

GROWTH | FOCUS

Annual Report 2007

Manager

ARA

Asset Management (Prosperity) Limited



PROSPERITY
REIT 泓富產業信託

(Stock Code : 808)

About Prosperity REIT

Prosperity REIT is the first private sector real estate investment trust listed on The Stock Exchange of Hong Kong Limited on 16 December 2005. Prosperity REIT owns a diverse portfolio of seven high-quality commercial properties in Hong Kong, with a total gross rentable area of about 1.22 million sq. ft.

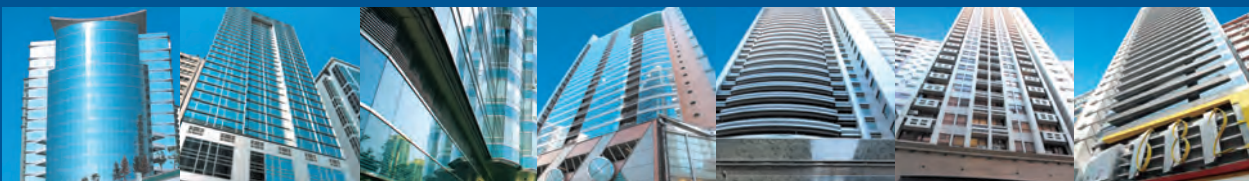
Prosperity REIT is managed by ARA Asset Management (Prosperity) Limited (the “Manager”).

About The Manager

ARA Asset Management (Prosperity) Limited is a wholly-owned subsidiary of the Singapore-listed ARA Asset Management Limited (“ARA”). ARA, a real estate fund management company, is an affiliate of the Cheung Kong Group. ARA’s business segments comprise REIT management, private real estate fund management, specialist equity fund management and corporate finance advisory services.

Our Mission

The Manager is staffed with experienced professionals who are dedicated to manage the assets of Prosperity REIT for the benefit of the unitholders through proactive asset management and multi-dimensional growth strategies.



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Chairman's Statement



“ Prosperity REIT recorded another strong performance in 2007, supported by robust economic growth, together with proactive leasing and asset management efforts. ”

Chiu Kwok Hung, Justin
Chairman

Dear Unitholder,

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 annual report for 2007.

Results and Distribution

A solid performance was delivered by Prosperity REIT in the 2007 financial year. Total distribution per unit (“DPU”) to unitholders increased by 8.1% as total revenue and net property income improved significantly by 12.7% and 15.1% respectively, year-on-year (“YoY”). Prosperity REIT’s property valuation rose by 7.4% YoY and the net asset value per unit improved to HK\$2.50. This reflects the strong organic growth achieved through the Manager’s professional expertise, as well as the steady uptrend in Hong Kong’s commercial property sector.

I am pleased to announce that our unitholders will be entitled to a total DPU of HK\$0.1298 for the year ended 31 December 2007, representing an attractive distribution yield of 8.4% .¹

Market Review

Hong Kong’s economy continued to thrive in 2007, fuelled by robust domestic demand and booming economic growth in Mainland China. Hong Kong’s Gross Domestic Product grew by 6.3% in 2007 as compared to the year before.

Buoyant economic conditions are expected to persist in 2008 as trading activities benefit from a weak US dollar, domestic consumption gets boosted by negative real interest rates, and the highly anticipated 2008 Olympics in Beijing further propels the Mainland economy. On the back of upbeat market sentiment and China’s impressive economic growth of 11.4% YoY in 2007, it is expected that Hong Kong’s business and property sectors will continue to enjoy a positive spillover effect.

The Hong Kong economy, and particularly the real estate sector, will also benefit from the current low interest rate environment. Since the beginning of the year, local banks have already reduced best lending rates by 1%. The US Federal Reserve is expected to adopt a more relaxed monetary policy over the medium term in order to promote economic stability, and further rate cuts appear imminent. The low interest rate environment will reduce funding costs for capital expenditure and also facilitate Prosperity REIT’s growth via opportunistic acquisitions.

Amidst the continued expansion of the Mainland and Hong Kong economies, companies engaged in trading, transportation and service industries have seen steady growth. This has contributed to the demand for commercial and industrial space in Hong Kong. With a strategic geographical location and established legal system, Hong Kong continues to attract new market players. Coupled with the mounting expansion needs of the financial and professional services sectors, demand for office space in Hong Kong has escalated and resulted in soaring rents in the core business districts and intensified relocation into decentralized business districts. Prosperity REIT’s portfolio of high-quality office and industrial/office buildings in strategic locations has been able to capitalize on this trend of decentralization and achieve strong organic growth.

Leasing activities in the industrial and industrial/office sectors have also been boosted by the opening of the Hong Kong-Shenzhen Western Corridor in July 2007 and further trade liberalization under the Closer Economic Partnership Arrangements. The Hong Kong government’s recent announcement of 10 major infrastructure projects is expected to further facilitate the development of logistics business in the territory and reinforce Hong Kong as a regional logistics and trading centre.

¹ Based on Prosperity REIT’s closing unit price of HK\$1.54 on 31 December 2007.

Operations Review

Prosperity REIT recorded another strong performance in 2007, supported by robust economic growth, together with proactive leasing and asset management efforts. In 2007, revenue grew by 12.7% YoY to HK\$244.6 million, while net property income rose by 15.1% YoY to reach HK\$192.8 million.

As at 31 December 2007, Prosperity REIT's portfolio occupancy improved to 98.4% from a year ago. The average effective unit rent rose by 11.7% YoY to HK\$13.38 per sq.ft., reflecting the Manager's proactive and effective leasing strategies.

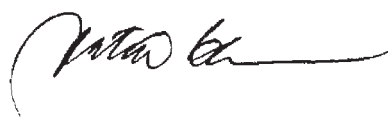
With increased revenue and continuous cost rationalization, the cost-to-revenue ratio improved to 21.2% from 22.8% in the previous year. Gearing ratio was also lowered to 33.5% as at the end of 2007, enhancing Prosperity REIT's financial foundation for future acquisitions and growth.

Going Forward

Looking ahead, we are confident that 2008 will be another good year for Prosperity REIT. With the low interest rate environment and thriving economic growth in both Hong Kong and Mainland China, the demand for office and industrial space is expected to maintain its strong momentum. The Manager is committed to implementing well-planned asset enhancement initiatives and proactive business strategies, as well as pursuing yield accretive acquisitions with a view to generating greater returns to unitholders.

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

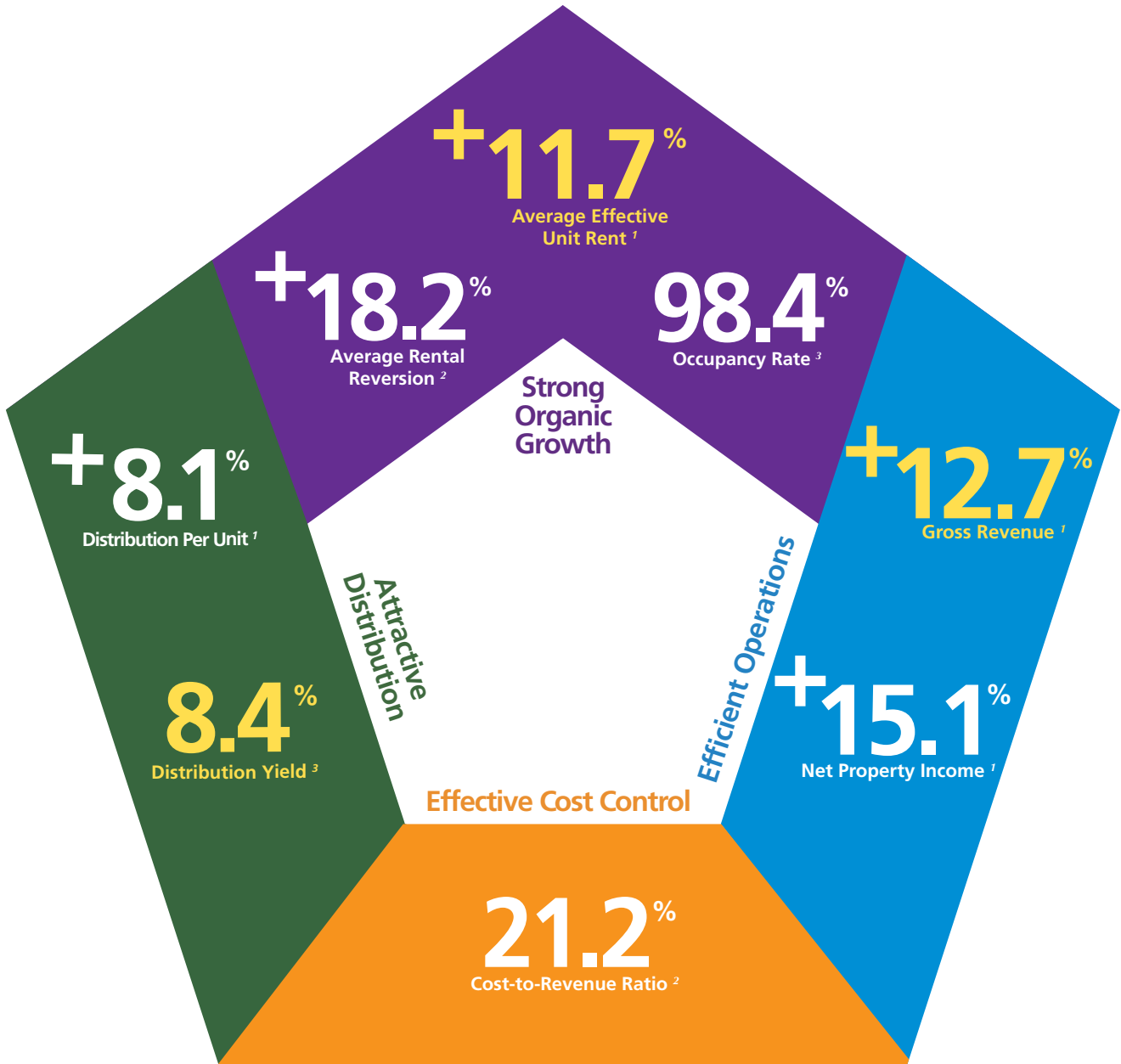
Chairman

ARA Asset Management (Prosperity) Limited

as manager of Prosperity REIT

Hong Kong, 12 March 2008

Outstanding Performance in 2007



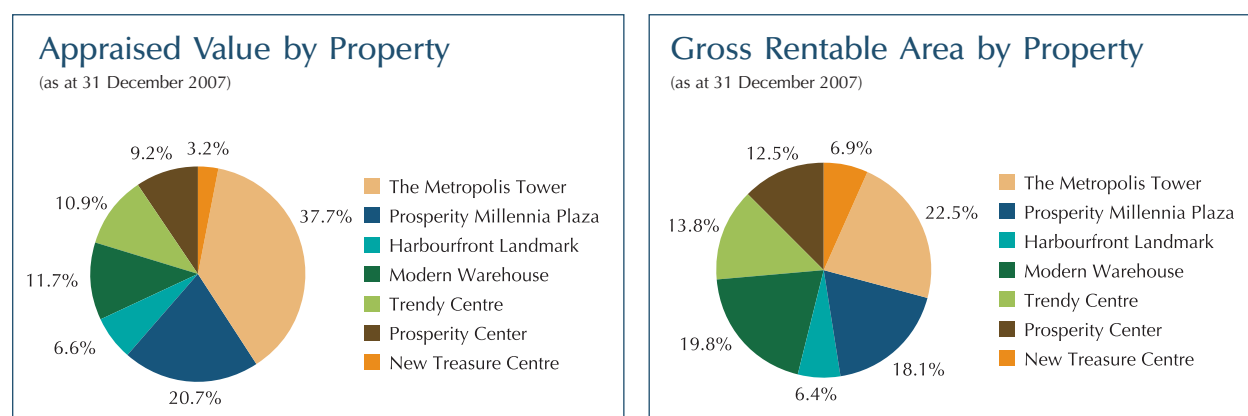
Notes: ¹ Year on year comparison ² For the year ended 31 December 2007 ³ As at 31 December 2007

Trust Review

A Portfolio of High-Quality Properties

Prosperity REIT owns a diverse portfolio of seven high-quality commercial properties in Hong Kong, with a total gross rentable area of about 1.22 million sq. ft. The properties are strategically located in well-developed business areas with convenient access to transportation network, the cross harbour tunnels or within walking distance from major commercial hubs. This enables Prosperity REIT to capitalize on the buoyant and fast-expanding commercial property market in Hong Kong.

