Notes to the Financial Statements

For the period from 16 December 2005 (date of listing) to 31 December 2005

1 GENERAL

Prosperity Real Estate Investment Trust ("Prosperity REIT") is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units have been listed on The Stock Exchange of Hong Kong Limited ("HKSE") since 16 December 2005. Prosperity REIT is governed by the deed of trust dated 29 November 2005, as amended by a first supplemental deed dated 12 December 2005 (collectively the "Trust Deed") made between ARA Asset Management (Prosperity) Limited (the "Manager") and HSBC Institutional Trust Services (Asia) Limited (the "Trustee") and the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission.

The principal activity of Prosperity REIT and its subsidiaries (the "Group") is to own and invest in a portfolio of offices and commercial properties located in Hong Kong with the objective of producing stable and sustainable distributions to unitholders and to achieve long term growth in the net asset value per unit.

The Group has entered into various service agreements in relation to the management of Prosperity REIT and its property operations. The fee structures of these services are as follows:

(a) Property management fees

Property management service

Under the Property Management Agreement, the Property Manager, Goodwell-Prosperity Property Services Limited, will receive from each of the property holding subsidiary a fee of 3% per annum of gross property revenue for the provision of property management services and lease management services.

Gross property revenue means the amount equivalent to the gross revenue less rental related income and car park income.

Marketing services

For the marketing services, the property holding subsidiary will pay the Property Manager the following commissions:

- one month's base rent for securing a tenancy of three years or more;
- one-half month's base rent for securing a tenancy of less than three years;
- one-half month's base rent for securing a renewal of tenancy irrespective of duration of the renewal term; and
- 10% of the total licence fee for securing a licence for duration of less than 12 months.

(b) Trustee's fees

The Trustee is entitled to receive trustee's fee not exceeding 0.05% per annum on the value of the real estate properties (subject to a minimum of HK$50,000 per month) currently at 0.03% per annum.

Notes to the Financial Statements

For the period from 16 December 2005 (date of listing) to 31 December 2005

1 GENERAL *(CONTINUED)*

(c) Manager's fees

Under the Trust Deed, the Manager is entitled to receive the following remuneration for the provision of asset management services:

Base fee

Under the Trust Deed, the Manager will receive a base fee from Prosperity REIT at 0.4% per annum on the value of the properties. The base fee will be paid quarterly in arrears and in the form of units in Prosperity REIT during the first five years after the Units are listed on HKSE. Thereafter, the Manager may elect whether the base fee is to be paid in cash or in units.

Variable fee

Under the Trust Deed, the Manager will receive from each property holding subsidiary a variable fee of 3% of the net property income (before deduction therefrom the base fee and variable fee) of the property holding subsidiary. The variable fee will be paid in units during the first five years after the Units are listed on HKSE, and thereafter, may elect whether the variable fee is to be paid in cash or in units at the election of the Manager.

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES

(a) Basis of preparation of financial statements

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. In addition, the financial statements include applicable disclosures required by the Code on Real Estate Investment Trusts issued by the Securities and Future Commission and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

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

The financial statements are presented in Hong Kong dollars, which is the same as the functional currency of Prosperity REIT.

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Prosperity REIT and the subsidiaries controlled by Prosperity REIT made up to 31 December each year. Control is achieved when Prosperity REIT has the power to govern the financial and operating policies of the subsidiaries so as to obtain benefits from their activities. On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances are eliminated on consolidation.

Notes to the Financial Statements

For the period from 16 December 2005 (date of listing) to 31 December 2005

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(c) Business acquisition

The acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business acquisition. The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in the income statement.

A discount on acquisition arising on acquisition represents the excess of the net fair value of an acquiree's identifiable assets, liabilities and contingent liabilities over the cost of the business combination. Discount on acquisition is recognised immediately in the income statement.

(d) Investment properties

On initial recognition, investment properties, which is property held to earn rentals or for capital appreciation or both, are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

The gain or loss on disposal of an investment property is the difference between the net sale proceeds and its carrying amount, and is recognised in the income statement.

(e) Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs (which include origination fees) that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Notes to the Financial Statements

For the period from 16 December 2005 (date of listing) to 31 December 2005

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(e) Financial instruments *(continued)*

Financial assets

The Group's financial assets are classified as receivables and cash and cash equivalents.

