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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

FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 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**") 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 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 REIT Manager is pleased to announce the audited consolidated results of Prosperity REIT and its subsidiaries for the year ended 31 December 2009 together with comparative figures for the corresponding period in 2008 as follows:

Performance Highlights

	<u>Year ended 31 Dec</u> <u>2009</u>	<u>Year ended 31 Dec</u> <u>2008</u>	<u>Percentage change</u> <u>Increase/(Decrease)</u>
Distribution per unit ("DPU")	HK\$0.1098	HK\$0.1268	(13.4%)

<u>Operation data</u>	<u>Year ended 31 Dec 2009</u>	<u>Year ended 31 Dec 2008</u>	<u>Percentage change Increase/(Decrease)</u>
Revenue	HK\$263.6 million	HK\$263.1 million	0.2%
Net property income	HK\$206.9 million	HK\$208.7 million	(0.9%)
Cost-to-revenue ratio	21.5%	20.7%	3.9%
Occupancy rate (as at 31/12)	97.4%	98.5%	(1.1%)
Tenant retention rate	61.8%	51.5%	20.0%
Average effective unit rent	HK\$14.92 per sq. ft.	HK\$14.28 per sq. ft.	4.5%

<u>Key financial figures</u>	<u>As at 31/12/2009</u>	<u>As at 31/12/2008</u>	<u>Percentage change Increase/(Decrease)</u>
Net asset value per unit	HK\$2.34	HK\$2.15	8.8%
Property valuation	HK\$5,256 million	HK\$4,839 million	8.6%
Gearing ratio **	33.3%	36.0%	(7.5%)

** 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 2009 to 31 December 2009 (the “Reporting Year”), amounted to HK\$145.4 million. The annual distributable income for the Reporting Year is calculated by the REIT 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 a finance cost of HK\$29.1 million (equivalent to HK\$0.022 per unit) due to the interest rate swap, all of which have been recorded in the consolidated statement of comprehensive income.

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 for the financial year ended 31 December 2009. 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 2009 to 31 December 2009 is HK\$72.3 million, equivalent to a DPU of HK\$0.0544. The interim DPU for the six months from 1 January 2009 to 30 June 2009 was HK\$0.0554, and the total DPU for the Reporting Year is HK\$0.1098, which represents a distribution yield of 8.3%¹. The DPU dropped 13.4% year-on-year (“YoY”) mainly due to the additional cash finance cost of HK\$16.3 million in the Reporting Year, as a result of the unwinding of the interest rate swap in July 2008.

¹ Based on Prosperity REIT's closing unit price of HK\$1.33 on 31 December 2009

The distribution of the half year from 1 July 2009 to 31 December 2009 will be paid on Thursday, 22 April 2010.

MARKET REVIEW

The economic turbulence brought on by 2008's global financial crisis continued into the beginning of 2009. By the second quarter of 2009, the first signs of economic recovery began to emerge. Whilst the pace of this recovery varied in different sectors and regions of the world, the Hong Kong economy seemed to have weathered the financial storm better than many other Western economies.

The Mainland had played an important role in restoring economic order by decisively stepping in with a RMB 4 trillion nation-wide fiscal stimulus package. In 2009, the Mainland recorded annual gross domestic product growth of 8.7 per cent, in line with pre-crisis levels.

Increasing optimism for a full global economic recovery in the second half of 2009 helped to restore investor confidence and improve market sentiment, fuelling strong rallies in the global equity markets.

In Hong Kong, significant recovery in the equity and property sectors was seen in the second half of 2009. The local real estate sector continued to benefit from the low interest rate environment and abundant market liquidity. Interest rates have fallen to a decade-low and are expected to remain low for the better part of 2010. As a result, funding costs for Prosperity REIT's capital expenditures would decrease, while opportunities for growth through debt financed acquisitions may increase.

Amidst the continued recovery of the global economy, trading and service industries have rebounded in recent months, boosting demand for commercial and industrial space in Hong Kong. Benefiting from the strategic locations of our properties, Prosperity REIT is well positioned to capitalise on the anticipated upturn in demand.