The seven properties owned by Prosperity REIT are relatively young buildings which were completed between 1995 and 2001. As at 31 December 2007, the appraised value of the portfolio rose by 7.4% YoY to HK\$5,225 million. Of this total, Grade A office buildings, industrial/office buildings and the industrial building comprise some 65%, 31.8% and 3.2% of the total appraised value of the portfolio respectively.



	Valuation HK\$ million as at 31 Dec 2007	Valuation HK\$ million as at 31 Dec 2006	Percentage change Increase/(Decrease)
Grade A Office			
The Metropolis Tower	1,970	1,910	3.1%
Prosperity Millennia Plaza	1,080	990	9.1%
Harbourfront Landmark (portion)	350	350	–
Industrial/Office			
Modern Warehouse	609	577	5.5%
Trendy Centre	568	518	9.7%
Prosperity Center (portion)	482	389	23.9%
Industrial			
New Treasure Centre (portion)	166	130	27.7%
Total	5,225	4,864	7.4%

Sound Economic Fundamentals

In 2007, Hong Kong economy continued to prosper, underpinned by strong domestic demand and ongoing economic cooperation and trade with the Mainland.

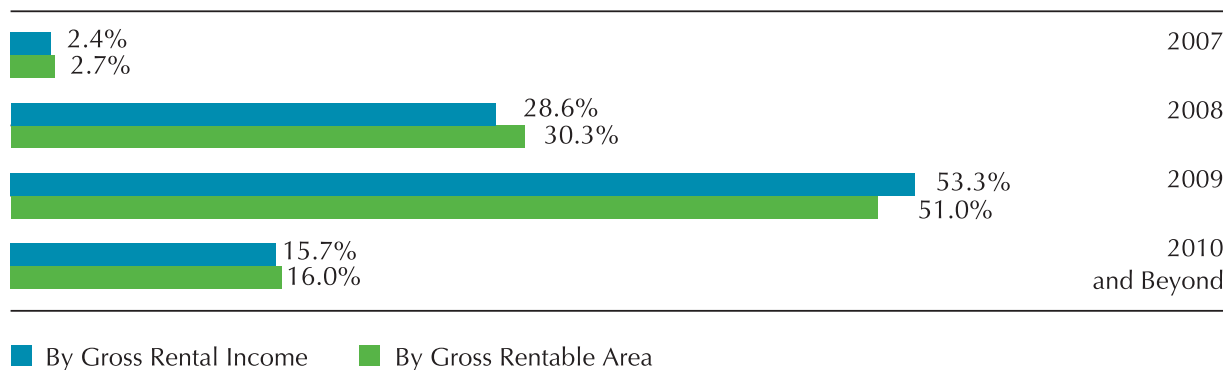
These sound economic conditions have boosted the finance, insurance, real estate, and business services sectors, resulting in a huge demand for both office and industrial/office spaces. Prosperity REIT was well-positioned to benefit from such favourable environment and attain sustainable organic growth throughout the whole year.

Effective Lease Management

As at 31 December 2007, the portfolio's occupancy rate improved to 98.4% from 97.4% in the previous year. As a result of the Manager's proactive leasing efforts, average effective unit rent increased by 11.7% YoY to HK\$13.38 per sq.ft. The rental reversion rate also recorded an outstanding double-digit growth of 18.2% for leases which were successfully renewed in 2007.

Lease Expiry Profile of the Portfolio

(as at 31 December 2007)



As at 31 December 2007, leases expiring in 2008 accounted for 30.3% of the portfolio's gross rentable area, or 28.6% of the portfolio's gross rental income. We will continue to adopt proactive leasing strategies to achieve good results in the year ahead.

Lease Expiry Profile by Gross Rental Income (as at 31 December 2007)

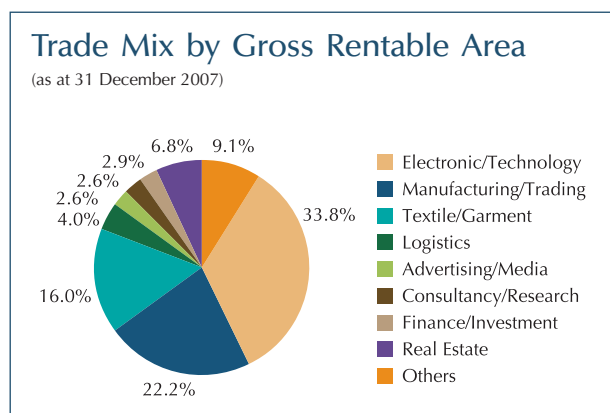
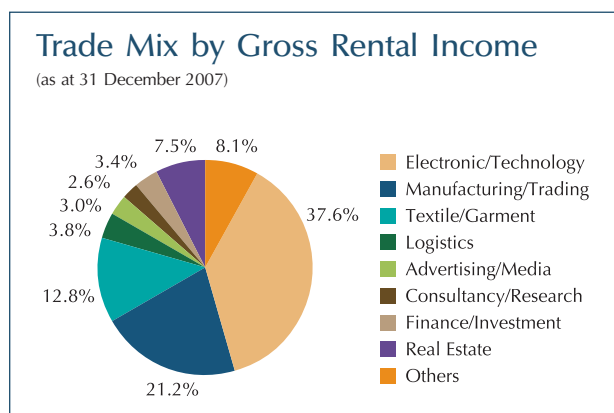
	2007	2008	2009	2010 and Beyond
The Metropolis Tower	0.4%	29.0%	65.5%	5.1%
Prosperity Millennia Plaza	5.0%	33.6%	51.9%	9.5%
Harbourfront Landmark (portion)	–	–	–	100.0%
Modern Warehouse	5.1%	41.2%	47.2%	6.5%
Trendy Centre	2.7%	24.8%	63.6%	8.9%
Prosperity Center (portion)	0.9%	22.5%	51.7%	24.9%
New Treasure Centre (portion)	1.5%	28.3%	53.2%	17.0%
Portfolio	2.4%	28.6%	53.3%	15.7%

Well-balanced Tenant Base

As at 31 December 2007, Prosperity REIT had 524 tenants in total. The tenant base was characterized by the key beneficiaries of Hong Kong's resilient economy as well as the territory's close economic ties with Mainland China — the electronic/technology, manufacturing/trading, and textile/garment industries.

Prosperity REIT's portfolio comprises a balanced mix of multinational corporations and small-to-medium sized enterprises. It is always the Manager's aim to build and maintain a well-balanced tenant base with good credibility with a view to generating stable rental income.

Trust Review



Size of tenant premises on gross rentable area (as at 31 December 2007)	Percentage
Above 10,000 sq.ft.	21.8%
5,001 sq.ft.–10,000 sq.ft.	12.6%
2,001 sq.ft.–5,000 sq.ft.	27.3%
1,001 sq.ft.–2,000 sq.ft.	25.1%
1,000 sq.ft. and below	13.2%
Total	100.0%

Close-to-Zero Delinquency Rate

During 2007, the delinquency rate was close to zero. This was achieved through effective lease management and diligent selection of tenants with good credit, by an experienced asset management team of high caliber.

Asset Enhancement

As part of the Manager's ongoing strategy to provide high quality accommodation and achieve sustainable rental growth, the Manager has proactively planned and executed asset enhancement initiatives including aesthetic improvements and facility upgrades.

Such works augment the professional image of the buildings and enhance its competitive edge to attract tenants and improve the rental rates. Various asset enhancement works were completed last year and more plans will be put in place to improve the quality of the properties going forward.

Outlook

The Manager has effectively managed Prosperity REIT since its public listing on 16 December 2005 (the "Listing Date") with outstanding results. The office and industrial/office leasing markets are expected to remain buoyant on the back of a robust economy in Hong Kong and the Mainland. Given the Manager's professional experience and management expertise, as well as the diligence of Goodwell-Prosperity Property Services Limited as the property manager of Prosperity REIT, we are confident that Prosperity REIT will continue to perform well in 2008 and beyond for the benefit of unitholders.



AFTER



Before



Modern Warehouse

The ground floor lobby of Modern Warehouse has been renovated with a modern design and an office ambience. Lift lobbies of upper floors as well as the façade will also be renovated in 2008, with a view to upgrading the whole building for better returns.

Trust Review

Asset Enhancement



AFTER



Before



Trendy Centre

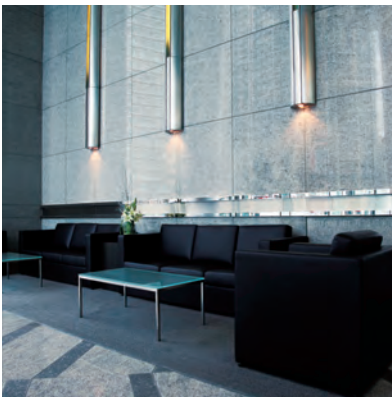
The face-lifting works of Trendy Centre's typical floors are in progress. Upon completion, the building's image will be enhanced, complementing the successful lobby upgrade completed in the first quarter of 2007. This helps to maintain Trendy Centre's competitiveness and attractiveness as a place of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



AFTER



Before



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.

Prosperity REIT Portfolio

The Metropolis Tower



Location: No. 10 Metropolis Drive, Hunghom, Kowloon

Year of Completion: 2001

Gross Rentable Area (sq.ft.): 271,418

No. of Carpark Spaces: 98

Appraised Value (HK\$ million): 1,970

Number of Tenancies: 91

Top 5 Tenants¹

Tenants Name	Trade	GRA* (sq.ft.)	% of GRA	% of GRI**
Canon Hongkong Company Limited	Electronic/Technology	36,322	13.4%	13.6%
NEC Hong Kong Limited	Electronic/Technology	21,384	7.9%	9.1%
Oval Enterprises Limited	Electronic/Technology	18,211	6.7%	7.7%
Tenant of units 1605-16, 16/F (name undisclosed)	Finance/Investment	11,885	4.4%	4.9%
Elcoteq Asia Limited	Electronic/Technology	11,204	4.1%	4.4%

* Gross rentable area ** Gross rental income

Note 1: Top 5 tenants are measured based on tenant's contribution to the total rental income of the property as at 31 December 2007.



