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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

INTERIM RESULTS ANNOUNCEMENT FOR 2009

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 “REIT 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 on 16 December 2005 (the “Listing Date”). Prosperity REIT owns a diverse portfolio of seven high-quality commercial properties in Hong Kong.

The REIT Manager is pleased to announce the unaudited interim results of Prosperity REIT and its subsidiaries for the six months ended 30 June 2009 (the “Reporting Period”) together with comparative figures for the corresponding period in 2008 as follows:

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

	<u>2009</u>	<u>2008</u>	<u>Percentage change Increase/(Decrease)</u>
Distribution per unit ("DPU")	HK\$0.0554	HK\$0.0690	(19.7%)

Six months ended 30 June (unaudited)

<u>Operation data</u>	<u>2009</u>	<u>2008</u>	<u>Percentage change Increase/(Decrease)</u>
Revenue	HK\$131.23 million	HK\$128.96 million	1.8%
Net property income	HK\$103.64 million	HK\$103.58 million	0.1%
Cost-to-revenue ratio	21.0%	19.6%	7.1%
Occupancy rate (as at 30 June)	93.2%	99.1%	(6.0%)
Tenant retention rate	60.3%	51.3%	17.5%
Average effective unit rent	HK\$14.96 per sq. ft.	HK\$14.07 per sq. ft.	6.3%

<u>Key financial figures</u>	<u>As at 30 Jun 2009 (unaudited)</u>	<u>As at 31 Dec 2008 (audited)</u>	<u>Percentage change Increase/(Decrease)</u>
Net asset value per unit	HK\$2.14	HK\$2.15	(0.5%)
Property valuation	HK\$4,887 million	HK\$4,839 million	1.0%
Gearing ratio **	35.7%	36.0%	(0.8%)

** 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\$73,065,000, representing DPU of HK\$0.0554. The distributable income for the Reporting Period is calculated by the REIT Manager as representing the consolidated net profit of Prosperity REIT and the subsidiaries of Prosperity REIT for the Reporting Period, as adjusted to eliminate the effects of certain non-cash adjustments (as defined in the Trust Deed) including finance cost of HK\$16,522,000 (equivalent to HK\$0.0125 per unit) due to the interest rate swap, which have been recorded in the consolidated income statement.

DISTRIBUTION

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

The interim DPU is HK\$0.0554, representing an annualized distribution yield of 10.5%, based on the closing unit price of HK\$1.06 as of 30 June 2009, which is higher than 2008's corresponding half year by 14.1%. The payment date of interim distribution will be on Tuesday, 27 October 2009.

Business Overview

Despite the impact of the global economic downturn, Prosperity REIT has maintained positive results in terms of revenue and net property income in the first six months of 2009. Total revenue and net property income grew by 1.8% and 0.1% year-on-year ("YoY") respectively. A trending to zero delinquency rate has been achieved during the Reporting Period.

I am pleased to announce that our unitholders will receive an interim DPU of HK\$0.0554 for the Reporting Period, representing an annualized distribution yield of 10.5%.

Prosperity REIT's performance during the Reporting Period reflects our balanced tenant mix, effective property management and close business relationships with tenants.

Market Review

Although the state of the global economy continues to present challenges, the current market outlook appears to be more positive than it was a few months ago.

Recent Gross Domestic Product ("GDP") growth figures indicate that the Greater China region has been resilient and is likely to be amongst the first major economies to recover from the global financial crisis. The Chinese Government's stimulus package has been felt and GDP growth has bounced back to an annualized rate of 8% in the second quarter of 2009. This has caused a favourable impact on Hong Kong's economy and has enhanced business confidence in the territory. There has been a substantial rise in the Hang Seng Index since March 2009 and increased interest in the property sector.

During the Reporting Period, an agreement was reached between the People's Bank of China and the Hong Kong Monetary Authority to allow the use of the Renminbi for the settlement of cross-border trade. The agreement has been widely welcomed and is expected to strengthen Hong Kong's position as an international financial and commercial centre.

High rents in the core business districts and cost-consciousness of corporations amidst the financial turmoil have sped up the decentralization trend in the commercial property market. This has boosted interest in re-locating offices to decentralized areas where Prosperity REIT's portfolio is well represented.

Offering higher and more consistent yields as compared to direct property investment, Prosperity REIT represents an attractive alternative to conventional property investments.