OPERATIONS REVIEW

Despite the challenging economic conditions in the first half of 2009, Prosperity REIT achieved encouraging results for the Reporting Year. In 2009, total revenue and net property income reached HK\$263.6 million and HK\$206.9 million respectively.

As at 31 December 2009, Prosperity REIT's portfolio occupancy was 97.4%, and the average effective unit rent of the portfolio increased by 4.5% YoY to HK\$14.92 per sq. ft. .

Notwithstanding the market challenges, Prosperity REIT was successful in achieving a positive rental reversion rate of 4.3%. Moreover, the REIT was able to attain an encouraging 61.8% tenant retention rate. These are the results of Prosperity REIT's proactive management approach, effective leasing strategies and strong tenant relationships.

During the year, the management team of Prosperity REIT stepped up its efforts in creating a greener urban environment through the creation of a living green roof at Prosperity Place. This initiative is part of the REIT Manager's ongoing endeavors to add value to Prosperity REIT by transforming neglected areas into valuable assets.

PROSPECTS

As we embark upon the start of a new decade, we believe the Asian economies are well on the way to economic recovery, with China leading the way. Nevertheless, the road to recovery is still expected to be a challenging one. Accordingly, the REIT Manager will continue to maintain a prudent and judicious approach to the management of Prosperity REIT.

With our proactive leasing initiatives, we are cautiously confident that occupancy rates will be gradually restored to the optimum pre-financial crisis levels. Through well-planned asset enhancement efforts, positive business strategies, vigilant cost controls, reinforced tenant relations and effective asset enhancements, we are committed to delivering reasonable returns to unitholders in the coming years.

ACKNOWLEDGEMENT

I would like to take this opportunity to thank my fellow directors, our management team, property managers, service providers and partners for their invaluable contributions to Prosperity REIT over the past year. Finally, I would like to sincerely thank you, our unitholders, for your unwavering support, trust, and confidence.

Chiu Kwok Hung, Justin

Chairman

ARA Asset Management (Prosperity) Limited

as manager of Prosperity REIT

Hong Kong, 19 March 2010

MANAGEMENT DISCUSSION AND ANALYSIS

Operational 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., with a total of 407 car park spaces.

Information on the portfolio of properties as at 31 December 2009 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	1,931	98.5%
Prosperity Millennia Plaza	North Point	217,955	43	1,118	98.6%
Harbourfront Landmark (portion)	Hunghom	77,021	–	318	100.0%
Industrial/Office					
Prosperity Place	Kwun Tong	240,000	60	670	96.5%
Trendy Centre	Cheung Sha Wan	173,764	79	561	93.8%
Prosperity Center (portion)	Kwun Tong	149,253	105	481	98.0%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	177	97.2%
Total		1,215,579	407	5,256	97.4%

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain organic growth in the Reporting Year. A high occupancy rate of 97.4% was recorded as at 31 December 2009, and the average effective unit rent rose 4.5% YoY, reflecting the effectiveness of those progressive and effective leasing strategies employed. As a result of increased revenue, coupled with efficient streamlining of operations, the cost-to-revenue ratio maintained at a relatively low level of 21.5%.

	Occupancy rate (%) <i>As at 31 Dec 09</i>	Occupancy rate (%) <i>As at 31 Dec 08</i>	Percentage change Increase/(Decrease)
Grade A Office			
The Metropolis Tower	98.5	99.7	(1.2%)
Prosperity Millennia Plaza	98.6	98.4	0.2%
Harbourfront Landmark (portion)	100.0	100.0	-
Industrial/Office			
Prosperity Place	96.5	97.4	(0.9%)
Trendy Centre	93.8	98.7	(5.0%)

Prosperity Center (portion)	98.0	96.7	1.3%
Industrial			
New Treasure Centre (portion)	97.2	100	(2.8%)
Portfolio	97.4	98.5	(1.1%)

Investment Review

In light of current economic uncertainties, the REIT Manager will implement its acquisition strategy prudently and will only assess potential targets which will be beneficial to Prosperity REIT and unitholders as a whole. In May 2008, Prosperity REIT obtained unitholders' approval to expand its scope of acquisition coverage to invest in office, commercial and retail properties, with no geographical restrictions. The REIT Manager is now enjoying the flexibility in taking advantages of emerging investment opportunities to facilitate growth when appropriate opportunities arise.

