

Prosperity Real Estate Investment Trust



PROSPERITY
REIT 泓富產業信託

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

(根據香港法例第571章證券及期貨條例第104條獲認可之香港集體投資計劃)

(Stock Code 股份代號: 808)



BUILDING FOR GROWTH

致力增長

Manager 管理人

ARA

Asset Management (Prosperity) Limited
泓富資產管理有限公司

Interim Report 2007 中期報告

2007 Interim Results

Outstanding Performance

+21.1%

Average rental
reversion rate²



+10.7%
Distribution Per Unit
HK\$0.0639²



+17.3%

Average effective
unit rent per sq.ft.¹



21.5%

Cost to revenue ratio²
improved from
22.6% in 1H06



+19.1%

Net property income²

97.0%

Occupancy rate as at
30 June 2007

Notes:

¹ Year on year comparison

² For the six months ended 30 June 2007

Chairman's Statement

Dear Unitholders

On behalf of the Board of Directors (the "Board") of ARA Asset Management (Prosperity) Limited, the manager (the "Manager") of Prosperity Real Estate Investment Trust ("Prosperity REIT"), I am pleased to present Prosperity REIT's interim report for the six-month period from 1 January 2007 to 30 June 2007 (the "Reporting Period").

Results and Distribution

Prosperity REIT recorded a strong performance for the first six months of 2007. Revenue rose by 17.5% year-on-year ("YoY"), while distribution per unit ("DPU") improved by 10.7% over the last corresponding period. This outstanding performance has been achieved on the back of buoyant economic conditions in Hong Kong and business expansion amongst all sectors in the territory.

An attractive DPU of HK\$0.0639 has been realized for our unitholders, representing an annualized tax exempt yield of about 8.15%¹ for the first half of 2007. With the upward revaluation of the seven properties in our portfolio, the net asset value per unit increased by 1.7% to HK\$2.42 as at 30 June 2007.

Market Review

The Hong Kong economy has flourished in the first half of 2007, boosted by rising income levels, a low unemployment rate and a buoyant stock market. In the first quarter, Hong Kong's Gross Domestic Product ("GDP") achieved growth of 5.6% as compared to the same period last year, while the unemployment rate fell to a nine-year low of 4.2% in the second quarter.

This robust economic growth is expected to be sustained, benefiting from a weak US dollar which will help Hong Kong maintain its competitive edge in exports. With China's GDP growth reaching 11.1% YoY in the first quarter, the Mainland's strong economy will continue to have a positive effect on Hong Kong, particularly in the trade, manufacturing and real estate sectors. Another key factor that has helped to drive continued business expansion in Hong Kong is widespread liquidity in the local banking sector.

The rapid growth of the financial and business services sectors has fuelled demand for office space. With mounting rents in the core business districts, an increasing number of companies have looked to meet their office relocation and expansion needs in the decentralized business districts of Hong Kong. Properties in these decentralized business districts can generally offer high-quality space at more competitive terms. Prosperity REIT's portfolio of office and industrial/office properties has capitalized on this growing trend of decentralization, to achieve high occupancy rates and to improve rental yields.

The industrial and manufacturing sectors have also benefited from more cross-border trading activities that have arisen under the Closer Economic Partnership Arrangements. In addition, the opening of the Hong Kong-Shenzhen Western Corridor in July 2007 is expected to enhance accessibility and facilitate the expansion of the trade and logistics industry. Under these favourable conditions, leasing activity in the industrial/office and warehouse sector continues to be vibrant and this condition should be sustainable.

Note: ¹ Based on Prosperity REIT's closing unit price of HK\$1.58 on 29 June 2007.

Operation Review

Against the backdrop of a positive and bullish property market, coupled with the Manager's professional management expertise, Prosperity REIT delivered a strong performance during the period under review. For the first six months of 2007, Prosperity REIT's net property income surged 19.1% YoY to HK\$94.0 million. As a result of effective leasing strategies, portfolio occupancy reached 97.0% as at 30 June 2007. The average effective unit rent also grew substantially by 17.3% to HK\$13.29 per sq. ft.

As part of the Manager's ongoing cost rationalization initiatives, the cost-to-revenue ratio was lowered to 21.5%, as compared to 22.6% in the last corresponding period. The gearing ratio was improved to 34.3%, enhancing financing flexibility for yield accretive acquisitions in the future.

In addition to achieving strong organic growth, the Manager has also completed two yield accretive acquisitions during the interim period to boost returns to unitholders. These two acquisitions of strata-titled units in Prosperity Center will increase Prosperity REIT's ownership and strengthen management control in the building. The Manager aims to pursue more yield accretive acquisitions in the near future, with a view to generating greater returns to unitholders.

Going Forward

Looking ahead, we believe that the positive property market outlook and stable economic environment in Hong Kong will result in a fruitful year for Prosperity REIT. As corporate expansion continues from many businesses, the demand for office and industrial space is expected to maintain its strong growth momentum. The Manager plans to implement proactive asset enhancement initiatives, effective costs control practices and yield accretive acquisitions to deliver stable and sustainable returns to unitholders in the latter half of 2007.

Acknowledgement

I would like to express my gratitude to the outstanding efforts of the management team of the Manager, Goodwell-Prosperity Property Services Limited as the property manager of Prosperity REIT, as well as my fellow Board members. Most of all, I thank you, our unitholders, for your continued support and confidence in Prosperity REIT.



Chiu Kwok Hung, Justin

Chairman

**ARA Asset Management (Prosperity) Limited
as manager of Prosperity REIT**

Hong Kong, 15 August 2007

Performance Highlights

Six months ended 30 June (unaudited)			
	2007	2006	Percentage change Increase/(Decrease)
Distribution per unit	HK\$0.0639	HK\$0.0577	10.7%

Operation Data

Six months ended 30 June (unaudited)			
	2007	2006	Percentage change Increase/(Decrease)
Revenue	HK\$119.7 million	HK\$101.9 million	17.5%
Net property income	HK\$94.0 million	HK\$78.9 million	19.1%
Cost-to-revenue ratio	21.5%	22.6%	(4.9%)
Occupancy rate (as at 30 June)	97.0%	96.0%	1.0%
Tenant retention rate	56.1%	76.4%	(26.6%)
Average effective unit rent	HK\$13.29 per sq.ft.	HK\$11.33 per sq.ft.	17.3%

Key Financial Figures

	As at 30 June 2007 (unaudited)	As at 31 December 2006 (audited)	Percentage change Increase/(Decrease)
Net asset value per unit	HK\$2.42	HK\$2.38	1.7%
Property valuation	HK\$5.033 billion	HK\$4.864 billion	3.5%
Gearing ratio**	34.31%	35.04%	(2.1%)

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

Management Discussion and Analysis

Operation Review

Prosperity REIT owns a geographically diverse portfolio of seven high-quality commercial properties in Hong Kong, comprising all or a portion of three Grade A office buildings, three industrial/office buildings and one industrial building with a total gross rentable area of approximately 1.22 million sq.ft.