Operations Review

Our encouraging performance, though amidst the challenging wider macro-economic conditions, suggests that Prosperity REIT's operating strategy is working well.

By responding quickly to market conditions and implementing an effective tenancy recruitment policy, we have attained a satisfactory operational performance. During the Reporting Period, the average effective unit rent rose by 6.3% YoY to HK\$14.96 per sq. ft., while the portfolio's occupancy rate was 93.2% as at 30 June 2009. Revenue and net property income rose to HK\$131.23 million and HK\$103.64 million respectively. The rental reversion rate and tenant retention rate remained positive at 12.9% YoY and 60.3% YoY respectively.

The cost-to-revenue ratio and gearing ratio remained sound at 21.0% and 35.7% respectively as at 30 June 2009.

Prospects

We are cautiously optimistic about the upcoming economic prospects. Hong Kong's economy is poised to benefit from the Mainland's growth prospects and supportive policies.

With our solid fundamentals, aggressive leasing initiatives, cost effective asset enhancement strategies and market standing in high-quality Grade A office, industrial/office and industrial property sector in Hong Kong, Prosperity REIT is well-positioned to maintain our steady performance.

Acknowledgement

Finally, I would like to take this opportunity to thank my colleagues on the Board, our management team, property managers, service providers and partners for their loyalty, integrity and efforts. They have made invaluable contributions to Prosperity REIT, for which I am deeply grateful. I would also like to thank all our unitholders for their unwavering support.

Chiu Kwok Hung, Justin
Chairman
ARA Asset Management (Prosperity) Limited
as manager of Prosperity REIT
Hong Kong, 21 August 2009

MANAGEMENT DISCUSSION AND ANALYSIS

Operations Review

Prosperity REIT owns a geographically 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., and there are 407 car park spaces.

Information on the properties portfolio as at 30 June 2009 is as follows:

	Location	Gross rentable area	No. of car park spaces	Valuation
		<i>Sq. ft.</i>		<i>HK\$ Million</i>
Grade A Office				
The Metropolis Tower	Hunghom	271,418	98	1,796
Prosperity Millennia Plaza	North Point	217,955	43	1,061
Harbourfront Landmark (portion)	Hunghom	77,021	–	312
Industrial/Office				
Prosperity Place	Kwun Tong	240,000	60	591
Trendy Centre	Cheung Sha Wan	173,764	79	521
Prosperity Center (portion)	Kwun Tong	149,253	105	451
Industrial				
New Treasure Centre (portion)	San Po Kong	86,168	22	155
Total		<u>1,215,579</u>	<u>407</u>	<u>4,887</u>

Amidst the backdrop of the global economic downturn, the commercial property sector in Hong Kong has been under pressure during the past six months. Despite this, Prosperity REIT had been able to achieve reasonable organic growth during the Reporting Period, reflecting the REIT Manager's assertive leasing strategies and close business relationships with tenants. A healthy occupancy rate of 93.2% was recorded as at 30 June 2009.

Both overall revenue and the average effective unit rent showed an increase of 1.8% YoY and 6.3% YoY respectively. A positive rental reversion rate of 12.9% was also achieved.

Prosperity REIT's cost-to-revenue ratio remained relatively low at 21.0% at the end of the Reporting Period, thanks to a determined effort to control costs and enhance operational efficiency by the REIT Manager. The gearing ratio was a healthy 35.7% as at 30 June 2009, providing Prosperity REIT with the

financial flexibility to capitalize on any upcoming investment opportunities that may arise.

Investment Review

Following approval from unitholders last year to expand Prosperity REIT's acquisition scope to include investment in office, commercial and retail properties, with no geographical restrictions, the REIT Manager has been active in evaluating acquisition opportunities that would provide yield-accretive growth. The REIT Manager will continue to prudently assess acquisition targets against its strict investment criteria, which include asset enhancement potential, existing tenant base, as well as the synergies with Prosperity REIT's existing portfolio.

Asset Enhancement

Asset enhancement is a key tenet in the REIT Manager's ongoing and integral strategy to upgrade tenants' business environment. Such asset enhancement activities help to achieve continual growth in rental income, maintain high occupancy and enhance property value.

The REIT Manager has been proactively planning and implementing asset enhancement initiatives with large-scale works being undertaken at Prosperity Place and The Metropolis Tower. A number of asset enhancement works were completed during the Reporting Period and going forward, more plans will be put in place in other properties within the portfolio.