The Metropolis Tower is located within the hub of the prime commercial district of Tsim Sha Tsui. It is well connected by mass transportation links such as Hunghom MTR East Rail Station, bus terminal and taxi station. It has immediate access to the Cross Harbour Tunnel, the busiest vehicular tunnel in Hong Kong.

The Metropolis Tower is part of a 1.42 million sq. ft. development comprising a retail mall, an office tower, hotel and apartments. The Metropolis development is a landmark in Tsim Sha Tsui, and supported by convenient public amenities such as a concert hall and a university together with a cluster of world renowned hotel and shopping mall.

Modern features of The Metropolis Tower include column free floor plates, raised floor system, back up power supply, fiber optic backbone and satellite communication. Anchor tenants include Canon Hongkong Company Limited, NEC Hong Kong Limited, Oval Enterprises Limited and Elcoteq Asia Limited.

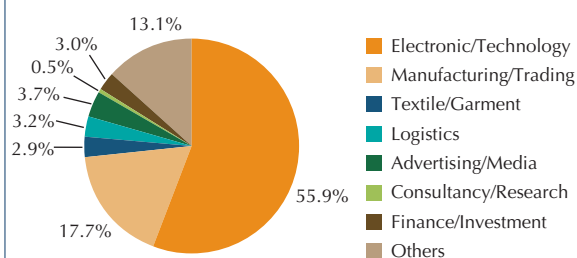
As at 31 December 2007, 50.7% of the leased area is occupied by anchor tenants of over 5,000 sq. ft. Occupancy is a high of 99.3% as at 31 December 2007, reflecting the high demand for office space. The Manager will continue to implement proactive leasing strategies and asset enhancing initiatives to improve rents and retain tenants.

With the increased demand for office space in the decentralized business districts, the Manager will continue to manage the leasing proactively in order to maximize rental income for unitholders.



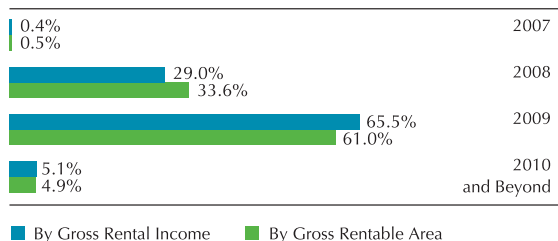
Trade Mix by Gross Rentable Area

(As at 31 December 2007)



Lease Expiry Profile of The Metropolis Tower

(As at 31 December 2007)



Prosperity REIT Portfolio Prosperity Millennia Plaza

(previously named as MLC Millennia Plaza)



Location: No. 663 King's Road, North Point, Hong Kong

Year of Completion: 1999

Gross Rentable Area (sq.ft.): 217,955

No. of Carpark Spaces: 43

Appraised Value (HK\$ million): 1,080

Number of Tenancies: 74

Top 5 Tenants

Tenants Name	Trade	GRA (sq.ft.)	% of GRA	% of GRI
Computer and Technologies Holdings Limited	Electronic/Technology	16,628	7.6%	7.2%
Pacific Century Systems Limited	Electronic/Technology	16,628	7.6%	6.7%
The University of Hong Kong	Others	7,818	3.6%	5.0%
Oracle Added Value Limited	Consultancy/Research	13,173	6.0%	4.9%
AMTD Financial Planning Limited	Finance/Investment	8,314	3.8%	4.7%



Prosperity Millennia Plaza is strategically located in the established Island East office district. The building is adjacent to Harbour Plaza North Point Hotel and North Point Government Office. It is well connected with mass transportation links as it is only within a two-minute walking distance to Quarry Bay MTR Station. In addition, it is also within a two-minute driving distance to the Eastern Harbour Crossing Tunnel.

Features of Prosperity Millennia Plaza include column free floor plates with full height windows. High floor units enjoy spectacular views over Victoria Harbour. Anchor tenants include Computer and Technologies Holdings Limited, Pacific Century Systems Limited, The University of Hong Kong, Oracle Added Value Limited, and AMTD Financial Planning Ltd.

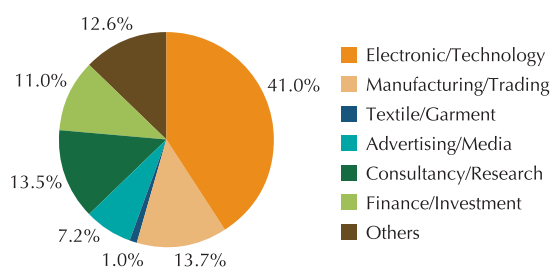
As at 31 December 2007, 53.4% of the leased area is occupied by anchor tenants of over 5,000 sq.ft. The occupancy rate of Prosperity Millennia Plaza is 99.4% as at 31 December 2007.

As more office users expand, they are willing to take up office space in Island East district as an alternative with the lower rentals than similar quality buildings in Central. Prosperity Millennia Plaza will continue to benefit from the relocation of tenants from core district to decentralized districts. The Manager will capitalize on this opportunity to strengthen our tenant base and maximize the rental income.



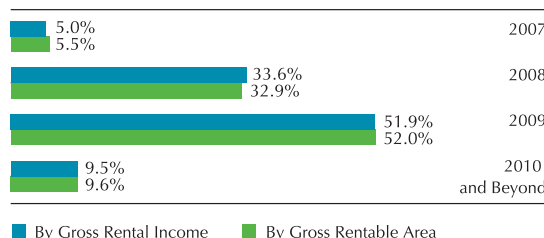
Trade Mix by Gross Rentable Area

(As at 31 December 2007)



Lease Expiry Profile of Prosperity Millennia Plaza

(As at 31 December 2007)



Prosperity REIT Portfolio Harbourfront Landmark Property

(portion of Harbourfront Landmark, "Harbourfront Landmark Property")



Location: No. 11 Wan Hoi Street, Hunghom, Kowloon

Year of Completion: 2001

Gross Rentable Area (sq.ft.): 77,021

No. of Carpark Spaces: –

Appraised Value (HK\$ million): 350

Number of Tenancies: 1

Tenant Name	Trade	GRA (sq.ft.)	% of GRA	% of GRI
Tremayne Investments Limited	Real estate	77,021	100%	100%



Harbourfront Landmark Property refers to the three-storey Grade A office premises on the podium level of Harbourfront Landmark, a stunning skyscraper on the Kowloon waterfront. It is adjacent to two blocks of large-scale Grade A office tower and a renowned five-star hotel, the Harbour Plaza Hong Kong Hotel. With the modern curtain wall system, the Harbourfront Landmark Property enjoys panoramic views over the Victoria Harbour.

Occupants of Harbourfront Landmark Property are well supported by the catering, conference and accommodation facilities of the Harbour Plaza Hong Kong Hotel. The building is within a two-minute driving distance to Hunghom MTR East Rail Station which links up Tsim Sha Tsui area to the New Territories as well as Mainland China. The subject building is also within a five-minute driving distance to Tsim Sha Tsui East district via Hunghom Bypass. It is also close to the Kowloon side of the Cross Harbour Tunnel, enjoying convenient access to Hong Kong Island. A ferry pier with frequent ferry services to

and from the business districts including Central, Wanchai and North Point is located within three minutes' walking distance from the building.

As at 31 December 2007, Harbourfront Landmark Property has been fully leased and is leased to Tremayne Investments Limited, a property investment company, which is a wholly owned subsidiary of Hutchison Whampoa Properties Limited, a connected person of Prosperity REIT. The lease has been negotiated on an arm's length basis, taking into account of the overall property market environment and the size of the premises. The rent is consistent with the prevailing market rent at that time. It is a six-year lease term ending 31 October 2011, with an option to renew for a further term of three years.



Prosperity REIT Portfolio Modern Warehouse



Location: No. 6 Shing Yip Street, Kwun Tong, Kowloon

Year of Completion: 1996

Gross Rentable Area (sq.ft.): 240,000

No. of Carpark Spaces: 60

Appraised Value (HK\$ million): 609

Number of Tenancies: 134

Top 5 Tenants

Tenants Name	Trade	GRA (sq.ft.)	% of GRA	% of GRI
Shinco Digital Limited	Electronic/Technology	7,398	3.1%	3.1%
Holistol International Limited	Manufacturing / Trading	6,992	2.9%	3.0%
Evlite Electronics Co Ltd	Electronic/Technology	7,475	3.1%	2.8%
Robotoolz Limited	Electronic/Technology	5,402	2.3%	2.3%
e-Smart System Inc.	Electronic/Technology	4,598	1.9%	2.3%



Modern Warehouse is located in the well established Kwun Tong business district. The building is close to the Kowloon side of the Eastern Cross Harbour Tunnel, and Kwun Tong MTR Station is just a few minutes' walk away.

Kowloon East is undergoing a series of remarkable transformation including the Urban Renewal Authority's rejuvenation plan, new commercial development and redevelopment projects. The district is vibrant and has captured many quality tenants relocating from core business districts.

Modern Warehouse will capitalize on an expanding pool of potential tenants attracted to Kowloon East area and will continue to upgrade its tenant base. On the back of a quality tenant base, the rent levels, the building image and property value can be further uplifted.

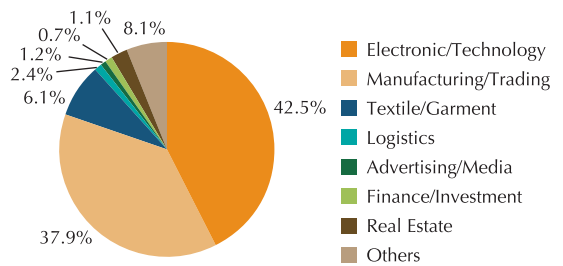
Anchor tenants include Shinco Digital Limited, Holistol International Limited, Evlite Electronics Co Ltd, Robotoolz Limited and e-Smart System Inc.

In 2007, the Manager renovated the ground floor main lobby with a modern look. With an impressive ceiling height of 5 meters and entrance frontage of 17 meters, the new design is an exemplification of a modern and classy office ambience as in a Grade A commercial building. Looking forward in 2008, the Manager will renovate the passenger lift lobby on upper floors in order to further enhance the overall working environment. The lower portion of the external façade will be upgraded to align with the new Ground Floor lobby design. Modern Warehouse will be re-branded to a commercial landmark in the vicinity, well equipped to face the vibrant environment in Kowloon East.



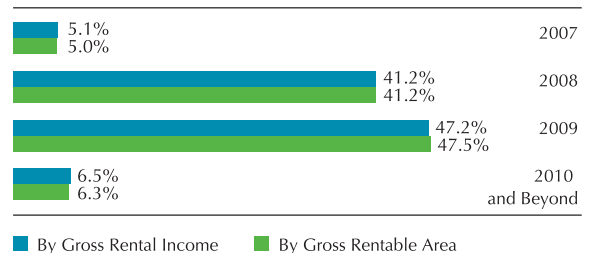
Trade Mix by Gross Rentable Area

(As at 31 December 2007)



Lease Expiry Profile of Modern Warehouse

(As at 31 December 2007)



Prosperity REIT Portfolio Trendy Centre



Location: No. 682 Castle Peak Road, Cheung Sha Wan, Kowloon

Year of Completion: 1998

Gross Rentable Area (sq.ft.): 173,764

No. of Carpark Spaces: 79

Appraised Value (HK\$ million): 568

Number of Tenancies: 140

Top 5 Tenants

Tenants Name	Trade	GRA (sq.ft.)	% of GRA	% of GRI
CEH Textiles Limited	Textile/Garment	6,849	3.9%	4.0%
Yuen's (HK) Co. Limited	Manufacturing/Trading	1,718	1.0%	3.8%
Chiu Fai Imitation Jewelry Co. Limited	Manufacturing/Trading	6,849	3.9%	3.6%
Ip Nga Yan	Others	708	0.4%	2.2%
Tenant of units 07-11, 8/F (name undisclosed)	Electronic/Technology	3,268	1.9%	1.9%



Trendy Centre is situated on Castle Peak Road in Cheung Sha Wan which is the heart of garment and fashion wholesaling industry. Its close proximity to the Container Terminal and infrastructure such as Route 3 and the Tsing Ma Bridge provides convenient linkage to both Mainland China and the airport. Lai Chi Kok MTR Station is just five minutes' walk away.