Information on the portfolio of properties as at 30 June 2007 is as follows:

Location	Gross rentable area (sq.ft.)	No. of car park spaces	Valuation (HK\$ Million)	Occupancy rate	
Grade A Office					
The Metropolis Tower	Hunghom	271,418	98	1,910	97.8%
Prosperity Millennia Plaza*	North Point	217,955	43	1,020	98.3%
Harbourfront Landmark (portion)	Hunghom	77,021	—	350	100.0%
Industrial/Office					
Modern Warehouse	Kwun Tong	240,000	60	596	98.4%
Trendy Centre	Cheung Sha Wan	173,764	79	535	91.2%
Prosperity Center (portion)	Kwun Tong	149,253	105	472	96.6%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	150	97.1%
Total		1,215,579	407	5,033	97.0%

* To enhance Prosperity REIT's brand image, the building name of MLC Millennia Plaza was changed to Prosperity Millennia Plaza on 28 March 2007.

During the Reporting Period, Hong Kong's economy continued to thrive, supported by the resilient global economy and the strong economic ties with the Mainland. These sound economic fundamentals have led to business expansion in the office and industrial/office markets, enabling Prosperity REIT to capitalize on such growth and achieve significant improvements in rents and sustainable high occupancy in the first half of the year. As at 30 June 2007, the occupancy rate climbed to 97.0%, as compared to 96.0% as of 30 June 2006.

As a result of proactive marketing strategies, the rental reversion rate recorded a vigorous double-digit growth of 21.1%, for leases successfully renewed in the Reporting Period. Demand remained strong, as new lettings of 100,920 sq.ft. together with lease renewals amounting to 104,162 sq.ft., have surpassed the total leased area expiring by 10.5%. The average effective unit rent of the portfolio also rose to HK\$13.29 per sq.ft., an outstanding increase of 17.3% YoY.

Management Discussion and Analysis (continued)

+21.1%
Average rental reversion rate²

+17.3%
Average effective unit rent per sq.ft.¹

97.0%
Occupancy rate as at 30 June 2007

Notes:

¹ Year on year comparison

² For the six months ended 30 June 2007

Due to the Manager's efficient management and streamlining of operations, the cost-to-revenue ratio improved to 21.5% from 22.6% in the last corresponding period. The low gearing ratio of 34.3% as at 30 June 2007 offers financing flexibility for accretive acquisitions.

Investment Review

With a view to deliver greater returns to unitholders, the Manager has been actively sourcing for yield accretive acquisition opportunities. In January, the Manager successfully completed two acquisitions - the entire 10th floor and additional units on the 26th floor in Prosperity Center, thereby increasing Prosperity REIT's ownership control in Prosperity Center, as well as benefiting from higher economies of scale in operations management.

Asset Enhancement

As part of the Manager's ongoing strategy to provide high quality accommodation and achieve sustainable rental growth, the Manager has proactively been planning and executing asset enhancement initiatives including revenue generating works, aesthetic improvements and facility upgrades.

Such works also augments the professional image of Prosperity REIT's buildings and preserves its competitive edge to continue to attract tenants. Various asset enhancement works were completed in the Reporting Period and more plans will be put in place to improve the quality of the properties:

Management Discussion and Analysis (continued)

TRENDY CENTRE

The face-lifting works on Trendy Centre's typical floors are in progress. Upon completion, the building's image will be enhanced, complementing the successful lobby upgrade completed in the first quarter of 2007. This helps to maintain Trendy Centre's competitiveness and attractiveness as a place of business.



Management Discussion and Analysis (continued)

THE METROPOLIS TOWER

The main lobby of The Metropolis Tower has been uplifted with a modern look, reinforcing the business-like environment of the property. A new service counter has also been upgraded to serve tenants and visitors better.



Management Discussion and Analysis (continued)

MODERN WAREHOUSE

Plans are underway to convert a part of the large ground floor lobby of Modern Warehouse into revenue generating retail space. At the same time, the lobby will be renovated to a modern design with a professional image when current fixtures and fittings are upgraded to higher standards. The conversion of the ground floor space into retail use and the renovation work are subject to relevant authorities' approval, and are expected to be completed in the fourth quarter of 2007. Additional rental income will be generated by the end of 2007.

Outlook

The Manager has been managing and operating Prosperity REIT in accordance with its asset management, financing and acquisition strategies set forth in the trust deed entered into on 29 November 2005, as amended by a first supplemental deed dated 12 December 2005 and a second supplemental deed dated 15 May 2007 (collectively the "Trust Deed") made between the Manager and HSBC Institutional Trust Services (Asia) Limited as the trustee of Prosperity REIT, and the initial public offering circular of Prosperity REIT dated 5 December 2005 (the "Offering Circular").

Going forward, with local economy remains prosperous, both the office and industrial/office markets shall continue to flourish in 2007 and beyond. Given the Manager's professional experience and management expertise, as well as the diligence of Goodwell-Prosperity Property Services Limited, we are confident that Prosperity REIT will continue to perform well in the second half of 2007.

Management Discussion and Analysis (continued)

Financial Review

+ 19.1%¹
Net property income²

+ 10.7%¹
Distribution Per Unit

+ 17.5%¹
Revenue²

Notes:

¹ Year on year comparison

² For the six months ended 30 June 2007

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

	Turnover HK\$'000	Rental related income HK\$'000	Revenue HK\$'000	Net property income HK\$'000
Grade A Office				
The Metropolis Tower	33,647	7,636	41,283	34,708
Prosperity Millennia Plaza*	17,460	5,404	22,864	17,487
Harbourfront Landmark (portion)	6,931	1,080	8,011	6,722
Industrial/Office				
Modern Warehouse	16,783	148	16,931	12,972
Trendy Centre	11,170	2,678	13,848	10,259
Prosperity Center (portion)	10,367	1,419	11,786	8,586
Industrial				
New Treasure Centre (portion)	4,127	855	4,982	3,249
Total	100,485	19,220	119,705	93,983

* Formerly known as MLC Millennia Plaza

Management Discussion and Analysis (continued)

Revenue

During the Reporting Period, revenue stood at HK\$119.7 million, which was HK\$17.8 million or 17.5% higher than the last corresponding half year.

The revenue comprised HK\$100.5 million of rental and car park income, plus HK\$19.2 million of rental related income. Rental and car park income was HK\$16.3 million or 19.3% above the last corresponding half year. The increase was mainly due to an increase in average effective unit rent.