Prosperity Place

Prosperity Place is a high-rise industrial/office building, formerly known as Modern Warehouse. The ground-floor lobby and upper-floor passenger lift lobbies were upgraded to provide a contemporary and modern office ambience. The renovation of the façade of the building is currently underway and is scheduled to be completed within the third quarter of 2009. The next phase of renovation is the creation of an environmentally- friendly roof top garden, which is due for completion by the end of the year. The garden would be accessible for the enjoyment of the Prosperity Place tenants and feature a number of energy saving measures.

Upon completion of the renovation works, Prosperity Place would be completely re-branded as a premier commercial landmark in the Kowloon East district.

The Metropolis Tower

The Metropolis Tower is located in the prime commercial hub of Hunghom in Kowloon. It is one of the major grade A commercial buildings in the Prosperity REIT portfolio. Asset enhancement works at The Metropolis Tower involve the upgrading of all common washrooms in the building. The works are expected to be completed within the last quarter of 2009.

Outlook

The REIT Manager has been effectively managing and operating Prosperity REIT since the Listing Date. While the office, industrial/office and industrial leasing markets are expected to be challenging in the short term, Prosperity REIT is well placed for future growth. With its extensive experience and management expertise, as well as the diligence and professionalism of Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT, the REIT Manager is 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:

	Turnover	Rental related income	Revenue	Net property income
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Grade A Office				
The Metropolis Tower	34,531	9,055	43,586	34,608
Prosperity Millennia Plaza	19,048	5,470	24,518	17,944
Harbourfront Landmark (portion)	8,318	1,080	9,398	8,358
Industrial/Office				
Prosperity Place	18,890	151	19,041	15,077
Trendy Centre	13,645	2,955	16,600	13,678
Prosperity Center (portion)	11,326	1,302	12,628	9,483
Industrial				
New Treasure Centre (portion)	4,664	795	5,459	4,490
Total	110,422	20,808	131,230	103,638

Revenue

During the Reporting Period, revenue improved to HK\$131.2 million, being HK\$2.3 million or 1.8% higher than the last corresponding half year.

The revenue comprised HK\$110.4 million worth of rental and car park income, plus HK\$20.8 million of rental related income. Rental and car park income was HK\$2.2 million or 2.0% above the last corresponding half year. This increase was mainly due to an effective and proactive lease management system which led to an overall improvement in average effective unit rent.

Net Property Income

The net property income was HK\$103.6 million, exceeding the last corresponding half year by HK\$0.1 million or 0.1%. The cost-to-revenue ratio was 21.0%.

Liquidity and Financing

As at 30 June 2009, 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 expiring on 16 December 2010. The whole term loan facility was fully drawn on the Listing Date and none of the revolving credit facility balance was drawn as at 30 June 2009. 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, Prosperity REIT's finance company entered into three separate plain vanilla interest rate swap agreements to fix the interest rates for 100% of the HK\$1,770 million term loan until 16 December 2010 at the weighted average swap rate of 2.472%, excluding the spread of 0.49%.

The total borrowings of Prosperity REIT, excluding the origination fees, as a percentage of Prosperity REIT's gross assets was 35.7% as at 30 June 2009, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 44.5%.

Prosperity REIT, with a cash balance of HK\$57.0 million and an available revolving credit facility of approximately HK\$130 million as at 30 June 2009, has sufficient financial resources to satisfy its commitments and working capital requirements.

Highlights for financial position

Investment Properties and Property Valuation

For the six months ended 30 June 2009, Prosperity REIT's portfolio recorded an investment property revaluation surplus of HK\$45.4 million, based on a professional valuation performed by an independent valuer, Savills Valuation and Professional Services Limited. The movements of fair values are tabulated below:

	30 Jun 2009	31 Dec 2008
	HK\$' 000	HK\$' 000
Fair value at beginning of the period/year	4,839,000	5,225,000
Additional expenditure	2,589	12,406
Increase/ (decrease) in fair value during the period/year	45,411	(398,406)
Fair value at the end of period/year	4,887,000	4,839,000

Charges on Assets

As at 30 June 2009, the seven properties of Prosperity REIT, with an aggregate carrying value of HK\$4,846.4 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 REIT Manager and does not employ any staff itself.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Period, other than the disposal of 14,499,000 units by the REIT Manager which the REIT 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 REIT Manager was established for the purpose of managing Prosperity REIT. The REIT Manager is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the REIT Manager emphasize a quality board of directors, sound internal control, and 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 complied with the provisions of the Compliance Manual.