Receivables (including trade and other receivables, bank deposits and amount due from related companies) are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables are carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

The Group's financial liabilities are borrowings and payables which are subsequently measured at amortised cost, using the effective interest rate method.

(f) Cash and cash equivalents

Cash and cash equivalents comprise demand deposits that are subject to an insignificant risk of changes in value.

(g) Unit issue costs

The transaction costs of an equity transaction in relation to the initial public offering and listing units of Prosperity REIT are accounted for as a deduction from equity to the extent they are incremental costs directly attributable to the equity transaction that otherwise would have been avoided. Other transaction costs are recognised as an expense.

(h) Impairment of assets

At each balance sheet date, the Group review the carrying amounts of their assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognised as an expense in the income statement immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as an income in the income statement immediately.

Notes to the Financial Statements

For the period from 16 December 2005 (date of listing) to 31 December 2005

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(i) Provisions

Provisions are recognised when the Group have a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation.

(j) Revenue recognition

Rental income is recognised, on a straight-line basis, over the terms of the respective leases.

Rental related income, representing mainly air conditioning expenses, management fee, promotion expenses, government rates and government rents payable by the tenants and licensees are recognised when the services and facilities are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(k) Borrowings cost

Borrowings cost are recognised as an expense in the income statement in the period in which they are incurred.

(l) Derivative financial instruments and hedge accounting

The Group uses interest rate swap to hedge its exposure against changes in interest rates. Such derivatives are measured at fair value regardless of whether they are designated as effective hedging instruments.

Hedges are classified as cash flow hedges when hedges are made to hedge against exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability.

For cash flow hedges that qualify for hedge accounting, the effective portion of the gains or losses arising on the changes in fair value of hedging instruments is initially recognised in equity and "recycled" into the income statement when the hedged item affects profit or loss. The ineffective portion is recognised immediately in profit or loss.

Derivatives that do not qualify for hedge accounting are deemed as financial assets or financial liabilities held for trading. Changes in fair values of such derivatives are recognised directly in profit or loss.

(m) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other period and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Notes to the Financial Statements

For the period from 16 December 2005 (date of listing) to 31 December 2005

2 SUMMARY OF PRINCIPAL ACCOUNTING POLICIES *(CONTINUED)*

(m) Taxation *(continued)*

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

(n) Potential impact arising from recently issued accounting standards

At the date of authorisation of these financial statements, the following Hong Kong Financial Reporting Standards ("HKFRS"), Hong Kong Accounting Standards ("HKAS") and Interpretations ("HK(IFRIC)") were issued but not yet effective:

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 4	Determining whether an Arrangement Contains a Lease
HK(IFRIC)-Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK(IFRIC)-Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies

The Manager anticipates that the application of these Standards and Interpretations applicable to Prosperity REIT in future periods will have no material impact on the financial statements of the Group.

Notes to the Financial Statements

For the period from 16 December 2005 (date of listing) to 31 December 2005

3 FINANCIAL RISKS MANAGEMENT OBJECTIVES AND POLICIES

Credit risk

Credit risk is the potential financial loss resulting from the failure of a tenant or counterparty to settle its financial and contractual obligations to the Group, as and when they fall due.

The Manager has established credit limits for tenants and monitors their balances on an ongoing basis. Credit evaluations are performed by the Property Manager on behalf of the Manager before lease agreements are entered into with tenants. In addition, the Manager reviews the recoverable amount of each individual trade debts regularly to ensure that adequate impairment losses are recognised for irrecoverable debts. Cash and fixed deposits are placed with reputable financial institutions.

The maximum exposure to credit risk is represented by the carrying value of each financial asset on the balance sheet.

Interest rate risk

The Group's exposure to changes in interest rates relates primarily to interest-earning financial assets and interest-bearing financial liabilities. Interest rate risk is managed by the Manager on an ongoing basis with the primary objective of limiting the extent to which net interest expense could be affected by adverse movements in interest rates.

The Group has put in place interest rate swap arrangements to minimise the variability in cash flows attributable to changes in interest rate. This involves fixing the portion of interest payable on its underlying debt liabilities via financial derivatives.

Liquidity risk

The Manager monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group's operations. In addition, the Manager observes the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission concerning limits on total borrowings and monitors the level of borrowing to be within the permitted limit.