Net Property Income

Net property income was HK\$94.0 million, exceeding the last corresponding half year by HK\$15.1 million or 19.1%. The growth was attributed to higher revenue generated during the Reporting Period. The cost-to-revenue ratio has improved to 21.5% from 22.6% in the last corresponding half year.

Distributable Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders was HK\$81,331,000, representing a DPU of HK\$0.0639. The distributable income for the Reporting Period is calculated by the Manager as representing the consolidated net profit of Prosperity REIT and the subsidiaries of Prosperity REIT for the Reporting Period, as adjusted to eliminate the effects of certain non-cash adjustments (as defined in the Trust Deed) including finance cost of HK\$34,833,000 (equivalent to HK\$0.0274 per unit) due to the interest rate swap, which have been recorded in the condensed consolidated income statement.

Distribution

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

The interim DPU is HK\$0.0639, representing an annualized distribution yield of 8.15% based on the last traded price of HK\$1.58 on 29 June 2007, being the last trading day of the Reporting Period, outperforming the last corresponding half year by 10.7%. The payment date of interim distribution is Friday, 26 October 2007.

Liquidity and Financing

As at the end of the Reporting Period, Prosperity REIT had a facility of HK\$1,900 million, comprising a HK\$1,770 million term loan facility and a HK\$130 million revolving credit facility, each for a term of five years. The whole term loan facility was fully drawn on 16 December 2005 (the "Listing Date") and revolving credit facility amounted to HK\$40 million was drawn down. The term loan is repayable in five years from the date of the drawdown. The revolving facility will be repaid on each maturity date and can be redrawn upon maturity.

Management Discussion and Analysis (continued)

Each of the term loan facility and the revolving credit facility bears interest at a variable rate. In order to hedge against fluctuations in interest rate under the term loan, effective on the Listing Date, Prosperity REIT's finance company entered into interest rate swap agreements for a total notional amount equivalent to HK\$1,770 million. Under the terms of the interest rate swap arrangement, the interest rate of the term loan portion of the facility will be fixed from the Listing Date until 16 December 2010 at an average interest rate of 1.4% per annum.

The total borrowings of Prosperity REIT, excluding the origination fees, as a percentage of Prosperity REIT's gross assets was 34.3% as at the end of the Reporting Period, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 41.6% as at the end of the Reporting Period.

Prosperity REIT with a cash balance of HK\$29.6 million and available revolving credit facility of approximate HK\$90 million as at 30 June 2007, has sufficient financial resources to satisfy its commitments and working capital requirements.

Balance Sheet Highlights

Investment properties and property valuation

For the half year ended 30 June 2007, Prosperity REIT's portfolio recorded an investment property revaluation surplus of HK\$124 million, based on a professional valuation performed by an independent valuer, Knight Frank Petty Limited. The movements of fair values are tabulated below:

	30 Jun 2007 HK\$'000 (unaudited)	31 Dec 2006 HK\$'000 (audited)
Fair value at the beginning of the financial period/year	4,864,000	4,548,000
Acquisitions	43,403	—
Additional expenditure	1,535	—
Increase in fair value during the period/year	124,062	316,000
Fair value at the end of period/year	5,033,000	4,864,000

Charges on Assets

As at 30 June 2007, certain properties of Prosperity REIT, with aggregate carrying value of HK\$4,990.7 million, were pledged to secure bank loan facilities of Prosperity REIT's finance company.

Prosperity REIT and its subsidiaries have provided guarantees for the loan facility of HK\$1,900 million, comprising a HK\$1,770 million term loan facility and a HK\$130 million revolving credit facility.

Employees

Prosperity REIT is managed by the Manager. Prosperity REIT does not employ any staff itself.

Corporate Governance

The Manager was established for the purpose of managing Prosperity REIT. The Manager is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Manager emphasize a quality board of directors, sound internal control, transparency and accountability to all unitholders. The Manager has adopted its compliance manual (the "Compliance Manual") in relation to the management and operation of Prosperity REIT. The Compliance Manual sets out the key processes, systems and measures and certain corporate governance policies and procedures to be applied for compliance with all applicable regulations and legislation. During the Reporting Period, both the Manager and Prosperity REIT have complied with the provisions of the Compliance Manual.

Board of Directors of the Manager

The Board of the Manager is responsible for the overall governance of the Manager including establishing goals for management and monitoring the achievement of these goals. The Board has established a framework for the management of Prosperity REIT, including a system of internal control and business risk management processes.

The Board is collectively responsible for the management of the business and affairs of the Manager. The Board exercises its general powers within the limits defined by the articles of association of the Manager, with a view to ensuring that the management discharges its duties and is compensated appropriately, and that sound internal control policies and risk management systems are maintained. The Board also reviews major financial decisions and the performance of the Manager. Subject to the matters specifically reserved to the Board, the Board delegates certain management and supervisory functions to relevant management teams and committees of the Board.

The Board presently comprises seven members, three of whom are Independent Non-executive Directors. All Directors shall retire from office at every annual general meeting of the Manager but shall be eligible for re-election in accordance with the articles of association of the Manager.

The positions of Chairman and Chief Executive Officer are held by two different persons in order to maintain an effective segregation of duties. The Chairman of the Board is Mr. Chiu Kwok Hung, Justin who is a Non-executive Director. Mr. Lin Chung Sing, Charlie was the Chief Executive Officer, Executive Director and Responsible Officer of the Manager until his resignation with effect from 1 July 2007. Mr. Yip Kam Thai, an Executive Director and Responsible Officer, assumed the role as Acting Chief Executive Officer with effect from 1 June 2007.

Corporate Governance (continued)

Internal Controls

The Manager has an internal audit function in place to provide an independent assessment of the Manager's internal control systems and operational functions and review of their effectiveness. The Internal Auditor prepares an audit plan using a risk based methodology in consultation with, but independent of, the management for review by the audit committee of the Board (the "Audit Committee"). The audit review focuses on operational and compliance controls of Prosperity REIT and effective implementation of the Manager's internal control systems and compliance procedures.

The Board, through the Audit Committee, conducts reviews of the effectiveness of internal control system of the Manager.

Audit Committee

The Manager has established the Audit Committee according to accepted practices for Hong Kong listed companies. The Audit Committee comprises three Independent Non-executive Directors, namely, Mr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei), and Mr. Robert Douglas Pope. Mr. Lan Hong Tsung, David is the chairman of the Audit Committee.

The principal duties of the Audit Committee include the review of the completeness, accuracy, clarity and fairness of Prosperity REIT's financial statements, the appointment and periodical review of the relationship with the external auditors of Prosperity REIT, as well as the review and supervision of the internal control procedures and risk management systems.

Disclosures Committee

The Manager has set up a disclosures committee (the "Disclosures Committee") to review matters relating to the disclosure of information to unitholders and public announcements. The Disclosures Committee also works with the management of the Manager to ensure the disclosure of information is accurate and complete.