Asset Enhancement

It is an established strategy of the REIT Manager to provide premium rentable space in order to achieve sustainable rental growth. To this end, large-scale asset enhancement initiatives have been planned and executed on a continuous basis. This approach is demonstrated by the extensive improvements at Prosperity Place and The Metropolis Tower in 2009. Asset enhancement initiatives will continue in 2010 across the entire portfolio, with prudently planned payback periods.

Outlook

Since its listing on 16 December 2005, Prosperity REIT has been able to deliver favourable results by managing its portfolio in a diligent manner. Supported by Goodwell-Prosperity Property Services Limited, which provides leasing and management services for properties under the REIT's portfolio, the REIT Manager will continue to work towards generating reasonable returns to the unitholders in 2010 through proven expertise in professional management.

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	70,052	17,881	87,933	69,268
Prosperity Millennia Plaza	39,487	10,774	50,261	37,346
Harbourfront Landmark (portion)	16,637	2,161	18,798	16,616
Industrial/Office				
Prosperity Place	37,795	415	38,210	29,472
Trendy Centre	26,814	5,731	32,545	26,695
Prosperity Center (portion)	22,411	2,619	25,030	19,120

Industrial

New Treasure Centre (portion)	9,248	1,599	10,847	8,383
Total	222,444	41,180	263,624	206,900

Revenue

During the Reporting Year, revenue was HK\$263.6 million. The revenue comprised of HK\$222.4 million worth of rental and car park income, plus HK\$41.2 million of rental related income. Rental and car park income was HK\$0.6 million, or 0.2% above that of 2008.

Net Property Income

The net property income was HK\$206.9 million and the cost-to-revenue ratio was 21.5%. The REIT Manager continues to implement effective cost control measures.

Liquidity and Financing

As at 31 December 2009, Prosperity REIT had a facility of HK\$1,900 million, comprising of 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 31 December 2009. 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.

The term loan facility and the revolving credit facility bears interest at a variable rate. In order to hedge against interest rate fluctuations 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 33.3% as at 31 December 2009, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 42.7%.

Taking into account the fair value of investment properties, presently available banking facilities and internal financial resources of Prosperity REIT, Prosperity REIT 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 2009, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$405.2 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:

	31 Dec 2009	31 Dec 2008
	HK\$' 000	HK\$' 000
Fair value at beginning of the financial year	4,839,000	5,225,000
Additional expenditure	11,840	12,406
Increase / (decrease) in fair value during the year	405,160	(398,406)
	_____	_____
Fair value at the end of year	5,256,000	4,839,000
	=====	=====

Charges on Assets

As at 31 December 2009, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$5,212 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.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Year, other than the disposal of 24,927,000 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, sound internal control, transparency and accountability to all unitholders. The REIT 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 regulations and legislation. A summary of the key components of the corporate governance policies that have been adopted and complied with by the REIT 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 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 Tuesday, 13 April 2010 to Friday, 16 April 2010, 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 Monday, 12 April 2010. The payment date of final distribution will be on Thursday, 22 April 2010.

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 REIT Manager.

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 of 31 December 2009.