4 TURNOVER

	HK$'000
Turnover represents gross rental from investment properties	
Rental income	5,900
Car park income	583
	6,483

Notes to the Financial Statements

For the period from 16 December 2005 (date of listing) to 31 December 2005

5 OTHER PROPERTY OPERATING EXPENSES

	HK$'000
Building management fees	1,410
Utilities	63
Government rent and rates	376
Car park operating expenses	181
Valuation fees (paid to principal valuer)	45
Audit fee	201
Tax fees	120
Legal and professional fees	45
Others	116
	2,557

6 TRUST AND OTHER EXPENSES

	HK$'000
Audit fee	346
Trustee's fee	60
Bank charges	80
Other professional fees and charges	1,333
	1,819

7 FINANCE COSTS

	HK$'000
Interest expense on:	
– Secured term loan	3,855
– Secured revolving loan	259
	4,114

8 TAXATION

	HK$'000
Current tax credit	(615)
Deferred tax *(note 16)*	111
	(504)

Notes to the Financial Statements

For the period from 16 December 2005 (date of listing) to 31 December 2005

8 TAXATION *(CONTINUED)*

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the period and the net income tax credit for the period can be reconciled to the accounting profit as follows:

	HK$'000
Income tax expense at statutory rate of 17.5%	41,858
Tax effect of excess of fair value of identifiable assets and liabilities acquired over the cost of acquisition of subsidiaries	(29,979)
Tax effect of increase in fair value of two investment properties acquired upon listing	(9,417)
Tax effect of increase in fair value of investment properties at period end	(1,750)
Tax effect of non-taxable income	(5,257)
Tax effect of non-deductible expenses	3,841
Tax effect of loss not recognised	200
Net tax credit for the period	(504)

9 EARNINGS PER UNIT

The earnings per unit is calculated by dividing the net profit for the period of HK$239,690,000 by 1,250,962,222 units being the number of units in issue during the period.

10 INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
Acquired upon listing	4,538,000
Increase in fair value of investment properties at period end	10,000
At end of the period	4,548,000

On 31 December 2005, an independent valuation was undertaken by Chesterton Petty Limited. The firm is an independent qualified professional valuer not connected to the Group and having appropriate professional qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation of the seven properties was arrived at using the basis of capitalisation of the net income by reference to sales evidence as available on the market.

All of the Group's property interests in properties located in Hong Kong are held under operating leases to earn rentals or for capital appreciation purposes. They are measured using the fair value model and are classified and accounted for as investment properties.

All of the Group's investment properties have been pledged to secure banking facilities granted to the Group.

Notes to the Financial Statements

For the period from 16 December 2005 (date of listing) to 31 December 2005

11 DERIVATIVE FINANCIAL INSTRUMENTS

	HK$'000
Cash flow hedges – interest rate swaps	283,799

The Group uses interest rate swaps to minimise its exposure to movements in interest rates in relation to its floating rates term loan by swapping from floating rates to fixed rates. The interest rate swaps and the corresponding term loan have the same terms and the Manager considers that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps are set out below:

Notional amount	Maturity	Swaps
HK$885,000,000	16 December 2010	From 3 months HIBOR+0.49% to average rate of 1.40% per annum over 5 years
HK$885,000,000	16 December 2010	From 3 months HIBOR+0.49% to average rate of 1.40% per annum over 5 years

The above derivatives are measured at fair value at the balance sheet date. Their fair values are determined based on the discounted cash flow model.

12 TRADE AND OTHER RECEIVABLES

	HK$'000
Trade receivables	607
Deposits and prepayments	6,094
Other receivables	26,121
	32,822

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

	HK$'000
Current – 1 month	431
2 – 3 months	176
	607

The Group maintains a defined credit policy. The collection is closely monitored to minimise any credit risk associated with these receivables. The carrying amount of the trade and other receivables approximates their fair values.

13 AMOUNT DUE FROM RELATED COMPANIES

The amount due from related companies arose from the collection of property rental on behalf of the Group by certain subsidiaries of a unitholder. The amount is unsecured, interest-free and repayable on demand. The Manager considers the carrying amount of amount due from related companies as at 31 December 2005 approximates to their fair values.