The Disclosures Committee is appointed by the Board from among the Directors of the Manager. The Disclosures Committee presently consists of three members, namely, Mr. Chiu Kwok Hung, Justin, Chairman and Non-executive Director, Mr. Yip Kam Thai, the Acting Chief Executive Officer and an Executive Director, and Mr. Lan Hong Tsung, David, an Independent Non-executive Director. The chairman of the Disclosures Committee is Mr. Yip Kam Thai. Mr. Yip Kam Thai had succeeded Mr. Lin Chung Sing, Charlie as the chairman of the Disclosures Committee with effect from 1 June 2007.

Review of Interim Report

The interim report of Prosperity REIT for the six months ended 30 June 2007 has been reviewed by the Disclosures Committee and the Audit Committee. The interim financial statements have also been reviewed 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.

Code Governing Dealings in Units by Directors, or the Manager and Interests of the Significant Unitholders

The Manager has adopted a code governing dealings in the securities of Prosperity REIT (the "Units Dealing Code") by the Directors or the Manager (collectively, the "Management Persons"). The Units Dealing Code may be extended to apply to any senior executives, officers or other employees of the Manager or the special purpose vehicles (i.e. various property holding companies whose primary purpose is to, directly or indirectly, hold or own or arrange finance for the properties owned by Prosperity REIT) as the Board may determine.

Specific enquiry has been made with the Management Persons and they have complied with the required standard set out in the Units Dealing Code.

The Manager has also adopted procedures for monitoring the disclosure of interests by Directors, the chief executive of the Manager, and the Manager. The provisions of Part XV of the Securities and Futures Ordinance shall be deemed to apply to the Manager, the Directors and chief executive of the Manager and each unitholder and all persons claiming through or under him.

Unitholders with a holding of 5% or more of the units in issue have a notifiable interest and will be required to notify The Stock Exchange of Hong Kong Limited and the Manager of their holdings in Prosperity REIT. The Manager shall then send copies of such notifications received by it to HSBC Institutional Trust Services (Asia) Limited as the trustee of Prosperity REIT (the "Trustee"). The Manager keeps a register for the purposes of maintaining disclosure of interests in units of Prosperity REIT and it has recorded in the register, against a person's name, the particulars provided pursuant to the disclosure of interests notifications and the date of entry of such record. The said register is available for inspection by the Trustee and any unitholder at any time during business hours upon reasonable notice to the Manager.

Closure of Register of Unitholders

The register of unitholders will be closed from Wednesday, 17 October 2007 to Thursday, 25 October 2007, both days inclusive, during which 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 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Tuesday, 16 October 2007. The payment date of interim distribution is Friday, 26 October 2007.

Connected Party Transactions

Set out below is the information in respect of the connected party transactions involving Prosperity REIT and its connected persons as defined in paragraphs 8.1 of the Code on Real Estate Investment Trusts (the “REIT Code”):

Connected Transaction – Income

The following table sets forth information on all the connected party transactions from which Prosperity REIT derived its income during the Reporting Period of the six months ended 30 June 2007:

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Transaction	Rental and charge out collection (excluding rental deposit, if applicable) for the six months ended 30 June 2007 HK\$	Rental deposit received as at 30 June 2007 HK\$
AMTD Financial Planning Limited	Associate of a significant holder ¹	Tenancy of property of Prosperity REIT ³	999,503	539,374
e-Smart System Inc.	Subsidiary of a significant holder ¹	Tenancy of properties of Prosperity REIT ⁴	273,581	191,259
Goodwell Property Management Limited	Subsidiary of a significant holder ¹	Tenancy of property of Prosperity REIT ⁵	426,336	223,968
Fusion System Limited	Subsidiary of a significant holder ¹	Tenancy of property of Prosperity REIT ⁶	–	44,778
Tremayne Investments Limited	Subsidiary of an associate of a significant holder ²	Tenancy of property of Prosperity REIT ⁷	8,012,394	see note 9
E-Park Parking Management Limited	Subsidiary of a significant holder ¹	Tenancy of property of Prosperity REIT ⁸	95,148	51,381
TOTAL			9,806,962	1,050,760

¹ Significant holder being Cheung Kong (Holdings) Limited (“Cheung Kong”).

² The connected party is an indirect wholly-owned subsidiary of Hutchison Whampoa Limited (“HWL”), an associate of a significant holder of Prosperity REIT, namely Cheung Kong.

³ For Units 2501-11, Prosperity Millennia Plaza.

⁴ Unit 2903, Modern Warehouse.

Connected Party Transactions (continued)

- ⁵ For 2/F & Units 306-7, New Treasure Centre.
- ⁶ For Unit 2905, Modern Warehouse (the lease was surrendered in 2006).
- ⁷ For 3/F, 5/F & 6/F, Harbourfront Landmark.
- ⁸ For Unit 306, Modern Warehouse.
- ⁹ By a bank guarantee of HK\$4,850,346 from HWL.

Connected Transaction – Building Management Services

The following table sets forth information for the Reporting Period in relation to building management services provided by the connected parties for the properties of Prosperity REIT.

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Transaction	Payment received/ receivable for the six months ended 30 June 2007 HK\$
Goodwell Property Management Limited ¹	Subsidiary of a significant holder ³	Remuneration of DMC Manager ³	88,723
Goodwell Property Management Limited ²	Subsidiary of a significant holder ³	Remuneration of Carpark Manager	3,549
Citybase Property Management Limited ¹	Subsidiary of a significant holder ³	Remuneration of DMC Manager ³	128,324
Citybase Property Management Limited ²	Subsidiary of a significant holder ³	Remuneration of Carpark Manager	25,735
Harbourfront Landmark Premium Services Limited ¹	Subsidiary of an associate of a significant holder ⁴	Remuneration of DMC Manager ³	37,824
TOTAL			284,155

¹ These managers appointed under the deeds of mutual covenant of the properties of Prosperity REIT (the “DMC Manager”) are connected parties by virtue of their relationship with Cheung Kong.

² They are the carpark managers of certain properties of Prosperity REIT (the “Carpark Manager”) as delegated by Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT pursuant to a property management agreement dated 29 November 2005.

³ Significant holder being Cheung Kong.

⁴ The connected party is an indirect wholly-owned subsidiary of HWL.

