit facility of approximate HK\$105 million as at 30 June 2008, has sufficient financial resources to satisfy its commitments and working capital requirements.

#### Balance Sheet Highlights

##### *Investment properties and property valuation*

For the half year ended 30 June 2008, Prosperity REIT's portfolio recorded an investment property revaluation surplus of HK\$177.8 million, based on a professional valuation performed by an independent valuer, Knight Frank Petty Limited. The movements of fair values are tabulated below:

	<i>unaudited</i>	<i>audited</i>
	<i>30 Jun 2008</i>	<i>31 Dec 2007</i>
	<i>HK\$' 000</i>	<i>HK\$' 000</i>
Fair value at beginning of the financial period/year	5,225,000	4,864,000
Acquisitions	-	43,403
Additional expenditure	5,156	7,760
Increase in fair value during the period/year	177,844	309,837
	-----	-----
Fair value at the end of period/year	5,408,000	5,225,000
	=====	=====

#### Charges on Assets

As at 30 June 2008, certain properties of Prosperity REIT, with aggregate carrying value of HK\$5,364.5 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 itself.

#### **REPURCHASE, SALE OR REDEMPTION OF UNITS**

During the Reporting Period, other than the disposal of 4,213,000 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 of directors, sound internal control, and transparency and accountability to all unitholders. The 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 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 Monday, 20 October 2008 to Monday, 27 October 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 Friday, 17 October 2008. The payment date of interim distribution will be on Tuesday, 28 October 2008.

#### **REVIEW OF INTERIM RESULTS**

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

#### **POST BALANCE SHEET EVENT**

Subsequent to the Reporting Period, Prosperity REIT entered into an agreement to unwind the interest rate swap arrangement effective on 10 July 2008 at a total consideration of approximately HK\$71.0 million. As a result of unwinding the interest rate swap, the interest rate of the term loan is now kept at floating with reference to the prevailing market rate of HIBOR plus 0.49% as from 10 July 2008 onwards.

#### **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 30 June 2008.

#### **ISSUANCE OF 2008 INTERIM REPORT**

The Interim Report 2008 of Prosperity REIT for the Reporting Period will be published on the websites of the Stock Exchange and Prosperity REIT and will be dispatched or sent to unitholders on or before 31 August 2008.

## CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 June 2008*

		<i>Unaudited</i>	
		<i>Six months ended 30 June</i>	
	<i>Note</i>	<i>2008</i>	<i>2007</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	128,962	119,705
Property management fees		(3,004)	(2,763)
Property operating expenses		(22,377)	(22,959)
Total property operating expenses		(25,381)	(25,722)
<b>Net property income</b>		103,581	93,983
Interest income		69	351
Manager's fee		(13,712)	(12,676)
Trust and other expenses		(4,927)	(5,595)
Increase in fair value of investment properties at period end		177,844	124,062
Finance costs	4	(43,802)	(42,190)
<b>Profit before taxation and transactions with unitholders</b>		219,053	157,935
Taxation	5	(15,545)	(23,905)
<b>Profit for the period, before transactions with unitholders</b>		203,508	134,030
<b>Earnings per unit and diluted earnings per unit (HK\$)</b>	6	0.16	0.11

## DISTRIBUTION STATEMENT

For the six months ended 30 June 2008

	<i>Unaudited</i>	
	<i>Six months ended 30 June</i>	
	<i>2008</i>	<i>2007</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Profit for the period, before transactions with unitholders</b>	203,508	134,030
<b>Adjustments:</b>		
Manager's fee	13,689	12,625
Increase in fair value of investment properties at period end	(177,844)	(124,062)
Finance costs	34,126	34,833
Deferred tax	15,545	23,905
	<hr/>	<hr/>
<b>Income available for distribution (note (i))</b>	<b>89,024</b>	<b>81,331</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Distribution to unitholders:</b>		
For the six months ended 30 June	89,024	81,331
	<hr/> <hr/>	<hr/> <hr/>
<b>Distribution per unit (HK\$) (note (ii))</b>	<b>0.0690</b>	<b>0.0639</b>
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Notes:

(i) These Adjustments for the current period include:

- (a) manager's fee paid and payable in units of HK\$13,689,000 (1 January 2007 to 30 June 2007: HK\$12,625,000) out of the total manager's fee of HK\$13,712,000 (1 January 2007 to 30 June 2007: HK\$12,676,000) (the difference of HK\$23,000 (1 January 2007 to 30 June 2007: HK\$51,000) are paid in cash);
- (b) increase in fair value of investment properties of HK\$177,844,000 (1 January 2007 to 30 June 2007: HK\$124,062,000);
- (c) the adjustment is the difference between the accounting finance cost of HK\$43,802,000 (1 January 2007 to 30 June 2007: HK\$42,190,000) less cash finance cost of HK\$9,676,000 (1 January 2007 to 30 June 2007: HK\$7,357,000); and
- (d) deferred tax of HK\$15,545,000 (1 January 2007 to 30 June 2007: HK\$23,905,000).

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\$0.0690 is calculated based on Prosperity REIT's income available for distribution of HK\$89,024,000 for the Reporting Period and 1,289,519,568 units, representing units as at 30 June 2008 plus the number of units issued after the distribution period to the Manager as manager's fee for the second quarter of 2008. In previous period, the distribution per unit of HK\$0.0639 is calculated based on Prosperity REIT's income available for distribution of HK\$81,331,000 for the period and 1,272,267,245 units, representing 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.

## CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2008

	<i>Note</i>	<i>(unaudited)</i> 30 Jun 2008	<i>(audited)</i> 31 Dec 2007
		<i>HK\$'000</i>	<i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties		5,408,000	5,225,000
Derivative financial instruments		-	108,288
Total non-current assets		<u>5,408,000</u>	<u>5,333,288</u>
<b>Current assets</b>			
Derivative financial instruments		65,800	-
Trade and other receivables	7	8,209	7,856
Tax recoverable		302	302
Bank balances and cash		32,289	23,854
Total current assets		<u>106,600</u>	<u>32,012</u>
<b>Total assets</b>		<u>5,514,600</u>	<u>5,365,300</u>
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Secured term loan		1,760,024	1,758,266
Deferred tax liabilities		266,094	250,548
Total non-current liabilities, excluding net assets attributable to unitholders		<u>2,026,118</u>	<u>2,008,814</u>
<b>Current liabilities</b>			
Trade and other payables	8	104,735	95,986
Amount due to related companies		7,325	6,332
Secured revolving loan		25,000	25,000
Manager's fee payable		6,934	6,719
Distribution payable		89,024	84,396
Total current liabilities		<u>233,018</u>	<u>218,433</u>
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<u>2,259,136</u>	<u>2,227,247</u>
<b>Net assets attributable to unitholders</b>		<u>3,255,464</u>	<u>3,138,053</u>

<b>Units in issue ('000)</b>	9	1,284,921	1,276,453
<b>Net asset value per unit (HK\$)</b>	10	2.58	2.50

#### Notes

##### (1) Principal Accounting Policies

The condensed consolidated financial statements are prepared on the historical 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 are consistent with those used in the preparation of Prosperity REIT's annual financial statements for the year ended 31 December 2007.

In the current interim period, Prosperity REIT has applied, for the first time, the following new standards, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for Prosperity REIT's financial year beginning 1 January 2008.

HK(IFRIC) - Int 11	HKFRS 2 - Group and Treasury Share Transactions
HK(IFRIC) - Int 12	Service Concession Arrangements
HK(IFRIC) - Int 14	HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new HKFRSs had no material effect on the results or financial position of Prosperity REIT for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised. Prosperity REIT has not early adopted the following new and revised standards, amendment or interpretation that have been issued but are not yet effective. The Manager are in the process of assessing the potential impact and so far concluded that the application of these standards, amendment or interpretation will have no material impact on the results and the financial position of Prosperity REIT.

HKAS 1 (Revised)	Presentation of Financial Statements <sup>1</sup>
HKAS 23 (Revised)	Borrowing Costs <sup>1</sup>
HKAS 27 (Revised)	Consolidated and Separate Financial Statements <sup>2</sup>
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation <sup>1</sup>
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations <sup>1</sup>
HKFRS 3 (Revised)	Business Combinations <sup>2</sup>
HKFRS 8	Operating Segments <sup>1</sup>
HK(IFRIC) - Int 13	Customer Loyalty Programmes <sup>3</sup>

<sup>1</sup> Effective for annual periods beginning on or after January 1, 2009.