Notes to the Financial Statements

For the period from 16 December 2005 (date of listing) to 31 December 2005

14 BANK BALANCES AND CASH

	HK$'000
Cash at bank	176
Fixed deposits with financial institutions	88,713
	88,889

Fixed deposits with financial institutions consist of overnight deposits bearing interest at approximately 3.8% per annum at period end date.

Deposits and bank balances and cash are placed with The Hongkong and Shanghai Banking Corporation Limited, a related company of the Trustee. The carrying amounts approximate their fair values.

15 BORROWINGS

	HK$'000
Long-term borrowing:	
Secured term loan	1,770,000
Origination fees	(18,050)
	1,751,950
Short-term borrowing:	
Secured revolving loan	130,000
	1,881,950

Under the banking facility agreement, the Group has been granted a facility of HK$1,900,000,000 before origination fees, comprising a HK$1,770,000,000 term loan and a HK$130,000,000 revolving credit facility.

The total facilities were fully drawn as at 31 December 2005 and the term and conditions are as follows:

(i) HK$1,770,000,000 term loan bearing interest at floating interest rate of HIBOR+0.49% per annum and repayable in full in December 2010.

(ii) HK$130,000,000 revolving loan bearing interest at floating interest rate of HIBOR+0.49% per annum and repayable on demand.

Notes to the Financial Statements

For the period from 16 December 2005 (date of listing) to 31 December 2005

15 BORROWINGS *(CONTINUED)*

The term loan carried interest, after hedging, at effective rate of approximately 5% per annum.

Both the term loan and revolving loan were secured by the Group's investment properties with carrying value of HK$4,548,000,000. In addition, Prosperity REIT and its subsidiaries provide guarantee for the term loan and revolving loan.

The fair value of the Group's borrowings which was approximate to the carrying amount was estimated by discounting their future cash flows at market rate.

The origination fees consist of advisory fee and front-end fee in respect to the banking facility and are measured at amortised cost.

16 DEFERRED TAX LIABILITIES

The followings are the major component of deferred tax liabilities and assets recognised and movements thereon during the period:

	Accelerated tax depreciation	Investment property	Tax losses	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At beginning of period	–	–	–	**–**
Acquisition	64,045	96,840	(22,153)	**138,732**
Charge to income statement for the period	5,053	–	(4,942)	**111**
At end of period	69,098	96,840	(27,095)	**138,843**

At the balance sheet date, tax loss amounting to approximately HK$1,099,000 were not recognised, due to unpredictability of future profits stream.

Notes to the Financial Statements

For the period from 16 December 2005 (date of listing) to 31 December 2005

17 TRADE AND OTHER PAYABLES

	HK$'000
Trade payables	2,496
Base fee and variable fee payable to the Manager	871
Tenants' deposits	
– Outside parties	46,719
– Related parties	994
Rental received in advance	
– Outside parties	1,692
Other payables	51,428
	104,200

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

	HK$'000
Current – 1 month	1,833
2 – 3 months	663
	2,496

The carrying amount of trade and other payables approximates their fair values.

18 ISSUED EQUITY

	Number of units	*HK$'000*
Creation and issue of units on 16 December 2005 at HK$2.16 per unit	1,250,962,222	2,702,078

Upon listing on 16 December 2005, Prosperity REIT issued 1,250,962,222 units to unitholders to finance the acquisition of subsidiaries and investment properties.

Subsequent to the balance sheet date, 360,501 units were issued to the Manager at HK$2.4154 per unit as base fee and variable fee for the period from 16 December 2005 to 31 December 2005.

19 NET ASSET VALUE PER UNIT

The net asset value per unit is calculated based on the net assets of the Group excluding hedging reserve and the total number of units used for computing the net asset value per unit is 1,250,962,222.

Notes to the Financial Statements

For the period from 16 December 2005 (date of listing) to 31 December 2005

20 ACQUISITION OF SUBSIDIARIES

Upon listing, Prosperity REIT acquired five investment properties and a finance company through the acquisition of 100% issued share capital of property holding companies using the purchase method. The excess of the fair value of identifiable assets and liabilities of the assets acquired over the cost of acquisition of HK$171,308,000 was recognised in the income statement.