CLOSURE OF REGISTER OF UNITHOLDERS

The register of unitholders will be closed from Thursday, 15 October 2009 to Tuesday, 20 October 2009, 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 Shops 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 14 October 2009. The payment date of interim distribution will be on Tuesday, 27 October 2009.

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 REIT 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.

PUBLIC FLOAT

As far as the REIT Manager is aware, more than 25% of the issued units of Prosperity REIT were held in public hands as at 30 June 2009.

ISSUANCE OF INTERIM REPORT 2009

The Interim Report 2009 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 2009.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

		<i>Unaudited</i>	
		<i>Six months ended 30 June</i>	
	<i>Note</i>	<i>2009</i>	<i>2008</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	131,230	128,962
Property management fees		(3,076)	(3,004)
Property operating expenses		(24,516)	(22,377)
Total property operating expenses		(27,592)	(25,381)
Net property income		103,638	103,581
Interest income		89	69
Manager's fee		(12,755)	(13,712)
Trust and other expenses		(4,076)	(4,927)
Increase in fair value of investment properties during the period		45,411	177,844
Finance costs	5	(42,521)	(43,802)
Profit before taxation and transactions with unitholders		89,786	219,053
Taxation	6	(13,752)	(15,545)
Profit for the period, before transactions with unitholders		76,034	203,508
Distribution to unitholders		(73,065)	(89,024)
Profit for the period, after transactions with unitholders		2,969	114,484
Other comprehensive income (expense)			
Change in fair value of cashflow hedge		(6,246)	(10,528)
Reclassification adjustment in respect of cash flow hedge		14,591	-
Total other comprehensive income (expense)		8,345	(10,528)
Total comprehensive income for the period, after transactions with unitholders		11,314	103,956
Income available for distribution to unitholders		73,065	89,024
Earnings per unit and diluted earnings per unit (HK\$)	7	0.06	0.16

DISTRIBUTION STATEMENT

For the six months ended 30 June 2009

	<i>Unaudited</i>	
	<i>Six months ended 30 June</i>	
	<i>2009</i>	<i>2008</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period, before transactions with unitholders	76,034	203,508
Adjustments (note (i)):		
Manager's fee	12,733	13,689
Increase in fair value of investment properties during the period	(45,411)	(177,844)
Finance costs	16,522	34,126
Deferred tax	13,187	15,545
	<hr/>	<hr/>
Income available for distribution	73,065	89,024
Distribution to unitholders:		
For the six months ended 30 June	73,065	89,024
	<hr/>	<hr/>
Distribution per unit (HK\$) (note (ii))	0.0554	0.0690

Notes:

- (i) These adjustments for the half year include:
- manager's fee paid and payable in units of HK\$12,733,000 (2008: HK\$13,689,000) out of the total manager's fee of HK\$12,755,000 (2008: HK\$13,712,000) (the difference of HK\$22,000 (2008: HK\$23,000) is paid in cash);
 - increase in fair value of investment properties of HK\$45,411,000 (2008: HK\$177,844,000);
 - the adjustment for finance costs is the difference between the accounting finance cost of HK\$42,521,000 (2008: HK\$43,802,000) and cash finance cost of HK\$25,999,000 (2008: HK\$9,676,000); and
 - deferred tax of HK\$13,187,000 (2008: HK\$15,545,000).

In accordance with the Trust Deed, Prosperity REIT is required to distribute to unitholders not less than 90% of its distributable income for each financial period and it is the REIT Manager's 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 statement of comprehensive income for the relevant financial period.

- (ii) The DPU of HK\$0.0554 (2008: HK\$0.0690) is calculated based on Prosperity REIT's income available for distribution of HK\$73,065,000 (2008: HK\$89,024,000) over 1,318,720,913 units (2008: 1,289,519,568 units), representing units as at 30 June 2009 plus the number of units issued after the distribution period to the REIT Manager as manager's fee for its service in the second quarter of 2009.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2009