Connected Party Transactions (continued)

Connected Party Transaction – Expenses

The following table sets forth information on all the connected party transactions in which Prosperity REIT incurred its expenses (other than the building management fees and other charges of the building accounts mentioned above) during the Reporting Period:

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Transaction	Expenses for the six months ended 30 June 2007 HK\$
Goodwell Property Management Limited	Subsidiary of a significant holder ¹	Car park lease agency fee	15,187
Goodwell-Prosperity Property Services Ltd	Subsidiary of a significant holder ¹	Property management and lease management fee	2,762,634
Goodwell-Prosperity Property Services Ltd	Subsidiary of a significant holder ¹	Marketing service fee	1,292,963
E-Park Parking Management Limited	Subsidiary of a significant holder ¹	Car park lease agency fee	703,562
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee fee	729,668
ARA Asset Management (Prosperity) Limited	Manager	Base fee and variable fee	12,676,039
Cheung Kong Companies ²	Subsidiaries and associates of a significant holder ¹	Back-office support service fee	416,867
TOTAL			18,596,920

¹ Significant holder being Cheung Kong.

² Cheung Kong Companies include Cheung Kong Real Estate Agency Limited, Randash Investment Limited, The Kowloon Hotel Limited and Harbour Plaza Metropolis Limited.

Connected Party Transaction with HSBC Group* for Bank Deposits

Prosperity REIT has engaged The Hongkong and Shanghai Banking Corporation Limited, the holding company of the Trustee, to provide ordinary banking and financial services (namely, bank deposits and interest earned therefrom) within the Reporting Period.

* HSBC Group means The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the trustee of Prosperity REIT).

Connected Party Transactions (continued)

Connected Party Transactions – Lease transactions under which the annual rent exceed HK\$1 million

Name of Connected Party (Tenant)	Relationship with Prosperity REIT	Nature of the Connected Transaction	Annual Income ³ HK\$
Tremayne Investments Limited	Subsidiary of an associate of significant holder ¹	Tenancy agreement for 3/F, 5/F & 6/F, Harbourfront Landmark	13,863,780
AMTD Financial Planning Limited	Associate of a significant holder ²	Tenancy agreement for Units 2501-11, Prosperity Millennia Plaza	1,696,056
TOTAL			15,559,836

¹ The connected party is an indirect wholly-owned subsidiary of HWL, an associate of a significant holder of Prosperity REIT, namely Cheung Kong.

² Significant holder being Cheung Kong.

³ The annual income stated herein refers to the rental income, excluding charge out collection, that would have received for a 12-month period according to the relevant tenancy agreements.

Other Connected Party Transactions

The following companies had provided back-office services, car park management services and property management services to Prosperity REIT and hence amounts due from Prosperity REIT as at 30 June 2007:

Name of Connected Party	Amount payable HK\$
Goodwell-Prosperity Property Services Limited	1,889,825
Goodwell Property Management Limited	4,749,279
E-Park Parking Management Limited	306,046
Cheung Kong Real Estate Agency Limited	63,000
Citybase Property Management Limited	1,684,371
Harbourfront Landmark Premium Services Limited	190,743
Total	8,883,264

Repurchase, Sale or Redemption of Units

Under the Trust Deed, the Manager is not permitted to repurchase or redeem any of the units in Prosperity REIT until permitted to do so by the relevant codes and guidelines issued by the Securities and Futures Commission from time to time. During the Reporting Period, other than the disposal of 7,381,000 units by the Manager which the Manager had 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.

Connected Party Transactions (continued)

Holding of Connected Persons in the Units of Prosperity REIT

As at 30 June 2007, the following persons, being connected persons (as defined under the REIT Code) of Prosperity REIT, hold units of Prosperity REIT:

Name	Number of Units	Percentage of Unit Holdings (Note 5)
Total Win Group Limited	176,328,129 (Note 1)	13.9%
Wide Option Investments Limited	98,883,559 (Note 2)	7.8%
HKSCC Nominees Limited	940,177,224 (Note 3)	74.1%
ARA Asset Management (Prosperity) Limited	447 (Note 4)	0.00004%

Notes:

- (1) Total Win Group Limited is a connected person of Prosperity REIT as it is a significant holder (as defined under the REIT Code) of Prosperity REIT as at such date.
- (2) Wide Option Investments Limited is a connected person of Prosperity REIT as it is an associated company (as defined under the REIT Code) of Total Win Group Limited as at such date.
- (3) HKSCC Nominees Limited is a connected person of Prosperity REIT as it is a significant holder (as defined under the REIT Code) of Prosperity REIT as at such date. So far as the Manager is aware HKSCC Nominees Limited holds such units as a nominee.
- (4) ARA Asset Management (Prosperity) Limited is a connected person of Prosperity REIT as it is the management company (as defined under the REIT Code) of Prosperity REIT as at such date.
- (5) The total number of issued units as at 30 June 2007 is 1,268,307,669.

As at 30 June 2007, none of the Directors and chief executive of the Manager holds any unit of Prosperity REIT save and except that Mr. Lim Hwee Chiang, a Director of the Manager, is deemed interested in 447 units as at 30 June 2007 by virtue of his 70% shareholding in ARA Asset Management (Holdings) Limited, which in turns holds 100% shareholding interest in the Manager.

Connected Party Transactions (continued)

Save as disclosed above, the Manager is not aware of any connected persons (as defined under the REIT Code) of Prosperity REIT hold any units as at 30 June 2007.

So far as the Manager is aware:

- (a) Total Win Group Limited was beneficially interested in 176,328,129 units as at 30 June 2007 and 31 December 2006.
- (b) Wide Option Investments Limited was beneficially interested in 98,883,559 units as at 30 June 2007 and 31 December 2006.
- (c) The Trustee, HSBC Institutional Trust Services (Asia) Limited, had no beneficial interest in any units as at 30 June 2007 and 31 December 2006 and the controlling entities, holding company, subsidiaries and associated companies (within the meaning of the REIT Code) of the Trustee were beneficially interested in a total of 594 units as at 30 June 2007 and 31 December 2006.
- (d) The Manager, ARA Asset Management (Prosperity) Limited, had beneficial interest in 447 units as at 30 June 2007 and 974 units as at 31 December 2006.

Report on Review of Interim Financial Information



**To the Board of Directors of
ARA Asset Management (Prosperity) Limited**

Introduction

We have reviewed the interim financial information set out on pages 23 to 38, which comprises the condensed consolidated balance sheet of Prosperity Real Estate Investment Trust as of 30 June 2007 and the related condensed consolidated income statement, condensed consolidated statement of changes in net assets attributable to unitholders and condensed consolidated cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. ARA Asset Management (Prosperity) Limited is responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review 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. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

15 August 2007

Condensed Consolidated Income Statement

For the six months ended 30 June 2007

	Notes	Six months ended 30 June	
		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Revenue	4	119,705	101,898
Property management fees		(2,763)	(2,344)
Property operating expenses	5	(22,959)	(20,682)
Total property operating expenses		(25,722)	(23,026)
Net property income		93,983	78,872
Interest income		351	1,424
Manager's fee		(12,676)	(11,683)
Trust and other expenses	6	(5,595)	(3,275)
Increase in fair value of investment properties at period end		124,062	267,000
Finance costs	7	(42,190)	(40,909)
Profit before taxation and transactions with unitholders		157,935	291,429
Taxation	8	(23,905)	(42,162)
Profit for the period, before transactions with unitholders		134,030	249,267
Distribution to unitholders	23	(81,331)	(72,636)
Change in net assets attributable to unitholders		52,699	176,631
Income available for distribution to unitholders	23	81,331	72,636
Earnings per unit (HK\$)	9	0.11	0.20