Based on its strategic location, tenants in textile/garment industry account for 60% of the total leased area while tenants in manufacturing/trading industry account for 23% of the total leased area. The share of textile/garment industry tenants has increased significantly from 49.8% in 2006 to 60% in 2007. This is a reinforcement of the building as a preferred choice of the textile/garment industry in the district.

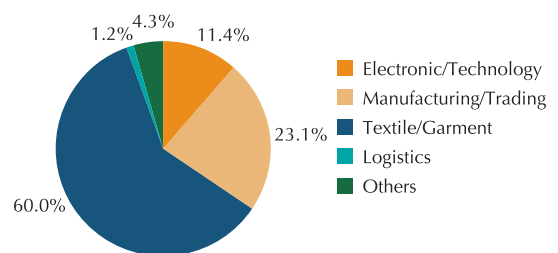
Anchor tenants include CEH Textile Limited, Yuen's (HK) Co. Limited, Chiu Fai Imitation Jewelry Co. Limited and Ip Nga Yan.

In 2007, the Manager renovated the lift lobbies of the 7th and 8th floors of the building. The original industrial design was replaced by modern glass panel walls and light colored homogenous floor tiles. Tenants welcomed the new office design and ambience. The pace of marketing has been successfully quickened. In 2008, the Manager will continue to renovate the lift lobbies of the remaining 22 floors. This is expected to further improve rents to a higher level.



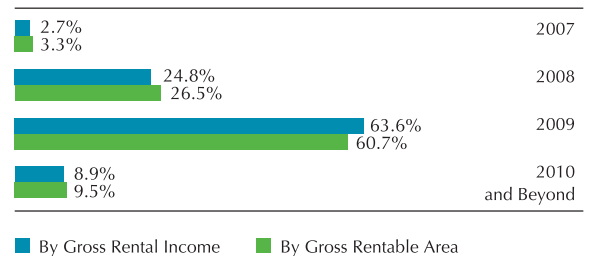
Trade Mix by Gross Rentable Area

(As at 31 December 2007)



Lease Expiry Profile of Trendy Centre

(As at 31 December 2007)



Prosperity REIT Portfolio Prosperity Center Property

(portion of Prosperity Center, "Prosperity Center Property")



Location: No. 25 Chong Yip Street, Kwun Tong, Kowloon

Year of Completion: 1999

Gross Rentable Area (sq.ft.): 149,253

No. of Carpark Spaces: 105

Appraised Value (HK\$ million): 482

Number of Tenancies: 69

Top 5 Tenants

Tenants Name	Trade	GRA (sq.ft.)	% of GRA	% of GRI
Cosme De Net Company Limited	Manufacturing/Trading	10,528	7.1%	7.6%
Oasis Stores Limited	Textile/Garment	10,528	7.1%	6.3%
Rhythm Industrial (Hong Kong) Limited	Electronic/Technology	10,528	7.1%	6.0%
YCH Logistics (Hong Kong) Limited	Logistics	7,339	4.9%	5.1%
Ferroxcube Hong Kong Ltd.	Electronic/Technology	5,545	3.7%	3.4%



Prosperity Center Property is strategically located in the Kowloon East business district and is within a three-minute walking distance to Ngau Tau Kok MTR Station.

With the transformation of the Kowloon East locality into a commercial hub, Prosperity Center Property can attract potential quality tenants from outside districts and tenants looking to upgrade within the district. The business expansion needs and decentralization trends are expected to boost demand and uplift rents.

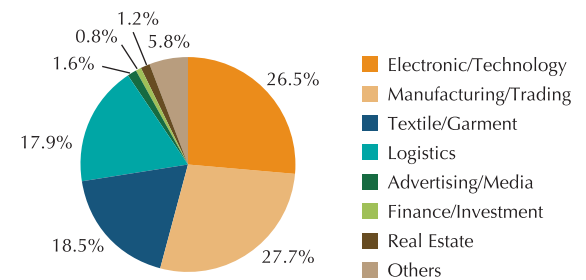
The building is built with modern curtain wall exteriors with sufficient loading/unloading bay facilities. Anchor tenants include Cosme De Net Company Limited, Oasis Stores Limited, Rhythm Industrial (Hong Kong) Limited, YCH Logistics (Hong Kong) Limited and Ferroxcube Hong Kong Ltd.

With the implementation of a proactive and effective leasing strategy, 100% occupancy rate was achieved as at 31 December 2007. The Manager will continue to maintain the occupancy in this maturing commercial district in Kowloon East.



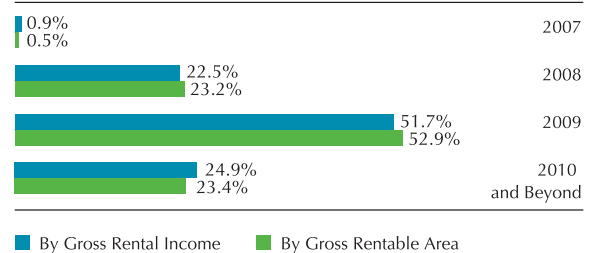
Trade Mix by Gross Rentable Area

(As at 31 December 2007)



Lease Expiry Profile of Prosperity Center Property

(As at 31 December 2007)



Prosperity REIT Portfolio New Treasure Centre Property

(portion of New Treasure Centre, "New Treasure Centre Property")



Location: No. 10 Ng Fong Street, San Po Kong, Kowloon

Year of Completion: 1995

Gross Rentable Area (sq.ft.): 86,168

No. of Carpark Spaces: 22

Appraised Value (HK\$ million): 166

Number of Tenancies: 52

Top 5 Tenants

Tenants Name	Trade	GRA (sq.ft.)	% of GRA	% of GRI
Goodwell Property Management Limited	Others	11,285	13.1%	12.7%
Markent Logistics (HK) Limited	Logistics	2,761	3.2%	3.5%
Laision (China) Company Limited	Textile/Garment	2,496	2.9%	3.4%
Tenant of units 06 – 07, 17/F (name undisclosed)	Manufacturing/Trading	2,496	2.9%	3.2%
Megahope Limited	Manufacturing/Trading	2,496	2.9%	3.2%



New Treasure Centre Property is located in San Po Kong, Kowloon, which is predominantly an established industrial area well served by extensive transportation links, including MTR, buses and public light buses.

Demand for quality industrial space remains strong as supply of good quality workshop space is limited within the locality. The Manager will take this opportunity to enhance the tenant base and rental income to unitholders.

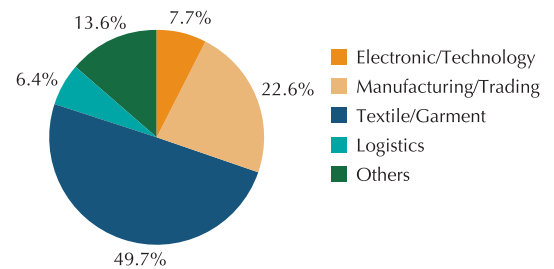
The prestigious design of the main lobby distinguishes itself from other older industrial buildings in the vicinity. The building is within five minutes' walking distance to Diamond Hill MTR Station.

The building has flexible floor plate design to cater to the needs of different tenants. Anchor tenants include Goodwell Property Management Limited, Markent Logistics (HK) Limited, Laision (China) Company Limited and Megahope Limited.



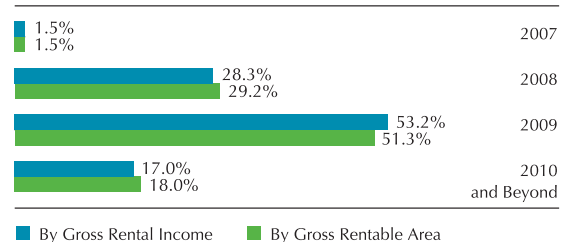
Trade Mix by Gross Rentable Area

(As at 31 December 2007)



Lease Expiry Profile of New Treasure Centre Property

(As at 31 December 2007)



Management Discussion and Analysis

The Manager is pleased to summarize below Prosperity REIT's strong performance for the year from 1 January 2007 to 31 December 2007 (the "Reporting Year"):

Performance Highlights

	Year ended 31 Dec 2007	Year ended 31 Dec 2006	Percentage change Increase/(Decrease)
Distribution per unit	HK\$0.1298	HK\$0.1201	8.1%

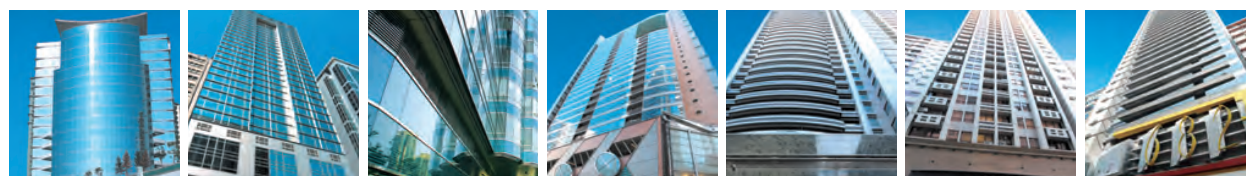
Operation data	Year ended 31 Dec 2007	Year ended 31 Dec 2006	Percentage change Increase/(Decrease)
Revenue	HK\$244.6 million	HK\$217.1 million	12.7%
Net property income	HK\$192.8 million	HK\$167.5 million	15.1%
Cost-to-revenue ratio	21.2%	22.8%	(7.0%)
Occupancy rate (as at 31 Dec)	98.4%	97.4%	1.0%
Tenant retention rate	59.5%	74.9%	(20.6%)
Average effective unit rent	HK\$13.38 per sq.ft.	HK\$11.98 per sq.ft.	11.7%

Key financial figures	As at 31 Dec 2007	As at 31 Dec 2006	Percentage change Increase/(Decrease)
Net asset value per unit	HK\$2.50	HK\$2.38	5.0%
Property valuation	HK\$5.225 billion	HK\$4.864 billion	7.4%
Gearing ratio*	33.5%	35.0%	(4.3%)

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

Operation Review

Prosperity REIT owns a geographically diversified portfolio of seven commercial properties in the decentralized business districts of Hong Kong, comprising all or a portion of three Grade A office buildings, three industrial/office buildings, and one industrial building, with a total gross rentable area of 1,215,579 sq.ft., and 407 carparking spaces.