		<i>(unaudited)</i> 30 Jun 2009	<i>(audited)</i> 31 Dec 2008
	<i>Notes</i>	HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		4,887,000	4,839,000
Current assets			
Trade and other receivables	8	8,083	8,870
Tax recoverable		302	302
Bank balances and cash		56,957	67,154
Total current assets		65,342	76,326
Total assets		4,952,342	4,915,326
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		38,751	32,505
Secured term loan		1,763,825	1,761,893
Deferred tax liabilities		204,899	191,712
Total non-current liabilities, excluding net assets attributable to unitholders		2,007,475	1,986,110
Current liabilities			
Trade and other payables	9	108,234	115,015
Amounts due to related companies		7,554	7,307
Provision for taxation		662	97
Manager's fee payable		6,400	6,392
Distribution payable		73,065	75,492
Total current liabilities		195,915	204,303
Total liabilities, excluding net assets attributable to unitholders		2,203,390	2,190,413
Net assets attributable to unitholders		2,748,952	2,724,913
Units in issue ('000)	<i>10</i>	1,313,154	1,298,654
Net asset value per unit (HK\$)	<i>11</i>	2.14	2.15

Notes

(1) Principal Accounting Policies

The condensed consolidated financial statements have been prepared under the historical basis, except for investment properties and certain financial instruments, which are measured at fair values.

A number of new or revised standards, amendments and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) are effective for the financial year beginning on 1 January 2009. Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of Prosperity REIT and its subsidiaries’ (“the Group”) annual financial statements for the year ended 31 December 2008.

HKAS 1 (revised 2007) Presentation of Financial Statements

HKAS 1 (revised 2007) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (revised 2007) has had no impact on the reported results or financial position of the Group.

HKFRS 8 Operating Segments (“HKFRS 8”)

HKFRS 8 requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 Segment Reporting (“HKAS 14”), require the identification of business and geographical segments using a risks and returns approach. All of the Prosperity REIT’s operations are located and carried out in Hong Kong, and the sole principal activity of Prosperity REIT is investing in offices and commercial properties. Accordingly, no segment information by business and geographical segment was presented under HKAS 14 in prior periods. In the current period, Prosperity REIT adopted HKFRS 8 and the segment information is set out in note 4.

Amendments to HKAS 32 Financial Instruments: Presentation – Puttable Financial Instruments and Obligations arising on Liquidation (“HKAS 32 (Amendments)”)

HKAS 32 (Amendments) require that if an entity has instruments, or components of instruments, that impose on the entity an obligation to deliver to the holders a pro-rata share of the net assets of the entity only on liquidation, such instruments or components, should be presented as equity if

certain specified criteria are met. The REIT Manager has considered the amendments and has determined that HKAS 32 (Amendments) has no material impact to the accounting treatment for the units issued to unitholders as the component of the units that would be classified as equity is insignificant. Accordingly the units continue to be classified as financial liabilities, representing the obligation of the Prosperity REIT to distribute no less than 90% of Prosperity REIT's distributable income to the unitholders.

The adoption of the remaining new HKFRSs had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

The Group has not early adopted the following new and revised standards, amendment or interpretations that have been issued but are not yet effective. The REIT Manager is in the process of assessing the potential impact on the results and the financial position of the Group.

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of the Improvements to HKFRSs issued in 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009 ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 39 (Amendment)	Eligible hedged items ¹
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ³
HKFRS 3 (Revised)	Business Combinations ¹
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC) - Int 18	Transfers of Assets from Customers ⁴

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

² Effective for annual periods beginning on or after 1 July 2009 and 1 January 2010, as appropriate.

³ Effective for annual periods beginning on or after 1 January 2010.

⁴ Effective for transfers on or after 1 July 2009.

(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 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>2009</i>	<i>2008</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Gross rental from investment properties		
Rental income	102,763	100,351
Car park income	7,659	7,915
	<hr/>	<hr/>
	110,422	108,266
Rental related income	20,808	20,696
	<hr/>	<hr/>
	131,230	128,962
	<hr/>	<hr/>

- (4) Segment information

As disclosed in note 1, the application of HKFRS 8 in current period requires operating segments to be identified on the basis of internal reports about components of Prosperity REIT that are regularly reviewed by the chief operating decision maker which is the REIT Manager in order to allocate resources to segments and to assess their performance.

Prosperity REIT is currently investing in seven properties, 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.

Net property income is the measure reported to the REIT Manager for the purposes of resource allocation and performance assessment and has been presented in the Management Discussion and Analysis.