Condensed Consolidated Balance Sheet

As at 30 June 2007

	Notes	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	10	5,033,000	4,864,000
Derivative financial instruments	11	204,904	190,375
Total non-current assets		5,237,904	5,054,375
Current assets			
Trade and other receivables	12	7,764	7,855
Purchase deposit for investment properties		–	4,115
Tax recoverable		609	609
Bank balances and cash		29,610	41,737
Total current assets		37,983	54,316
Total assets		5,275,887	5,108,691
Non-current liabilities, excluding net assets attributable to unitholders			
Secured term loan	13	1,756,575	1,754,996
Deferred tax liabilities		220,451	196,546
Total non-current liabilities, excluding net assets attributable to unitholders		1,977,026	1,951,542
Current liabilities			
Trade and other payables	14	81,442	74,790
Amount due to related companies	15	8,883	9,434
Secured revolving loan	13	40,000	20,000
Manager's fee payable		6,389	6,264
Distribution payable		81,331	78,913
Total current liabilities		218,045	189,401
Total liabilities, excluding net assets attributable to unitholders		2,195,071	2,140,943
Net assets attributable to unitholders		3,080,816	2,967,748
Units in issue ('000)	16	1,268,308	1,260,927
Net asset value per unit (HK\$) attributable to unitholders	17	2.42	2.38

Condensed Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 30 June 2007

	Issued units HK\$'000	Unit issue costs HK\$'000	Hedging reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2007 (audited)	2,720,789	(91,278)	(31,609)	369,846	2,967,748
OPERATIONS					
Profit for the period, before transactions with unitholders	-	-	-	134,030	134,030
Net adjustment to cashflow hedging reserve, representing income recognised directly in statement of changes in net assets	-	-	47,839	-	47,839
Total income for the period, before transactions with unitholders	-	-	47,839	134,030	181,869
UNITHOLDERS' TRANSACTIONS					
Unit issued to Manager	12,530	-	-	-	12,530
Distribution payable	-	-	-	(81,331)	(81,331)
Increase (Decrease) in net assets resulting from unitholders' transactions	12,530	-	-	(81,331)	(68,801)
Net assets attributable to unitholders as at 30 June 2007 (unaudited)	2,733,319	(91,278)	16,230	422,545	3,080,816

Condensed Consolidated Statement of Changes in Net Assets Attributable to Unitholders (continued)

For the six months ended 30 June 2006

	Issued units HK\$'000	Unit issue costs HK\$'000	Hedging reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2006 (audited)	2,702,078	(91,278)	(11,196)	210,651	2,810,255
OPERATIONS					
Profit for the period, before transactions with unitholders	–	–	–	249,267	249,267
Net adjustment to cashflow hedging reserve, representing income recognised directly in statement of changes in net assets	–	–	43,836	–	43,836
Total income for the period, before transactions with unitholders	–	–	43,836	249,267	293,103
UNITHOLDERS' TRANSACTIONS					
Unit issued to Manager	6,493	–	–	–	6,493
Distribution payable	–	–	–	(72,636)	(72,636)
Increase (Decrease) in net assets resulting from unitholders' transactions	6,493	–	–	(72,636)	(66,143)
Net assets attributable to unitholders as at 30 June 2006 (unaudited)	2,708,571	(91,278)	32,640	387,282	3,037,215

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2007

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash from operating activities	94,559	115,830
Net cash (used in) from investing activities	(40,472)	1,442
Net cash used in financing activities	(66,214)	(157,240)
Net decrease in cash and cash equivalents	(12,127)	(39,968)
Cash and cash equivalents at beginning of the period	41,737	88,889
Cash and cash equivalents at end of period, represented by bank balances and cash	29,610	48,921

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2007

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 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 and second supplemental deed dated 15 May 2007 (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 (the "REIT Code") 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.

2 Basis of Preparation

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

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

3 Principal Accounting Policies

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

The accounting policies used in the condensed consolidated financial statements are consistent with those used in the preparation of the Group's annual financial statements for the year ended 31 December 2006.

In the current interim period, the Group has applied, for the first time, a new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning 1 January 2007. The adoption of these 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 applied the new standards or interpretations that have been issued but are not yet effective. The Manager anticipates that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2007

4 Revenue

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Gross rental from investment properties		
Rental income	92,911	77,535
Car park income	7,574	6,717
	100,485	84,252
Rental related income	19,220	17,646
	119,705	101,898

5 Property Operating Expenses

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Building management fees	10,159	10,331
Utilities	2,603	2,543
Car park operating expenses	1,991	2,028
Marketing service fee	1,293	1,787
Landlord provision	2,119	360
Repairs and maintenance	791	412
Lease commission	768	1,059
Valuation fees (paid to principal valuer)	120	65
Audit fee	665	319
Back-office support service fee	378	—
Others	2,072	1,778
	22,959	20,682

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2007

6 Trust and Other Expenses

	Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Audit fee	235	225
Trustee's fee	730	683
Bank charges	141	41
Legal and professional fees	1,584	300
Registrar fee	768	832
Back-office support service fee	39	—
Trust administrative expenses	2,098	1,194
	5,595	3,275

7 Finance Costs

	Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Interest expense on:		
– Secured term loan	42,014	43,516
– Reduction of interest expense through cashflow hedges	(467)	(4,359)
	41,547	39,157
– Secured revolving loan	643	1,752
	42,190	40,909

8 Taxation

	Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Current tax	—	—
Deferred tax	23,905	42,162
	23,905	42,162

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

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2007

9 Earnings Per Unit

The earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$134,030,000 (1 January 2006 to 30 June 2006: HK\$249,267,000) by the weighted average of 1,265,284,024 (1 January 2006 to 30 June 2006: 1,252,175,338) units in issue during the period.

The diluted earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$134,030,000 (1 January 2006 to 30 June 2006: HK\$249,267,000) by the weighted average units issued during the period together with the effects of potential units (units issued for manager's fee) of 1,268,425,441 (1 January 2006 to 30 June 2006: 1,254,169,250).

10 Investment Properties

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
FAIR VALUE		
At beginning of the period/year	4,864,000	4,548,000
Acquisitions	43,403	—
Additional expenditure	1,535	—
Increase in fair value of investment properties	124,062	316,000
At end of the period/year	5,033,000	4,864,000

On 30 June 2007, an independent valuation was undertaken by Knight Frank 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 properties was arrived at using the basis of capitalisation of the net income and by reference to sales evidence as available in the market.