Information on the portfolio of properties as at 31 December 2007 is as follows:

	Location	Gross rentable area (sq. ft.)	No. of carpark spaces	Valuation (HK\$ million)
Grade A Office				
The Metropolis Tower	Hunghom	271,418	98	1,970
Prosperity Millennia Plaza	North Point	217,955	43	1,080
Harbourfront Landmark (portion)	Hunghom	77,021	–	350
Industrial/Office				
Modern Warehouse	Kwun Tong	240,000	60	609
Trendy Centre	Cheung Sha Wan	173,764	79	568
Prosperity Center (portion)	Kwun Tong	149,253	105	482
Industrial				
New Treasure Centre (portion)	San Po Kong	86,168	22	166
Total		1,215,579	407	5,225

The commercial property markets in Hong Kong flourished in 2007, fueled by expansion of the finance and professional services sectors. Coupled with the Manager's professional management expertise, Prosperity REIT was able to deliver an impressive performance in the Reporting Year.

	Occupancy rate (%) As at 31 Dec 07	Occupancy rate (%) As at 31 Dec 06	Percentage change Increase/(Decrease)
Grade A Office			
The Metropolis Tower	99.3	96.5	2.9%
Prosperity Millennia Plaza	99.4	100.0	(0.6%)
Harbourfront Landmark (portion)	100.0	100.0	–
Industrial/Office			
Modern Warehouse	98.6	96.5	2.2%
Trendy Centre	94.7	94.1	0.6%
Prosperity Center (portion)	100.0	97.4	2.7%
Industrial			
New Treasure Centre (portion)	95.9	100.0	(4.1%)
Portfolio	98.4	97.4	1.0%

A high occupancy rate of 98.4% was recorded as at 31 December 2007. The average effective unit rent rose 11.7% YoY, reflecting the Manager's progressive and effective leasing strategies.

As a result of increased revenue coupled with the Manager's efficient streamlining of operations, the cost-to-revenue ratio improved to 21.2%. Gearing ratio also narrowed to 33.5% as at end 2007, which will offer more financing headroom for yield accretive acquisitions.

Management Discussion and Analysis

Investment Review

The Manager is focused on delivering growth to unitholders by capitalizing on acquisition opportunities in the commercial and industrial sectors in Hong Kong. In January 2007, we 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. We believe that the acquisition will contribute to higher economies of scale in operations management.

The Manager is now assessing potential acquisition opportunities in the Grade A office sector of major cities in the Mainland with expanding business catchments. The properties to be acquired must not only provide sustainable cash flow returns but possess further growth potential from asset enhancements initiatives.

Financial Review

The revenue and net property income of each property in the portfolio for the Reporting Year 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	68,169	15,242	83,411	68,964
Prosperity Millennia Plaza	35,837	10,842	46,679	35,766
Harbourfront Landmark (portion)	13,864	2,161	16,025	13,934
Industrial/Office				
Modern Warehouse	34,117	384	34,501	26,392
Trendy Centre	23,672	5,559	29,231	21,895
Prosperity Center (portion)	21,740	2,854	24,594	19,371
Industrial				
New Treasure Centre (portion)	8,462	1,725	10,187	6,458
Total	205,861	38,767	244,628	192,780

Revenue

During the Reporting Year, revenue stood at HK\$244.6 million, which was HK\$27.5 million or 12.7% higher than in 2006.

The revenue comprised HK\$205.9 million of rental and car park income, plus HK\$38.7 million of rental related income. Rental and car park income was HK\$25.5 million or 14.1% above 2006. The increase was mainly due to an effective and proactive lease management leading to overall improvement in average effective rent.

Net Property Income

Net property income was HK\$192.8 million, exceeding 2006 by HK\$25.3 million or 15.1%. The cost-to-revenue ratio also improved to 21.2% from 22.8% in 2006. The improvement was a result of the increase in revenue and Manager's effective cost control measures.

Distributable Income

The annual distributable income to unitholders for the Reporting Year amounted to HK\$165,727,000, which was 9.4% higher than in 2006. The annual distributable income for the Reporting Year is calculated by the Manager as representing the consolidated net profit of Prosperity REIT and the subsidiaries of Prosperity REIT for that distribution period, after provision for tax, as adjusted to eliminate the effects of adjustments (as defined in the Deed of Trust constituting Prosperity REIT made 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") including finance cost of HK\$68,675,000 (equivalent to HK\$0.0538 per unit) due to the interest rate swap, which have been recorded in the consolidated income statement.

Distribution

It is the policy of the Manager to distribute to unitholders an amount equal to 100% of Prosperity REIT's annual distributable income for the financial year ended 31 December 2007. Pursuant to the Trust Deed, Prosperity REIT is required to ensure that the total amount distributed to unitholders shall be no less than 90% of Prosperity REIT's annual distributable income for each financial year.

The distributable income for the half year from 1 July 2007 to 31 December 2007 is HK\$84,396,000, equivalent to a DPU of HK\$0.0659. The interim DPU for the six months from 1 January 2007 to 30 June 2007 was HK\$0.0639, and the total DPU for the Reporting Year is HK\$0.1298, exceeding 2006's total DPU of HK\$0.1201 by 8.1%. The distribution will be paid on Friday, 25 April 2008.

Liquidity and Financing

As at 31 December 2007, Prosperity REIT had a facility of HK\$1,900 million, comprising a HK\$1,770 million term loan facility and a HK\$130 million revolving credit facility, each for a term of five years. The whole term loan facility was fully drawn on the Listing Date and revolving credit facility balance was HK\$25 million as at 31 December 2007. The term loan is repayable five years from the date of the drawdown. The revolving facility will be repaid on each maturity date and can be redrawn upon maturity.

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 33.5% as at end 2007, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 41.5%

Prosperity REIT, with a cash balance of HK\$23.9 million and available revolving credit facility of approximate HK\$105 million as at 31 December 2007, has sufficient financial resources to satisfy its commitments and working capital requirements.

Balance Sheet Highlights

Investment properties and property valuation

For the year ended 31 December 2007, Prosperity REIT's portfolio recorded an investment property revaluation surplus of HK\$309.8 million, based on a professional valuation performed by an independent valuer, Knight Frank Petty Limited. The movements of fair values are tabulated below:

	31 Dec 2007 HK\$'000	31 Dec 2006 HK\$'000
Fair value at beginning of the financial year	4,864,000	4,548,000
Acquisitions	43,403	–
Additional expenditure	7,760	–
Increase in fair value during the year	309,837	316,000
Fair value at the end of year	5,225,000	4,864,000

Charges on Assets

As at 31 December 2007, the seven properties of Prosperity REIT, with aggregate carrying value of HK\$5,182 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.

Management Discussion and Analysis

Employees

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

Major Real Estate Agents and Contractors

The commission paid to the top five real estate agents during the year was HK\$1,855,000, and the total value of service contracts of the top five contractors engaged by Prosperity REIT was HK\$35,256,000.

Top Five Real Estate Agents

Respective commissions to the top five real estate agents to secure new and existing tenants are summarized as follows:

Real Estate Agents	Commission paid HK\$'000	Percentage
Centaline Property Agency Limited	1,090	48.9%
Midland Realty	431	19.3%
Landscape Real Estate Services Limited	175	7.9%
Intercity Limited	81	3.6%
Index Property Associates Limited	78	3.5%
Total	1,855	83.2%

Top Five Contractors

The top five contractors and their respective value of service are as follows:

Contractors	Nature of services	Value of contract HK\$'000	Percentage
Goodwell Property Management Ltd	Building management	13,863	36.2%
Citybase Property Management Ltd	Building management	11,934	31.2%
Goodwell-Prosperity Property Services Ltd	Property management	5,676	14.8%
MCQUAY Air-Conditioning Ltd	Repairs and maintenance/ Landlord provision	2,386	6.2%
E-Park Parking Management Limited	Car park operation	1,397	3.7%
Total		35,256	92.1%

Closure of Register of Unitholders

The register of unitholders will be closed from Thursday, 17 April 2008 to Thursday, 24 April 2008, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited at Rooms 1806-07, 18/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 16 April 2008. The payment date of final distribution will be on Friday, 25 April 2008.

The Property Manager

Pursuant to the property management agreement dated 29 November 2005 between the Manager and Goodwell-Prosperity Property Services Limited (the “Property Manager”), the Manager has appointed the Property Manager to operate, maintain, manage and market all the properties of Prosperity REIT, subject to the overall management and supervision of the Manager.

The Property Manager is an indirect wholly-owned subsidiary of Cheung Kong. It was formed to exclusively manage the properties of Prosperity REIT on a dedicated basis.



Directors and Senior Management Biographical Information



CHIU Kwok Hung, Justin

Chairman and Non-executive Director

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 comprises seven Directors, three of whom are Independent Non-executive Directors.

Directors

CHIU Kwok Hung, Justin, Chairman of the Manager, aged 57, is also the Chairman of ARA Asset Management Limited, the holding company of the Manager which is listed on the Main Board of the Singapore Exchange Securities Trading Ltd. In addition, he is the Chairman of ARA Asset Management (Singapore) Limited, the manager of Singapore listed Fortune REIT, and the Chairman of ARA Trust Management (Suntec) Limited, the manager of Singapore listed Suntec REIT. Mr. Chiu is an Executive Director of Cheung Kong (Holdings) Limited (“Cheung Kong”). He joined Cheung Kong in 1997 and has been an Executive Director since 2000, heading the real estate sales, leasing, marketing and property management departments.

With more than 28 years of international real estate experience, Mr. Chiu is one of the most respected professionals in the Hong Kong property market. Prior to joining Cheung Kong, Mr. Chiu was with Hang Lung Development Company Limited for 15 years from 1979 to 1994 and later with Sino Land Company Limited for 3 years from 1994 to 1997. He was in charge of the leasing as well



LIM Hwee Chiang, John

Non-executive Director

as property management business for both companies.

Mr. Chiu holds a Bachelor of Sociology degree and a Bachelor of Economics degree from Trent University in Ontario, Canada. He is a Fellow of the Hong Kong Institute of Real Estate Administration. Mr. Chiu is a member of the Shanghai Committee of The Chinese People’s Political Consultative Conference, the People’s Republic of China.

LIM Hwee Chiang, John, a Non-executive Director of the Manager, aged 51, is the Group Chief Executive Officer and Executive Director of ARA Asset Management Limited and the ARA group of companies, including ARA Asset Management (Singapore) Limited, the manager of Singapore listed Fortune REIT, ARA Trust Management (Suntec) Limited, the manager of Singapore listed Suntec REIT, AmARA REIT Manager Sdn Bhd, the manager of AmFIRST REIT, which is listed on the Main Board of Bursa Malaysia Securities Berhad. He also sits on the board of Teckwah Industrial Corporation Ltd and Inter-Roller Engineering Limited, both of which are listed in Singapore.

Mr. Lim has over 26 years of experience in real estate. From 1997 to 2002, Mr. Lim was an Executive Director of GRA (Singapore) Private Limited (“GRA”), which is a wholly-owned subsidiary of Prudential (US) Real Estate investors. From 1996 to 1997, prior to joining GRA, he was the Founder and Managing Director of The Land Manager (S) Pte Ltd, a Singapore-based property and consulting firm. From 1991 to 1995, Mr. Lim was the General Manager of Singapore



YIP Kam Thai

Executive Director and Acting Chief Executive Officer

Labour Foundation Management Services Pte Ltd and was with DBS Land Limited from 1981 to 1990.