(5) Finance costs:

	<i>Unaudited</i>	
	<i>Six months ended 30 June</i>	
	<i>2009</i>	<i>2008</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest expense on		
- Secured term loan	15,871	29,305
- Reclassification adjustment in respect of cash flow hedge	14,591	-
- Equalisation of interest expense through cashflow hedge	12,059	14,267
	<hr/>	<hr/>
	42,521	43,572
- Secured revolving loan	-	230
	<hr/>	<hr/>
	42,521	43,802
	<hr/> <hr/>	<hr/> <hr/>

- (6) Hong Kong profit tax is calculated at 16.5% of the estimated assessable profit for the period. 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.

No provision for Hong Kong profits tax is required for subsidiaries of Prosperity REIT for the six months ended 30 June 2008 as the assessable profit was wholly absorbed by tax losses brought forward.

Deferred tax is provided on temporary differences using the current applicable rates.

	<i>Unaudited</i>	
	<i>Six months ended 30 June</i>	
	<i>2009</i>	<i>2008</i>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current tax	565	-
Deferred tax	13,187	15,545
	<hr/>	<hr/>
	13,752	15,545
	<hr/> <hr/>	<hr/> <hr/>

- (7) Earnings per unit is calculated by dividing the profit for the Reporting Period, before transactions with unitholders of HK\$76,034,000 (2008: HK\$203,508,000) and by the weighted average of 1,307,234,450 (2008: 1,281,421,535) units in issue during the period. The diluted earnings per unit is calculated by dividing the profit for the Reporting Period, before transactions with unitholders of HK\$76,034,000 (2008: HK\$203,508,000) by the weighted average units issued during the period together with the

effects of potential units (units issued for manager's fee) of 1,312,835,251 (2008: 1,285,053,751) units in issue during the period.

(8) Trade and other receivables at the end of each Reporting Period is as follows:

	<i>(unaudited)</i> 30 Jun 2009 HK\$'000	<i>(audited)</i> 31 Dec 2008 HK\$'000
Trade receivables	524	1,067
Deposits and prepayments	7,559	7,743
Other receivables	-	60
	<hr/> 8,083	<hr/> 8,870
	<hr/> <hr/>	<hr/> <hr/>

Ageing analysis of the Group's trade receivables at end of each Reporting Period is as follows:

	<i>(unaudited)</i> 30 Jun 2009 HK\$'000	<i>(audited)</i> 31 Dec 2008 HK\$'000
Current – 1 month	491	945
2 – 3 months	-	93
Over 3 months	33	29
	<hr/> 524	<hr/> 1,067
	<hr/> <hr/>	<hr/> <hr/>

(9) Trade and other payables at the end of each Reporting Period is as follows:

	<i>(unaudited)</i> 30 Jun 2009 HK\$'000	<i>(audited)</i> 31 Dec 2008 HK\$'000
Trade payables	827	491
Tenants' deposits		
- Outside parties	70,234	76,197
- Related parties	400	390
Rental received in advance – Outside parties	2,215	1,231
Other payables	34,558	36,706
	<hr/> 108,234	<hr/> 115,015
	<hr/> <hr/>	<hr/> <hr/>

Ageing analysis of the Group's trade payables at the end of each Reporting Period is as follows:

	<i>(unaudited)</i> 30 Jun 2009 HK\$'000	<i>(audited)</i> 31 Dec 2008 HK\$'000
Current – 1 month	372	38
2 – 3 months	383	152
Over 3 months	72	301
	<u>827</u>	<u>491</u>

(10) Issued Units

	Number of units	HK\$'000
Balance at 1 January 2009	1,298,654,410	2,773,698
Payment of Manager's base fee and variable fee through issuance of new units during the period	14,499,384	12,725
Balance at 30 June 2009	<u>1,313,153,794</u>	<u>2,786,423</u>

(11) The net asset value per unit is calculated based on the net assets of the Group excluding hedging reserve of HK\$58,555,000 (31 December 2008: HK\$66,900,000) and the total number of 1,313,153,794 units in issue at 30 June 2009 (31 December 2008: 1,298,654,410).

(12) As at 30 June 2009, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$130,573,000 (31 December 2008: HK\$127,977,000) and the Group's total assets less current liabilities amounted to HK\$4,756,427,000 (31 December 2008: HK\$4,711,023,000).

(13) The results have been reviewed by the Disclosures Committee and the Audit Committee of the REIT 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 REIT 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. Stephen Henry Chu 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.