<sup>2</sup> Effective for annual periods beginning on or after July 1, 2009.

<sup>3</sup> Effective for annual periods beginning on or after July 1, 2008.

(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”.

(3) Revenue of Prosperity REIT is as follows:

	<i>Unaudited</i>	
	<i>Six months ended 30 June</i>	
	<i>2008</i>	<i>2007</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Rental income	100,351	92,911
Car park income	7,915	7,574
	<hr/>	<hr/>
	108,266	100,485
Rental related income	20,696	19,220
	<hr/>	<hr/>
	128,962	119,705
	<hr/> <hr/>	<hr/> <hr/>

(4) Finance costs:

	<i>Unaudited</i>	
	<i>Six months ended 30 June</i>	
	<i>2008</i>	<i>2007</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense on		
- Secured term loan	29,305	42,014
- Equalisation of interest expense through cashflow hedge	14,267	(467)
	<hr/>	<hr/>
	43,572	41,547
- Secured revolving loan	230	643
	<hr/>	<hr/>
	43,802	42,190
	<hr/> <hr/>	<hr/> <hr/>

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

	<i>Unaudited</i>	
	<i>Six months ended 30 June</i>	
	<i>2008</i>	<i>2007</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Deferred tax	15,545	23,905
	<u>15,545</u>	<u>23,905</u>

- (6) The calculation of earnings per unit is based on the profit for the period, before transactions with unitholders of HK\$203,508,000 (1 January 2007 to 30 June 2007: HK\$134,030,000) and on the weighted average of 1,281,421,535 (1 January 2007 to 30 June 2007: 1,265,284,024) units in issue during the period. The diluted earnings per unit is based on the profit for the period, before transactions with unitholders of HK\$203,508,000 (1 January 2007 to 30 June 2007: HK\$134,030,000) and on the weighted average of potential units (units issued for manager's fee) of 1,285,053,751 (1 January 2007 to 30 June 2007: 1,268,425,441) units in issue during the period.

- (7) Trade and other receivables at the balance sheet date is as follows:

	<i>(unaudited)</i>	<i>(audited)</i>
	<i>30 Jun 2008</i>	<i>31 Dec 2007</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables	668	504
Deposits and prepayments	7,536	7,352
Other receivables	5	-
	<u>8,209</u>	<u>7,856</u>

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

	<i>(unaudited)</i>	<i>(audited)</i>
	<i>30 Jun 2008</i>	<i>31 Dec 2007</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current – 1 month	574	503
2 – 3 months	94	1
	<u>668</u>	<u>504</u>

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

- (8) Trade and other payables at the balance sheet date is as follows:

	<i>(unaudited)</i>	<i>(audited)</i>
	<i>30 Jun 2008</i>	<i>31 Dec 2007</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade payables	850	1,292
Tenants' deposits		

- Outside parties	70,632	65,604
- Related parties	375	1,105
Rental received in advance – Outside parties	1,975	2,210
Other payables	30,903	25,775
	<u>104,735</u>	<u>95,986</u>

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

	<i>(unaudited)</i> 30 Jun 2008 HK\$'000	<i>(audited)</i> 31 Dec 2007 HK\$'000
Current – 1 month	324	75
2 – 3 months	384	1,070
Over 3 months	142	147
	<u>850</u>	<u>1,292</u>

(9) Issued Units

	Number of units	HK\$'000
Balance at 1 January 2008	1,276,453,338	2,746,240
Payment of Manager's base fee and variable fee	8,468,018	13,455
Balance at 30 June 2008	<u>1,284,921,356</u>	<u>2,759,695</u>

(10) 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 1,284,921,356 (31 December 2007: 1,276,453,338).

(11) At the balance sheet date, Prosperity REIT's net current liabilities, defined as current liabilities less current assets, amounted to HK\$126,418,000 (31 December 2007: HK\$186,421,000) and Prosperity REIT's total assets less current liabilities amounted to HK\$5,281,582,000 (31 December 2007: HK\$5,146,867,000).

(12) The results have been reviewed by the Disclosures Committee and the Audit Committee of the Manager and 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.

*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.*