All of the Group's property interests in properties located in Hong Kong are held under medium-term 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.

Certain of the Group's investment properties as at 30 June 2007, with aggregate carrying value of HK\$4,990.7 million, have been pledged to secure banking facilities granted to the Group.

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2007

11 Derivative Financial Instruments

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Cash flow hedges – interest rate swaps	204,904	190,375

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 in respect of notional amount/principal, maturity date, floating rate and interest reset date. 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 1.4% per annum over 5 years
HK\$885,000,000	16 December 2010	From 3 months HIBOR+0.49% to average rate of 1.4% per annum over 5 years

The above derivatives are measured at fair value at the balance sheet date.

12 Trade and Other Receivables

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Trade receivables	232	162
Deposits and prepayments	7,531	7,326
Other receivables	1	367
	7,764	7,855

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2007

12 Trade and Other Receivables (continued)

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

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Current – 1 month	200	162
2 – 3 months	32	–
	232	162

The Group maintains a defined credit policy. The collection is closely monitored to minimise any credit risk associated with these receivables.

13 Borrowings

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Long-term borrowing:		
Secured term loan	1,770,000	1,770,000
Origination fees	(13,425)	(15,004)
	1,756,575	1,754,996
Short-term borrowing:		
Secured revolving loan	40,000	20,000
	1,796,575	1,774,996

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

The term and conditions of the facilities 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.

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

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2007

14 Trade and Other Payables

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Trade payables	762	567
Tenants' deposits		
– Outside parties	59,653	56,601
– Related parties	1,050	996
Rental received in advance		
– Outside parties	1,429	881
Other payables	18,548	15,745
	81,442	74,790

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

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Current – 1 month	390	96
2 – 3 months	276	275
Over 3 months	96	196
	762	567

15 Amount Due to Related Companies

The amount due to related companies arose from expenses accrued on back-office services, property management services and car park management services provided by related companies. The amount is unsecured, interest-free and repayable on demand.

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2007

16 Issued Units

	Number of units	HK\$'000
Balance at 1 January 2007	1,260,927,196	2,720,789
Payment of Manager's base fee and variable fee through issuance of new units during the period	7,380,473	12,530
Balance at 30 June 2007	1,268,307,669	2,733,319

Subsequent to the balance sheet date, 3,959,576 units at HK\$1.6062 per unit were issued to the Manager as settlement of base fee and variable fee for the period from 1 April 2007 to 30 June 2007.

17 Net Asset Value Per Unit Attributable to Unitholders

The net asset value per unit is calculated based on the net assets of the Group excluding hedging reserve and the total number of 1,268,307,669 units in issue at 30 June 2007 (31 December 2006: 1,260,927,196).

18 Major Non-cash Transaction

During the period, the Manager earned a fee of HK\$12,625,000. The amount for the first quarter ended 31 March 2007 of HK\$6,266,000 had been settled through issuance of units to the Manager on 30 April 2007 and the balance of HK\$6,359,000 will be paid in units subsequent to the period end.

19 Net Current Liabilities

At the balance sheet date, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$180,062,000 (31 December 2006: HK\$135,085,000). Under the banking facility agreement entered into by the Group, the Group has in place a revolving credit facility to meet its liabilities as they fall due.

20 Total Assets Less Current Liabilities

At the balance sheet date, the Group's total assets less current liabilities amounted to HK\$5,057,842,000 (31 December 2006: HK\$4,919,290,000).

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2007

21 Segmental Reporting

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

22 Connected and Related Party Transactions

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

	Note	Six months ended 30 June	
		2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Rent and rental related income from			
AMTD Financial Planning Limited	(a)	1,000	912
E-Park Parking Management Limited	(b)	95	100
e-Smart System Inc.	(b)	274	1,695
Fusion System Limited	(b)	—	87
Goodwell Property Management Limited	(b)	426	426
Tremayne Investments Limited	(c)	8,012	8,012
Carpark lease agency fee for the operations of the Group's carpark			
E-Park Parking Management Limited	(b)	704	662
Goodwell Property Management Limited	(b)	15	13
Property management fee			
Goodwell-Prosperity Property Services Limited	(b)	2,763	2,344
Marketing service fee			
Goodwell-Prosperity Property Services Limited	(b)	1,293	1,787
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited		730	683
Manager's fee			
ARA Asset Management (Prosperity) Limited		12,676	11,683
Back-office support service fee			
Cheung Kong Companies	(d)	417	—

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2007

22 Connected and Related Party Transactions (continued)

Balances with related parties as are as follows:

		30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
Amount due to related companies			
Cheung Kong Real Estate Agency Limited	(b)	63	693
Citybase Property Management Limited	(b)	1,684	1,345
Goodwell-Prosperity Property Services Limited	(b)	1,890	2,217
Goodwell Property Management Limited	(b)	4,749	4,852
Harbourfront Landmark Premium Services Limited	(c)	191	106
E-Park Parking Management Limited	(b)	306	221
Deposits placed with the Group for the lease of the Group's properties			
AMTD Financial Planning Limited	(a)	539	485
E-Park Parking Management Limited	(b)	51	51
e-Smart System Inc.	(b)	191	191
Fusion System Limited	(b)	45	45
Goodwell Property Management Limited	(b)	224	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.
- (d) These companies are the subsidiaries and associates of CKH being Cheung Kong Real Estate Agency Limited, Randash Investment Limited, The Kowloon Hotel Limited and Harbour Plaza Metropolis Limited.

Under the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission, the 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\$284,000 (1 January 2006 to 30 June 2006: HK\$260,000).

Notes to the Condensed Consolidated Financial Statements (continued)

For the six months ended 30 June 2007

23 Distribution Statement

	Six months ended 30 June	
	2007	2006
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Profit for the period, before transactions with unitholders	134,030	249,267
Adjustments:		
Manager's fee	12,625	11,683
Increase in fair value of investment properties at period end	(124,062)	(267,000)
Finance costs	34,833	36,524
Deferred tax	23,905	42,162
Income available for distribution (note (i))	81,331	72,636
Distributions to unitholders:		
For the six months ended 30 June	81,331	72,636
Distribution per unit (HK\$) (note (ii))	0.0639	0.0577

Notes:

- (i) Pursuant to the Trust Deed, distributable income is defined as the amount calculated by the Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial year, as adjusted to eliminate the effects of certain Adjustments which have been recorded in the income statement for the relevant financial period. "Adjustments" means significant adjustments which are charged or credited to the income statement for the relevant financial period. The Manager's policy is to distribute to unitholders 100% of total distributable income. For the purposes of the above distribution statement, consolidated profit after tax represents profit for the period, before transactions with unitholders.
- (ii) The distribution per unit of HK\$0.0639 is calculated based on Prosperity REIT's income available for distribution of HK\$81,331,000 for the period and 1,272,267,245 units, units as at 30 June 2007 plus the number of units issued after the distribution period to the Manager as manager's fee for the second quarter of 2007.