ISSUANCE OF ANNUAL REPORT

The Annual Report of Prosperity REIT for the Reporting Year will be dispatched or sent to unitholders on or before Friday, 30 April 2010.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of Prosperity REIT will be held on Monday, 3 May 2010. Notice of the annual general meeting will be published and issued to unitholders in due course.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	<i>Notes</i>	<i>2009</i>	<i>2008</i>
		<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	3	263,624	263,146
Property management fees		(6,169)	(6,142)
Property operating expenses		(50,555)	(48,327)
Total property operating expenses		(56,724)	(54,469)
Net property income		206,900	208,677
Interest income		148	543
Manager's fee		(26,080)	(27,197)
Trust and other expenses		(7,344)	(8,364)
Increase (decrease) in fair value of investment properties		405,160	(398,406)
Finance costs	5	(81,518)	(91,183)
Profit (loss) before taxation and transactions with unitholders		497,266	(315,930)
Taxation	6	(75,439)	58,708
Profit (loss) for the year, before transactions with unitholders		421,827	(257,222)
Distribution to unitholders		(145,365)	(164,516)
Profit (loss) for the period, after transactions with unitholders		276,462	(421,738)
Other comprehensive income (expense)			
Change in fair value of cashflow hedge		(2,847)	(38,102)
Reclassification adjustment in respect of cash flow hedge		25,111	19,242
Total other comprehensive income (expense)		22,264	(18,860)
Total comprehensive income (expense) for the year, after transactions with unitholders		298,726	(440,598)
Income available for distribution to unitholders		145,365	164,516
Earnings (loss) per unit and diluted earnings (loss) per unit (HK\$)	7	0.32	(0.20)

DISTRIBUTION STATEMENT

For the year ended 31 December 2009

	2009	2008
	HK\$'000	HK\$'000
Profit (loss) for the year, before transactions with unitholders	421,827	(257,222)
Adjustments:		
Manager's fee	26,034	27,151
(Increase) decrease in fair value of investment properties	(405,160)	398,406
Finance costs	29,091	55,017
Deferred tax	73,573	(58,836)
	<hr/>	<hr/>
Income available for distribution (note (i))	145,365	164,516
	<hr/> <hr/>	<hr/> <hr/>
Distributions to unitholders:		
HK\$0.0554 (2008: HK\$0.0690) per unit for the six months ended 30 June (note (ii))	73,065	89,024
HK\$0.0544 (2008: HK\$0.0578) per unit for the six months ended 31 December (note (iii))	72,300	75,492
	<hr/>	<hr/>
	145,365	164,516
	<hr/> <hr/>	<hr/> <hr/>
Total distribution per unit (HK\$)	0.1098	0.1268
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Notes:

- (i) These adjustments for the current year include:
- (a) Manager's fee paid in units of HK\$26,034,000 (2008: HK\$27,151,000) out of the total Manager's fee of HK\$26,080,000 (2008: HK\$27,197,000) (the difference of HK\$46,000 (2008: HK\$46,000) are paid in cash);
 - (b) increase in fair value of investment properties of HK\$405,160,000 (2008: decrease of HK\$398,406,000);
 - (c) adjustment in respect of the difference between the accounting finance cost of HK\$81,518,000 (2008: HK\$91,183,000) less cash finance cost of HK\$52,427,000 (2008: HK\$36,166,000); and
 - (d) deferred tax provision of HK\$73,573,000 (2008: deferred tax reversal of HK\$58,836,000).

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 year, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) which have been recorded in the consolidated statement of comprehensive income for the relevant financial year.

- (ii) The distribution per unit of HK\$0.0554 (2008: HK\$0.0690) for the six months ended 30 June 2009 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), 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. The distribution was paid to unitholders on 27 October 2009.

- (iii) The distribution per unit of HK\$0.0544 (2008: HK\$0.0578) for the six months ended 31 December 2009 is calculated based on Prosperity REIT's income available for distribution of HK\$72,300,000 (2008: HK\$75,492,000) over 1,328,682,612 units (2008: 1,305,921,359 units), as at 31 December 2009 plus the number of units issued after the distribution period to the REIT Manager as Manager's fee for its service in the last quarter of the relevant distribution year.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