Mr. Lim holds an Engineering degree (First Class Honours), a Master of Science degree as well as a Diploma in Business Administration from the National University of Singapore. He is the Vice President of Hong Kong Singapore Business Association, a board member of the Asian Public Real Estate Association and the Valuation Review Board of the Ministry of Finance in Singapore.

YIP Kam Thai, Executive Director, the Acting Chief Executive Officer and a Responsible Officer of the Manager, aged 38. Prior to joining the Manager, Mr. Yip has had the experience of managing Suntec REIT and Fortune REIT in an Executive Director capacity where he supported the respective CEOs in strategic planning, asset management, investment and investor relations for the REITs.

Mr. Yip started his career in listed Tuan Sing Holdings Limited in 1993 and was responsible for investment, lease management and marketing of the group’s property portfolio in Singapore, Hong Kong and China. In 1998, he co-founded and was principal partner of Maxus Holdings Pte Ltd (“Maxus”), a boutique property consultancy firm specializing in investment brokerage, and collaborating with international consultancies or local developers on leasing and project marketing work in Singapore. Thereafter, Mr. Yip became the Chief Operating Officer of a joint venture company



MA Lai Chee, Gerald

Non-executive Director



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

between listed YTL Corporation Berhad and listed Sun Business Network Ltd in 2000 to develop, market and deploy the web-based estate system created by Maxus to real estate companies throughout Asia. In 2003, Mr. Yip was the Vice President of Singapore listed Sun Business Network Ltd in charge of business development in China.

Mr. Yip holds a Bachelor of Science (Estate Management) Honours degree from the National University of Singapore. He also possesses a Type 9 Regulated Activity Licence issued by the Hong Kong's Securities and Futures Commission for asset management work in Hong Kong.

MA Lai Chee, Gerald, a Non-executive Director of the Manager, aged 40, joined Cheung Kong in February 1996 and is currently Director, Corporate Strategy Unit and Chief Manager, Corporate Business Development. He has over 17 years of experience in banking, investment and portfolio management, real estate development and marketing as well as managing IT related ventures and services.

Mr. Ma is a Director of AMTD Financial Planning Limited, iBusiness Corporation Limited, CK Communications Limited, Beijing Net-Infinity Technology Development Co. Limited, mReferral Corporation (HK) Limited and Silk Telecom Pty Limited. He is a Non-Executive Director of The Ming An (Holdings) Company Limited. Mr. Ma is also an Alternate Director of Hutchison Telecommunications International Limited.

Mr. Ma holds a Bachelor of Commerce degree in Finance and a Master of Arts degree in Global Business Management. He is a member of the Finance Committee and the Hospitality Services Committee for Caritas Hong Kong. He is also a member of the Chancellor's Circle of the University of British Columbia, Canada and a member of the Dean's Advisory Board for the Faculty of Arts at the University of British Columbia, Canada.

LAN Hong Tsung, David, an Independent Non-executive Director of the Manager, aged 67, has been an Independent Non-executive Director and a member of the Audit Committee of Cheung Kong Infrastructure Holdings Limited since February 2005. He is also an Independent Non-executive Director of Hutchison Harbour Ring Limited. He is currently the Chairman of David H T Lan Consultants Ltd., and holds directorship at Nanyang Commercial Bank Ltd. as well as being Senior Advisor of Mitsui & Co. (H.K.) Ltd. Mr. Lan was the Secretary for Home Affairs of the Hong Kong Special Administrative Region Government until his retirement in July 2000. He had served as civil servant in various capacities for 39 years. He was awarded the Gold Bauhinia Star Medal (GBS) on 1 July 2000. In January 2003, he was appointed National Committee Member of the Chinese People's Political Consultative Conference of the People's Republic of China. Mr. Lan is a Chartered Secretary and a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. He received his Bachelor

of Arts degree in Economics and Law from the University of London and completed the Advanced Management Program (AMP) of the Harvard Business School, Boston.

SNG Sow-Mei (alias POON Sow Mei), an Independent Non-executive Director of the Manager, aged 66, has been appointed as Independent Non-Executive Director and member of the Audit Committee of Cheung Kong Infrastructure Holdings Limited since September 2004. She is also an Independent Director of ARA Asset Management (Singapore) Limited, the manager of Singapore listed Fortune REIT and ARA Trust Management (Suntec) Limited, the manager of Singapore listed Suntec REIT. Since 2001, Mrs Sng has been the Senior Consultant (International Business) of Singapore Technologies Electronics Ltd. Concurrently she is the Advisor of InfoWave Pte Ltd and Director of Infa Systems Ltd. Prior to her appointment with Singapore Technologies Pte Ltd, where she was Director, Special Projects (North East Asia) in 2000 and a Consultant in 2001, Mrs. Sng was the Managing Director of CapitaLand Hong Kong Ltd for investment in Hong Kong and the region including Japan and Taiwan. In Hong Kong from 1983 to 1997, Mrs. Sng was the Centre Director and then Regional Director of the Singapore Economic Development Board and Trade Development Board respectively. She was Singapore's Trade Commissioner in Hong Kong from 1990 to 1997. Mrs. Sng, with a Bachelor of Arts degree from the Nanyang University of Singapore, has wide experience in various fields of industrial investment, business

Directors and Senior Management

Biographical Information

development, strategic and financial management, especially in property investment and management. In 1996, Mrs. Sng was conferred the title of PPA (P) – Pingat Pentadbiran Awam (Perak), the Singapore Public Administration Medal (Silver).

Robert Douglas POPE, an Independent Non-executive Director of the Manager, aged 61, was the director of the Lands Department under the Hong Kong Government and the Hong Kong Special Administrative Region Government for nine years beginning in August 1993 until he retired in May 2002. During his retirement, he has carried out a small property consultancy business advising several Hong Kong clients.

Mr. Pope joined the Government in February 1970 and was in the Lands Department for 32 years during which time he served in various posts, and for several years he was a member of the Sino British Land Commission. He was also a member of the Town Planning Board, the Housing Authority, the managing board of the Land Development Corporation and the supervisory board of the Hong Kong Housing Society. Mr. Pope was awarded the Order of the British Empire (OBE) in July 1997, and the Silver Bauhinia Star Medal (SBS) in July 2002 for his meritorious and dedicated service to the Government particularly in the evolution of land policy.

Mr. Pope was a fellow of the Royal Institution of Chartered Surveyors and was chairman of the Hong Kong branch. He was also a fellow of the Hong Kong Institute of Surveyors of which he was a founding member.

Executive Officers

YIP Kam Thai is the Acting Chief Executive Officer of the Manager. Details of his working experience are set out in the sub-section “Directors”.

The Chief Executive Officer of the Manager is responsible for working with the Board to determine the strategy for Prosperity REIT. The Chief Executive Officer works with the other members of the Manager’s management team to ensure that Prosperity REIT is operated in accordance with the Manager’s stated investment strategy. Additionally, the Chief Executive Officer is responsible for planning the strategic

development of Prosperity REIT and the day-to-day operations of the Manager. He supervises the Manager’s management team to ensure that Prosperity REIT operates in accordance with the stated strategy, policies and regulations.

WONG Lai Hung, Mavis is the Senior Manager, Asset and Investment Management, of the Manager. Miss Wong is responsible for formulating the business plans of Prosperity REIT’s properties with short, medium and long-term objectives, and with a view of maximizing the rental income of Prosperity REIT via active asset management. She is also responsible for identifying and evaluating potential acquisitions or investments consistent with Prosperity REIT’s investment strategy.

Miss Wong has 13 years of experience in the industry. Prior to joining the Manager, she was the Deputy Manager (Leasing) for New World Development Company Limited responsible for the marketing of office and industrial buildings and overseeing the landlord profit and loss account.

Prior to that, Miss Wong worked in the Leasing Department of Cheung Kong from 1997 to 2004 and was the Assistant Leasing Manager from 2003 to 2004. Her duties with Cheung Kong included marketing of commercial projects. Among the projects handled by Miss Wong were the marketing of Modern Warehouse, Prosperity Center and Trendy Centre.

Miss Wong began her career with Yaohan Department Store (HK) Limited as an Assistant Executive Officer in the Development Department where she was involved in handling the lease negotiation for new stores and tenancy renewals for existing stores. From 1995 to 1997, she was an Administrative Officer with Goodwill Management Limited (a wholly-owned subsidiary of Henderson Land Development Co. Ltd). Miss Wong had also worked in Jardine Matheson & Co Limited as an Assistant Property Manager before moving on to work with Cheung Kong.

Miss Wong holds a Bachelor of Arts degree from the Chinese University of Hong Kong, a Postgraduate Certification in HK Law from City University of Hong Kong and a Diploma in Property Development from SPACE, University of Hong Kong.

CHEUNG Kin Wah, Samuel is the Finance Manager of the Manager. He is responsible for the financial management and compliance issues of Prosperity REIT. He has over 14 years of experience in audit and finance areas.

From 2000 to 2006, Mr. Cheung was the Chief Financial Controller and Company Secretary of Joynn Holdings Limited (“Joynn”), a company listed on the Main Board of the Singapore Exchange Securities Trading Ltd. He was in charge of the accounting and finance functions of the group. He also performed company secretarial duties to ensure compliance with all legal and listing requirements and helped to ensure proper corporate governance. Mr. Cheung also helped to manage Joynn’s Initial Public Offering in Singapore and was responsible for helping with the spinning-off of one associate company on the Hong Kong Stock Exchange’s Growth Enterprise Market.

Prior to joining Joynn, Mr. Cheung served as an auditor with Messrs. Ernst & Young (Hong Kong) from 1995 to 2000 and also with Messrs. Kwan, Wong, Tan & Fong (which has since merged with Deloitte Touche Tohmatsu) from 1993 to 1994.

Mr. Cheung is a Certified Public Accountant in Hong Kong and a fellow of the Association of Chartered Certified Accountants. He is also an associate of the Hong Kong Institute of Certified Public Accountants, and of the Taxation Institute of Hong Kong. He graduated from Lingnan University with an Honours diploma in Accountancy in 1993.

YU Linna is the Investor Relations Manager of the Manager. She is primarily responsible for the development of public relations strategies and the management of all communications with the investors of Prosperity REIT. Prior to joining the Manager, Miss Yu worked for Standard & Poor’s Investment Services as Financial Journalist from 2002 to 2006. During that period, she assisted in the stock research of financial institutions (real estate and banking sectors) across Asia, focusing primarily on the Hong Kong market. She also produced daily analysis on the region’s equity markets (China, Taiwan, Japan, Korea) and provided views on the latest stock movements.

Miss Yu started her financial career in 2000 with Infocast Financial Newswire as a

reporter. Her main duties were to report on Hong Kong's financial and economic news. Miss Yu holds a Master of Journalism degree from the University of Wollongong, Australia.

CHIN Wai Yan, Ally is the Internal Auditor of the Manager. She is responsible for reviewing the accuracy and completeness of the records of operations and transactions of Prosperity REIT, and the proper functioning of the Manager's internal control system.

Prior to joining the Manager, Miss Chin was the Senior Internal Auditor of Lotus International Limited from 2005 to 2006. She was responsible for formulating and executing annual audit plan, performing operational and financial audit reviews and risk assessments on various key business processes, as well as internal control reviews and other consulting assignments within the group.