The fair value of the net assets acquired is as follows:

	HK$'000
Investment properties	3,728,000
Derivative financial instruments	315,814
Trade and other receivable	46,544
Bank balances and cash	1,671
Trade and other payables	(57,452)
Secured revolving loan	(130,000)
Tax liabilities	(1,764)
Secured term loan	(1,770,000)
Deferred tax liabilities	(127,317)
Net assets acquired	2,005,496
Excess of fair value of identifiable assets and liabilities acquired over the cost of acquisition	(171,308)
Total consideration satisfied by cash	1,834,188
Net cash outflow arising on acquisition:	
Cash consideration	1,834,188
Bank balances and cash acquired	(1,671)
	1,832,517

21 MAJOR NON-CASH TRANSACTION

During the period, the Manager earned a fee of HK$871,000. The amount will be paid in units subsequent to the period end.

Notes to the Financial Statements

For the period from 16 December 2005 (date of listing) to 31 December 2005

22 CRITICAL ACCOUNTING JUDGMENTS

In the process of applying the Group's accounting policies, which are described in note 2, management has made the judgment on significant assets that have the most significant effect on the amounts recognised in the financial statements.

As described in noted 2(d), investment properties are stated at fair value based on the valuation performed by independent professional valuers. In determining the fair value, the valuers have based on a method of valuation which involves certain estimates. In relying on the valuation report, the management has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions.

As described in note 2(l), the fair value of derivative financial instruments that are not quoted in active markets are determined by using certain valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates.

23 NET CURRENT ASSETS/LIABILITIES

At the balance sheet date, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK$130,751,000.

24 TOTAL ASSETS LESS CURRENT LIABILITIES

At the balance sheet date, the Group's total assets less current liabilities amounted to HK$4,701,048,000.

25 SEGMENTAL REPORTING

Prosperity REIT's business is investing in offices and commercial properties located in Hong Kong.

26 OPERATING LEASE COMMITMENTS

	HK$'000
Minimum lease income under operating leases included in the income statement	5,900

As at the balance sheet date, commitments in respect of non-cancellable operating leases for the rental of investment properties were as follows:

	HK$'000
Future minimum lease payments receivable:	
Within one year	109,147
In the second to fifth year inclusive	121,491
Over five years	13,864
Total	244,502

Notes to the Financial Statements

For the period from 16 December 2005 (date of listing) to 31 December 2005

27 CONNECTED AND RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with connected and related parties:

	Note	*HK$'000*
Rent and rental related income from		
AMTD Financial Planning Limited	(a)	58
E-Park Parking Management Limited	(b)	7
e-Smart System Inc.	(b)	99
Fusion System Limited	(b)	1
Goodwell Property Management Limited	(b)	34
Tremayne Investments Limited	(c)	641
Carpark lease agency fee for the operations of the Group's carpark		
E-Park Parking Management Limited	(b)	77
Goodwell Property Management Limited	(b)	5
Property management fee		
Goodwell-Prosperity Property Services Limited	(b)	177
Trustee's fee		
HSBC Institutional Trust Services (Asia) Limited		60
Manager's fee		
ARA Asset Management (Prosperity) Limited		871

Balances with related parties as are as follows:

Amount due from		
Cheung Kong Property Development Limited	(b)	9,814
E-Park Parking Management Limited	(b)	1,644
Deposits placed with the Group for the lease of the Group's properties		
AMTD Financial Planning Limited	(a)	485
E-Park Parking Management Limited	(b)	49
e-Smart System Inc.	(b)	191
Fusion System Limited	(b)	45
Goodwell Property Management Limited	(b)	224

Notes:

(a) The company is the associate of Cheung Kong (Holdings) Limited ("CKH") which is a unitholder of Prosperity REIT.

(b) These companies are the subsidiaries of CKH.

(c) The company is a subsidiary of Hutchison Whampoa Limited ("HWL"), an associate of CKH and a unitholder of Prosperity REIT.

Under the Code on Real Estate Investment Trusts, deed of mutual covenant which binds the Manager and all the owners of a development and their successors-in-title which include members of CKH group technically constitutes a contract between the Group and CKH group. Remuneration to the building managers, which are the wholly-owned subsidiaries of CKH, for the building management services provided constitutes a connected transaction. During the period, remuneration paid from the funds of the buildings, attributable to the properties owned by the Group, to the building managers amounted to HK$16,201.