		2009	2008
	<i>Notes</i>	HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		5,256,000	4,839,000
Current assets			
Trade and other receivables	8	8,235	8,870
Tax recoverable		393	302
Bank balances and cash		53,373	67,154
Total current assets		62,001	76,326
Total assets		5,318,001	4,915,326
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		-	32,505
Secured term loan	10	-	1,761,893
Deferred tax liabilities		265,285	191,712
Total non-current liabilities, excluding net assets attributable to unitholders		265,285	1,986,110
Current liabilities			
Trade and other payables	9	114,858	115,015
Amount due to related companies		6,920	7,307
Secured term loan	10	1,765,873	-
Derivative financial instruments		35,352	-
Provision for taxation		1,347	97
Manager's fee payable		6,835	6,392
Distribution payable		72,300	75,492
Total current liabilities		2,003,485	204,303
Total liabilities, excluding net assets attributable to unitholders		2,268,770	2,190,413
Net assets attributable to unitholders		3,049,231	2,724,913

Units in issue ('000)	11	1,323,582	1,298,654
		<hr/> <hr/>	
Net asset value per unit (HK\$) attributable to unitholders	12	2.34	2.15
		<hr/> <hr/>	

Notes

(1) Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, Prosperity REIT has applied the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 1 (Revised 2007)	Presentation of Financial Statements
HKAS 23 (Revised 2007)	Borrowing costs
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
HKFRS 8	Operating Segments
HK(IFRIC)-Int 9 & HKS 39 (Amendments)	Embedded Derivatives
HK(IFRIC)-Int 13	Customer Loyalty Programmes
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation
HK(IFRIC)-Int 18	Transfers of Assets from Customers
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2008, except for the amendment to HKFRS 5 that is effective for annual periods beginning or after 1 July 2009
HKFRSs (Amendments)	Improvements to HKFRS issued in 2009 in relation to the amendment to paragraph 80 of HKAS 39

Except as described below, the adoption of the new and revised HKFRSs has had no material effect on the consolidated financial statements of Prosperity REIT for the current or prior accounting periods.

New and revised HKFRSs affecting presentation and disclosure only

HKAS 1 (Revised 2007) Presentation of Financial Statements

HKAS 1 (Revised 2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.

HKFRS 8 Operating Segments

HKFRS 8 is a disclosure standard that has resulted in the presentation of Prosperity REIT's reportable segments and changes in the basis of measurement of segment profit or loss, segment assets and segment liabilities.

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 Prosperity REIT to distribute no less than 90% of Prosperity REIT’s distributable income to the unitholders.

Improving Disclosures about Financial Instruments

(Amendments to HKFRS 7 Financial Instruments: Disclosures)

The amendments to HKFRS 7 expand the disclosures required in relation to fair value measurements in respect of financial instruments which are measured at fair value. The amendments also expand and amend the disclosures required in relation to liquidity risk. Prosperity REIT has not provided comparative information for the expanded disclosures in accordance with the transitional provision set out in the amendments.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008 ¹
HKFRSs (Amendments)	Improvements to HKFRSs 2009 ²
HKAS 24 (Revised)	Related Party Disclosures ⁶
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ¹
HKAS 32 (Amendment)	Classification of Rights Issues ⁴
HKAS 39 (Amendment)	Eligible Hedged Items ¹
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters ³
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ⁵
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions ³
HKFRS 3 (Revised)	Business Combinations ¹
HKFRS 9	Financial Instruments ⁷
HK(IFRIC)-Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁶
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners ¹
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments ⁵

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

- ² Amendments that are 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 annual periods beginning on or after 1 February 2010
- ⁵ Effective for annual periods beginning on or after 1 July 2010
- ⁶ Effective for annual periods beginning on or after 1 January 2011
- ⁷ Effective for annual periods beginning on or after 1 January 2013

The REIT Manager anticipates that the application of the new and revised standards, amendments or interpretations will have no material impact on the consolidated financial statements of Prosperity REIT.

(2) Significant Accounting Policies

Basis of preparation of financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated 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 Futures Commission and the Rules Governing the Listing of Securities on the HKSE.