Prior to that, Miss Chin worked for Ernst & Young's Assurance & Advisory Business Services Department from 2001, where she was responsible for providing assurance services and conducting audit engagements to examine and attest clients' financial statements.

Miss Chin holds a Bachelor of Accounting and Finance degree from the University of Hong Kong. She is a member of the Hong Kong Institute of Certified Public Accountants and a Certified Internal Auditor with The Institute of Internal Auditors.

AU Ka Yee, Irene is the Legal & Compliance Manager of the Manager. She is responsible for ensuring that the Manager complies with the Trust Deed, the REIT Code, the Listing Rules, the Securities and Futures Ordinance, and other applicable laws, rules and regulation. She is also responsible for overseeing all legal issues arising from the operation of the Manager.

Prior to joining the Manager, Miss Au was a solicitor in private practice for over eight years. She holds a Bachelor of Laws degree and Postgraduate Certificate in Laws. Apart from being a solicitor of the Hong Kong Special Administrative Region, she is also an associate of the Chartered Institute of Arbitrators, East Asia Branch.

CHAN Kei Kin, Ken is the Asset Manager of the Manager. He is responsible for formulating the business plans of Prosperity REIT's properties with short, medium and long-term objectives, and with a view of maximizing the rental income of Prosperity REIT's properties via active asset management. Mr. Chan has over 10 years of experience in the real estate industry.

Prior to joining the Manager, he was the Assistant Marketing Manager for The Great Eagle Estate Agents Limited, responsible for the marketing and leasing of commercial buildings in Central and Wanchai districts.

Prior to that, Mr. Chan was the Senior Marketing Officer of Hutchison Whampoa Properties Limited from 2001 to 2005 and his duty was marketing and leasing of commercial buildings in Central and Hunghom districts. Mr. Chan began his career with Savills (Hong Kong) Limited as a Valuer from 1996 to 2001.

Mr. Chan holds a Master of Science degree in Finance from The Chinese University of Hong Kong and a Bachelor of Science degree in Surveying from The University of Hong Kong. He is a member of Hong Kong Institute of Surveyors and Royal Institution of Chartered Surveyors, and also a Registered Professional Surveyor (General Practice).

Responsible Officers

YIP Kam Thai is the Responsible Officer of the Manager. Details of his working experience are set out in the sub-section "Directors".

WONG Lai Hung, Mavis is the Responsible Officer of the Manager. Details of her working experience are set out in the sub-section "Executive Officers".

ANG Meng Huat, Anthony is the Responsible Officer of the Manager. Mr. Ang is also the director of ARA Private Real Estate Funds and the Fund Director of the ARA Asia Dragon Fund. Mr. Ang has 26 years of experience in international marketing and business development, general and operational management in manufacturing, venture capital and real

estate fund management. Mr. Ang was the Executive Vice President of GIC Real Estate Pte Ltd ("GICRE") where he was responsible for all corporate developments and services for GICRE's worldwide operations. Mr. Ang's other professional experiences included senior positions as the Executive Director of Majulah Connection Limited, a global business networking organization; Senior Vice President of Vertex Management, a leading global venture capital company; Executive Director and Group General Manager of Armstrong Industrial Corporation Limited, a Singapore listed group with over 15 regional manufacturing operations in several Asian countries. Mr. Ang started his career with the Singapore Economic Development Board where he served for 14 years, including 6 years in the USA as the Regional Director of their North American operations. Mr. Ang graduated with a MBA in 1982 from the European Institution of Business Administration (INSEAD) on a scholarship from the Singapore and French governments. He completed his B.Sc. (Mechanical Engineering) with First Class Honours from the Imperial College, London in 1979. He is a fellow of the Chartered Management Institute. Mr. Ang sits on the boards of Armstrong Industrial Corporation Limited and Ei-Nets Limited, both of which are public listed companies in Singapore.

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 emphasise 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, which sets out the key processes, systems and measures, and certain corporate governance policies and procedures to be applied for compliance with all applicable regulations and legislation. Set out below is a summary of the key components of the corporate governance policies that have been adopted and complied with by the Manager and Prosperity REIT.

Authorization Structure

Prosperity REIT is a collective investment scheme authorized by the Securities and Futures Commission (“SFC”) under section 104 of the Securities and Futures Ordinance (Cap. 571) (“SFO”) and regulated by the provisions of the Code on Real Estate Investment Trusts (“REIT Code”). The Manager has been licensed by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. Mr. Yip Kam Thai, the Acting Chief Executive Officer and Executive Director, Mr. Ang Meng Huat, Anthony and Miss Wong Lai Hung are the Responsible Officers of the Manager pursuant to the requirements of section 125 of the SFO and Chapter 5.4 of the REIT Code.

HSBC Institutional Trust Services (Asia) Limited (the “Trustee”) is registered as a trust company under section 77 of the Trustee Ordinance. The Trustee is qualified to act as a trustee for collective investment schemes authorized under the SFO pursuant to the REIT Code.

Roles of the Trustee and Manager

The Trustee and the Manager are independent of each other. The Trustee is responsible under the trust deed entered into by the Trustee and the Manager 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”) for the safe custody of the assets of Prosperity REIT on behalf of unitholders.

The Manager has general power of management over the assets of Prosperity REIT and shall act in the best interests of the unitholders in accordance with the REIT Code. The Manager’s role under the Trust Deed is to manage Prosperity REIT in accordance with the Trust Deed and, in particular, to ensure that the financial and economic aspects of Prosperity REIT’s assets are professionally managed in the sole interests of the unitholders. Other main roles and functions and responsibilities of the Manager include the following:

- (1) Setting the strategic direction and risk management policies of Prosperity REIT on acquisition, divestment or enhancement of assets of Prosperity REIT in accordance with its stated investment strategy.
- (2) Preparing various property plans on a regular basis to explain the performance of Prosperity REIT’s assets.
- (3) Ensuring compliance with the applicable provisions of the REIT Code, the SFO and all other relevant legislation, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), the Trust Deed, all other relevant legislation and all relevant contracts.
- (4) Attending to all regular communications with unitholders.

Corporate Governance

Board of Directors of the Manager

The Board 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 as set out in the Compliance Manual, the Board delegates certain management and supervisory functions to relevant management teams and committees of the Board.

With the aim of creating a board structure that is both effective and balanced, the size of the Board has been set to provide for a minimum of five Directors and a maximum of twenty Directors. Pursuant to the corporate governance policy adopted by the Manager, the Independent Non-executive Directors must fulfill the independence criteria set out in the Compliance Manual.

The composition of the Board is determined using the following principles:

- the Chairman of the Board must be a Non-executive Director of the Manager;
- the Chief Executive Officer must be a member of the Board;
- the Board must comprise Directors with a broad range of commercial experience including expertise in funds management and the property industry.

The composition will be reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience.

The Board presently comprises seven members, three of whom are Independent Non-executive Directors. All Directors (including Independent Non-executive 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.

The Manager has received written annual confirmation from each Independent Non-executive Director of his/her independence pursuant to the "Criteria for Independence of INEDs" as set out in the Compliance Manual.

Four full Board meetings of the Manager were held in 2007 and the attendance record of the Board meetings is as follows:

Members of the Board	Attendance
<i>Chairman and Non-Executive Director</i>	
Mr. Chiu Kwok Hung, Justin	4/4
<i>Chief Executive Officer and Executive Director</i>	
Mr. Lin Chung Sing, Charlie ⁽¹⁾	2/2
Mr. Yip Kam Thai ⁽²⁾ (<i>Acting Chief Executive Officer</i>)	2/2
<i>Non-Executive Directors</i>	
Mr. Lim Hwee Chiang	4/4
Mr. Ma Lai Chee, Gerald	4/4
<i>Independent Non-Executive Directors</i>	
Mr. Lan Hong Tsung, David	4/4
Mrs. Sng Sow-Mei @ Poon Sow Mei	4/4
Mr. Robert Douglas Pope	4/4

(1) Mr. Lin Chung Sing, Charlie resigned from the Board with effect from 1 July 2007

(2) Mr. Yip Kam Thai joined the Board with effect from 1 June 2007.

Appointment and Removal of Directors

The appointment and removal of Directors is a matter for the Board and the shareholders of the Manager to determine in accordance with the compliance manual, the Manager's articles of association and the applicable law. As the Manager is licensed by the SFC under Part V of the SFO, the appointment of an Executive Director who is or is to be appointed as a Responsible Officer requires the prior approval of the SFC.

Directors may be nominated for appointment and/or removed by the Board following a recommendation made by the Audit Committee. In considering persons for appointment and re-appointment as Directors, the Board will have regard to a number of matters as set out in the Compliance Manual in assessing whether such persons are fit and proper to be a Director.

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.

Corporate Governance

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 @ Poon Sow Mei, and Mr. Robert Douglas Pope. Mr. Lan Hong Tsung, David is the chairman of the Audit Committee. The Audit Committee shall meet on a half yearly basis.

The Audit Committee held two meetings in 2007 for considering and reviewing the 2006 final results, 2007 interim results and other internal controls, risk management and compliance matters of Prosperity REIT. The attendance record of the Audit Committee meetings is as follows:

Members of the Audit Committee	Attendance
Mr. Lan Hong Tsung, David	2/2
Mrs. Sng Sow-Mei @ Poon Sow Mei	2/2
Mr. Robert Douglas Pope	2/2

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.

The Audit Committee's responsibilities also include:

- (1) reviewing external audit reports to ensure that where deficiencies in internal controls have been identified, appropriate and prompt remedial action is taken by the management;
- (2) monitoring the procedures in place to ensure compliance with applicable legislation, the REIT Code and the Listing Rules;
- (3) reviewing all financial statements and all internal audit reports;
- (4) monitoring the procedures established to regulate connected party transactions, including ensuring compliance with the provisions of the REIT Code relating to transactions between Prosperity REIT and a "connected person" (as defined in the REIT Code); and
- (5) making recommendations to the Board on persons for appointment and reappointment as Directors to, and persons for removal as Directors from, the full Board.

Pursuant to the waiver from strict compliance with the requirement under Clause 9.13(b) of the REIT Code granted by the SFC, the Audit Committee confirms that the public relations-related expenses are incurred in accordance with the internal control procedures of the Manager and the nature of the same are incurred solely for the purposes as set out in Clauses 4.5.6 and 4.5.13 of the Trust Deed.

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 a Non-executive Director, Mr. Yip Kam Thai, 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. The Disclosures Committee shall meet on a half yearly basis and otherwise on an as-needed basis.

The Disclosures Committee held two meetings in 2007 for considering and reviewing the 2006 final results announcement and 2007 interim results announcement, the 2006 annual report and 2007 interim report of Prosperity REIT and other corporate disclosure issues of Prosperity REIT. The Disclosures Committee also reviewed all public announcements issued by Prosperity REIT throughout the year ended 31 December 2007. The attendance record of the Disclosures Committee meetings is as follows:

Members of the Disclosures Committee	Attendance
Mr. Chiu Kwok Hung, Justin	2/2
Mr. Lin Chung Sing, Charlie ⁽¹⁾	1/1
Mr. Yip Kam Thai ⁽²⁾	1/1
Mr. Lan Hong Tsung, David	2/2

(1) Mr. Lin Chung Sing, Charlie ceased to be a member of the Disclosures Committee with effect from 1 June 2007

(2) Mr. Yip Kam Thai was appointed as a member of the Disclosures Committee with effect from 1 June 2007.