In previous period, the distribution per unit of HK\$0.0577 is calculated based on Prosperity REIT's income available for distribution of HK\$72,636,000 for the period and 1,257,494,730 units, entitled to the distribution as at 31 July 2006, being the day immediately after the issuance of units for payment of management fees to the Manager for the second quarter of 2006.

Performance Table

Results Analysis

	Six months ended 30 June	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Revenue	119,705	101,898
Net property income	93,983	78,872
Profit for the period, before transactions with unitholders	134,030	249,267
Income available for distribution	81,331	72,636
Earnings per unit (HK\$)	0.11	0.20
Distribution per unit (HK\$)	0.0639	0.0577

Major Assets and Liabilities

	30 June 2007 HK\$'000 (unaudited)	31 December 2006 HK\$'000 (audited)
	Investment properties	5,033,000
Secured bank loans, excluding origination fees	(1,810,000)	(1,790,000)
Net asset value	3,080,816	2,967,748
Net asset value per unit (HK\$)	2.42	2.38
Other Information		
The highest traded price during the period/year (HK\$)	1.85	2.475
The highest (discount) premium of the traded price to net asset value	(23.5%)	4.0%
The lowest traded price during the period/year (HK\$)	1.58	1.59
The lowest discount of the traded price to net asset value	(34.7%)	(33.2%)
The net yield per unit based on market price at the end of period/year	8.15% ¹	7.10% ¹

1. Annualised yield based on the distribution per unit of HK\$0.0639 for the six months ended 30 June 2007 and last traded price of HK\$1.58 as of 29 June 2007. For the year ended 31 December 2006, the yield is based on the distribution of HK\$0.1201 for the year of 2006 and the closing market price of HK\$1.69 as at 29 December 2006.

Investment Properties Portfolio

As at 30 June 2007

Property	Type	Lease term	Lease expiry date	Location	Valuation 30 June 2007 HK\$ Million
The Metropolis Tower	O	Medium-term lease	30 June 2047	No. 10 Metropolis Drive Hungohm Kowloon Hong Kong	1,910
Prosperity Millennia Plaza (Formerly known as MLC Millennia Plaza)	O	Medium-term lease	30 June 2047	No. 663 King's Road North Point Hong Kong	1,020
Harbourfront Landmark (portion)	O	Medium-term lease	30 June 2047	No. 11 Wan Hoi Street Hungohm Kowloon Hong Kong	350
Modern Warehouse	I/O	Medium-term lease	30 June 2047	No. 6 Shing Yip Street Kwun Tong Kowloon Hong Kong	596
Trendy Centre	I/O	Medium-term lease	30 June 2047	No. 682 Castle Peak Road Cheung Sha Wan Kowloon Hong Kong	535
Prosperity Center (portion)	I/O	Medium-term lease	30 June 2047	No. 25 Chong Yip Street Kwun Tong Kowloon Hong Kong	472
New Treasure Centre (portion)	I	Medium-term lease	30 June 2047	No. 10 Ng Fong Street San Po Kong Kowloon Hong Kong	150
Total					5,033

Note: Type of properties : O-Office, I/O-Industrial/Office, I-Industrial

Corporate Information

Board of Directors of the Manager

Chiu Kwok Hung, Justin
Chairman and Non-executive Director

Lim Hwee Chiang
Non-executive Director

Ma Lai Chee, Gerald
Non-executive Director

Yip Kam Thai
*Executive Director and Acting
Chief Executive Officer*

Lan Hong Tsung, David
Independent Non-executive Director

Sng Sow-Mei (alias Poon Sow Mei)
Independent Non-executive Director

Robert Douglas Pope
Independent Non-executive Director

Trustee

HSBC Institutional Trust Services (Asia) Limited

Company Secretary of the Manager

Seng Sze Ka Mee, Natalia

Auditors of Prosperity REIT

Deloitte Touche Tohmatsu

Principal Valuer

Knight Frank Petty Limited

Principal Bankers

The Hongkong and Shanghai Banking
Corporation Limited
Sumitomo Mitsui Banking Corporation

Legal Adviser of the Manager

Baker & McKenzie

Registered Office of the Manager

Units 5508--5509, 55th Floor,
The Center,
99 Queen's Road Central,
Hong Kong.

Unit Registrar and Transfer Office

Computershare Hong Kong Investor
Services Limited
Shops 1712–1716,
17/F., Hopewell, Centre,
183 Queen's Road East,
Wanchai,
Hong Kong.

Internet Address

www.prosperityreit.com

About Prosperity REIT

Prosperity REIT was the first private sector REIT listed on The Stock Exchange of Hong Kong Limited on 16 December 2005, with exposure to the office and industrial/office sectors in Hong Kong. Prosperity REIT owns a diverse portfolio of seven high-quality commercial properties in Hong Kong, with a total gross rentable area of approximately 1.22 million sq. ft.

Prosperity REIT is managed by ARA Asset Management (Prosperity) Limited.

About ARA Asset Management (Prosperity) Limited

ARA Asset Management (Prosperity) Limited is a part of the ARA Asset Management Limited group ("ARA"). ARA is a member of the Cheung Kong Group and is currently involved in managing the public-listed Prosperity REIT, Fortune REIT, Suntec REIT, AmFIRST REIT and also private equity real estate funds such as Al Islami Far Eastern Real Estate Fund Limited and China Capital Partners Limited. It is staffed by experienced professionals who have extensive experience in the real estate industry in Hong Kong, Singapore and the region.

泓富產業信託

泓富產業信託於二零零五年十二月十六日在香港聯合交易所有限公司上市，是首個由私人機構籌組在香港上市的房地產投資信託基金，專注管理香港之寫字樓及工商物業。泓富產業信託現時在香港擁有七項高質素商用物業，可出租總面積約122萬平方呎。

泓富產業信託由泓富資產管理有限公司管理。

泓富資產管理有限公司

泓富資產管理有限公司為ARA Asset Management Limited集團（「ARA」）之成員。ARA是長實集團成員，現時管理上市之房地產信託基金包括泓富產業信託、置富產業信託、新遠產業信託、AmFIRST REIT及非上市房地產基金Al Islami Far Eastern Real Estate Fund Limited與China Capital Partners Limited等。泓富資產管理有限公司之管理人員均為富經驗之專業人士，在香港、新加坡及其他亞洲地區之房地產行業擁有豐富經驗。

Portfolio Map

物業分佈圖





PROSPERITY
REIT 泓富產業信託