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

The REIT Manager is of the opinion that, taking into account the fair value of investment properties, presently available banking facilities and internal financial resources of Prosperity REIT, Prosperity REIT has sufficient working capital for its present requirements within one year from the end of reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Prosperity REIT and the subsidiaries controlled by Prosperity REIT. Control is achieved where 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 year are included in the consolidated statement of comprehensive income 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) Revenue:

	2009	2008
	HK\$'000	HK\$'000
Gross rental from investment properties:		
Rental income	206,794	205,634
Car park income	15,650	16,236
	<u>222,444</u>	<u>221,870</u>
Rental related income	<u>41,180</u>	<u>41,276</u>
	<u>263,624</u>	<u>263,146</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 industrial, offices and commercial properties located in Hong Kong.

(5) Finance costs:

	2009	2008
	HK\$'000	HK\$'000
Interest expense on		
Secured term loan	24,595	58,462
Release of hedging reserve	25,111	19,242
Equalisation of interest expense through cashflow hedges	31,812	13,214
	<u>81,518</u>	<u>90,918</u>
Secured revolving loan	-	265
	<u>81,518</u>	<u>91,183</u>

(6) Taxation:

	2009	2008
	HK\$'000	HK\$'000
Current tax	1,866	128
Deferred tax	73,573	(58,836)
	<u>75,439</u>	<u>(58,708)</u>

On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/09. Therefore Hong Kong Profit Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong profits tax are required for certain subsidiaries as these subsidiaries did not have any assessable profits for the year or the assessable profit is wholly absorbed by tax losses brought forward. Deferred tax is provided on temporary differences using the current applicable rates.

- (7) The earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$421,827,000 (2008: loss of HK\$257,222,000) by the weighted average of 1,313,406,331 (2008: 1,286,663,207) units in issue during the year. The diluted earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$421,827,000 (2008: loss of HK\$257,222,000) by the weighted average units in issue during the year of 1,313,406,331 (2008: 1,286,663,207) units together with the effects of potential units (units issued for manager's fee) of 612,832, amounting to 1,314,019,163 (2008: 1,291,694,000) units in aggregate.

- (8) Trade and other receivables:

	2009	2008
	HK\$'000	HK\$'000
Trade receivables	773	1,067
Deposit and prepayments	7,462	7,743
Other receivables	-	60
	<u>8,235</u>	<u>8,870</u>

Ageing analysis of Prosperity REIT's trade receivables is as follows:

	2009	2008
	HK\$'000	HK\$'000
Current – 1 month	686	945
2 – 3 months	87	93
Over 3 months	-	29
	<u>773</u>	<u>1,067</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) Trade and other payables:

	2009	2008
	HK\$'000	HK\$'000
Trade payables	2,453	491
Tenants' deposits		
- Outside parties	72,660	76,197
- Related parties	460	390
Rental received in advance – Outside parties	1,876	1,231
Other payables	37,409	36,706
	<u>114,858</u>	<u>115,015</u>

Ageing analysis of Prosperity REIT's trade payables is as follows:

	2009	2008
	HK\$'000	HK\$'000
Current – 1 month	998	38
2 – 3 months	1,063	152
Over 3 months	392	301
	<u>2,453</u>	<u>491</u>

(10) Secured term loan:

	2009	2008
	HK\$'000	HK\$'000
Secured term loan	1,770,000	1,770,000
Origination fees	(4,127)	(8,107)
	<u>1,765,873</u>	<u>1,761,893</u>
Repayable within one year	(1,765,873)	-
	<u>-</u>	<u>1,761,893</u>

(11) 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 year	<u>24,927,472</u>	<u>25,592</u>
Balance at 31 December 2009	<u>1,323,581,882</u>	<u>2,799,290</u>

(12) The net asset value per unit is calculated based on the net assets attributable to unitholders of Prosperity REIT excluding hedging reserve and the total number of units used for computing the net asset value per unit is 1,323,581,882 (2008: 1,298,654,410).

(13) For the year ended 31 December 2009, Prosperity REIT's net current liabilities, defined as current assets less current liabilities, amounted to HK\$1,941,484,000 (2008: HK\$127,977,000) and Prosperity REIT's total assets less current liabilities amounted to HK\$3,314,516,000 (2008: HK\$4,711,023,000).

(14) 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.

(15) The results have been reviewed by the Disclosures Committee and Audit Committee.

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.