The Disclosures Committee’s responsibilities also include:

- (1) reviewing and recommending to the Board on matters of corporate disclosure issues and announcements, financial reporting, connected party transactions, and potential areas of conflict of interests;
- (2) overseeing compliance with applicable legal requirements and the continuity, accuracy, clarity, completeness and currency of information disseminated by or on behalf of Prosperity REIT to the public and applicable regulatory agencies;
- (3) reviewing and approving all material non-public information and all public regulatory filings of or on behalf of Prosperity REIT prior to such information being disseminated to the public or filed with applicable regulatory agencies, as applicable; and
- (4) reviewing periodic and current reports, proxy statements, information statements, registration statements and other information filed with regulatory bodies.

Corporate Governance

Management of Business Risk

The Board will meet quarterly or more often if necessary and will review the financial performance of the Manager and Prosperity REIT against a previously approved budget. The Board has also reviewed any risks to assets of Prosperity REIT, examined liability management and will act upon any comments from the auditors of Prosperity REIT in respect of the Reporting Year.

The Manager has appointed experienced and well-qualified management to handle the day-to-day operations of the Manager and Prosperity REIT. In assessing business risk, the Board will consider the economic environment and the property industry risk. It will review management reports and feasibility studies on individual development projects prior to approving major transactions.

Conflicts of Interest

The Manager has instituted the following procedures to deal with conflicts of interest issues:

- (1) The Manager is a dedicated manager to Prosperity REIT and will not manage any other real estate investment trust or be involved in any other real property business.
- (2) All Executive Officers are employed by and/or seconded on a full time basis to the Manager.
- (3) All connected party transactions have been managed in accordance with the procedures set out in the Compliance Manual.

General Meetings

Prosperity REIT will in each year hold a general meeting as its annual general meeting in addition to any other meetings in that year. The Trustee or the Manager may at any time convene a meeting of unitholders. The Manager will also convene a meeting if requested in writing by not less than two unitholders registered as together holding not less than 10% of the issued and outstanding units. At least 14 days' notice of the meeting will be given to the unitholders, except that 21 days' notice will be given to the unitholders where a special resolution is proposed for consideration at such meeting, and the notice will specify the time and place of the meeting and the resolutions to be proposed.

Two or more unitholders present in person or by proxy registered as holding not less than 10% of the units for the time being in issue will form a quorum for the transaction of all business, except for the purpose of passing a special resolution. The quorum for passing a special resolution will be two or more unitholders present in person or by proxy registered as holding not less than 25% of the units in issue.

Reporting and Transparency

Prosperity REIT will prepare its accounts in accordance with Hong Kong generally accepted accounting principles with a financial year-end of 31 December and a financial half-year of 30 June. In accordance with the REIT Code, the annual report and interim report for Prosperity REIT will be published and sent to unitholders within four months of the end of each financial year and within two months of the end of each financial half-year respectively.

As required by the REIT Code, the Manager will ensure that public announcements of material information and developments with respect to Prosperity REIT will be made on a timely basis in order to keep unitholders apprised of the position of Prosperity REIT. Announcements will be made by publishing them on the website of Hong Kong Exchanges and Clearing Limited and the website of Prosperity REIT.

Directors' Responsibility for Accounts

The Directors acknowledge their responsibility for preparing the accounts for the year ended 31 December 2007. They are not aware of material uncertainties relating to events or conditions that may cast significant doubt upon the ability of Prosperity REIT to continue as a going concern.

The statement of the Auditors of Prosperity REIT about their reporting responsibilities on the accounts is set out in the Independent Auditors' Report.

Issues of Further Units Post-Listing

To minimize the possible material dilution of holdings of unitholders, any further issue of units will need to comply with the pre-emption provisions contained in the REIT Code. Such provisions require that further issues of units be first offered on a pro rata pre-emptive basis to existing unitholders except that units may be issued: (i) free of such pre-emption rights up to an aggregate maximum in any financial year of 20% of the number of units in issue at the end of the previous financial year; and (ii) free of pre-emption rights in other circumstances provided that the approval of unitholders by way of an ordinary resolution is obtained.

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 by the Directors or the Manager (collectively, the "Management Persons") (the "Units Dealing Code"). 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 as the Board may determine.

Pursuant to the Units Dealing Code, Management Persons wishing to deal in any securities of Prosperity REIT must first have regard to the provisions of Parts XIII and XIV of the SFO with respect to insider dealing and market misconduct, as if the SFO applies to the securities of Prosperity REIT. In addition, Management Persons must not make any unauthorized disclosure of confidential information or make any use of such information for the advantage of himself, itself or others.

Directors who are aware of or privy to any negotiations or agreements related to intended acquisitions or disposals which are significant transactions or any price-sensitive information must refrain from dealing in the units as soon as they become aware of them or privy to them until proper disclosure of the information in accordance with the REIT Code and any applicable Listing Rules is made. Directors who are privy to relevant negotiations or agreements or any price-sensitive information should caution those Directors who are not so privy that there may be unpublished price-sensitive information and that they must not deal in Prosperity REIT's securities for a similar period.

Similarly, where the Manager is in possession of any unpublished price-sensitive information, it must refrain from dealing in the unit as soon as it becomes aware of them or privy to them until proper disclosure of the information in accordance with the REIT Code and any applicable Listing Rules is made.

Corporate Governance

During the period commencing one month immediately preceding the earlier of the date of the Board meeting for the approval of Prosperity REIT's results for any period as required under the REIT Code and the deadline for Prosperity REIT to publish an announcement of its results for any period as required under the REIT Code, and ending on the date of the results announcement, a Director or the Manager must not deal in any units of Prosperity REIT unless the circumstances are exceptional for example, the exceptional circumstances as described in Appendix 10 Rule C14 of the Listing Rules. In any event, in the case of dealings by a Director or the Manager, the Directors or the Manager must comply with the procedures set out in the Units Dealing Code.

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 of disclosure of interests by Directors, the chief executive of the Manager, and the Manager. The provisions of Part XV of the SFO 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.

The Trust Deed contains provisions to deem the application of Part XV of the SFO. Accordingly, 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 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.

Matter to be decided by Unitholders by Special Resolution

Pursuant to the Trust Deed, decisions with respect to certain matters require specific prior approval of unitholders by way of special resolution. Such matters include: (i) change in the Manager's investment policies for Prosperity REIT; (ii) disposal of any land or an interest, option or right over any of the land forming part of the assets of Prosperity REIT or shares in any special purpose vehicles holding such land, option or right over any of the land for Prosperity REIT within two years of acquisition of such land; (iii) any increase in the rate above the permitted limit or change in structure of the Manager's management fees; (iv) any increase in the rate above the permitted limit or change in structure of the Trustee's fees; (v) certain modifications of the Trust Deed; (vi) termination of Prosperity REIT; and (vii) merger of Prosperity REIT. The unitholders may also, by way of special resolution (i) remove Prosperity REIT's auditors and appoint other auditors or (ii) remove the Trustee or the Manager. As stated above, the quorum for passing a special resolution is two or more unitholders present in person or by proxy registered as holding not less than 25% of the units in issue.

Compliance with the Compliance Manual

During the Reporting Year, both the Manager and Prosperity REIT had complied with the provisions of the Compliance Manual.

Review of Annual Report

The annual report of Prosperity REIT for the year ended 31 December 2007 has been reviewed by the Audit Committee and the Disclosures Committee.

Public Float of the Units

As far as the Manager is aware, more than 25% of the issued units of Prosperity REIT were held in public hands as of 31 December 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 paragraph 8.1 of the REIT Code:

Connected Party Transactions – Income

The following table sets forth information on all the connected party transactions from which Prosperity REIT derived its income during the year ended 31 December 2007:

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Rental and charge out collection (excluding rental deposit, if applicable) for the year ended 31 December 2007 HK\$	Rental deposit received as at 31 December 2007 HK\$
AMTD Financial Planning Limited	Subsidiary of a significant holder ¹	Tenancy of property of Prosperity REIT ³	2,037,091	539,374
e-Smart System Inc.	Subsidiary of a significant holder ¹	Tenancy of property of Prosperity REIT ⁴	646,019	191,259
Goodwell Property Management Limited	Subsidiary of a significant holder ¹	Tenancy of property of Prosperity REIT ⁵	989,680	323,472
Tremayne Investments Limited	Subsidiary of an associate of a significant holder ²	Tenancy of property of Prosperity REIT ⁶	16,024,788	see note 8
E-Park Parking Management Limited	Subsidiary of a significant holder ¹	Tenancy of property of Prosperity REIT ⁷	190,296	51,381
Total			19,887,874	1,105,486

1 Significant holder being 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 For Unit 2903, Modern Warehouse.

5 For 2/F, Units 306–7 & Unit 703, New Treasure Centre.

6 For 3/F, 5/F & 6/F, Harbourfront Landmark.

7 For Unit 306, Modern Warehouse.

8 By a bank guarantee of HK\$4,850,346 given by HWL.

Connected Party Transactions – Building Management Services

The following table sets forth information for the year 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 Party Transaction	Payment received/receivable for the year ended 31 December 2007 HK\$
Goodwell Property Management Limited ¹	Subsidiary of a significant holder ³	Remuneration of DMC Manager	177,446
Goodwell Property Management Limited ²	Subsidiary of a significant holder ³	Remuneration of Carpark Manager	7,099
Citybase Property Management Limited ¹	Subsidiary of a significant holder ³	Remuneration of DMC Manager	171,475
Citybase Property Management Limited ²	Subsidiary of a significant holder ³	Remuneration of Carpark Manager	46,793
Harbourfront Landmark Premium Services Limited ¹	Subsidiary of an associate of a significant holder ⁴	Remuneration of DMC Manager	68,539
Total			471,352

1 These managers appointed under the deed 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

Connected Party Transactions — 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 year:

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Expenses for the year ended 31 December 2007 HK\$
Goodwell Property Management Limited	Subsidiary of a significant holder ¹	Carpark lease agency fee	30,129
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder ¹	Property management and lease management fee	5,676,060
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder ¹	Marketing service fee	2,307,489
E-Park Parking Management Limited	Subsidiary of a significant holder ¹	Carpark lease agency fee	1,397,049
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee fee	1,498,824
ARA Asset Management (Prosperity) Limited	Manager	Base fee and variable fee	25,986,047
Cheung Kong Companies ²	Subsidiaries and associates of a significant holder ¹	Back-office support service fee	818,589
Total			37,714,187

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 year.

* 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 – Lease transactions under which the annual rent exceed HK\$1 million

Name of Connected Party (Tenant)	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Annual income ³ HK\$
Tremayne Investments Limited	Subsidiary of an associate of a significant holder ¹	Tenancy agreement for 3/F, 5/F & 6/F, Harbourfront Landmark	13,863,780
AMTD Financial Planning Limited	Subsidiary 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 been received for a 12-month period according to the relevant tenancy agreements.

Other Connected Party Transactions

The following companies had provided back-office services, carpark management services and property management services to Prosperity REIT for the year and hence amounts due from Prosperity REIT as at 31 December 2007:

Name of Connected Party	Amount payable HK\$
Goodwell-Prosperity Property Services Limited	1,290,156
Goodwell Property Management Limited	2,988,326
E-Park Parking Management Limited	224,924
Citybase Property Management Limited	1,400,279
Harbourfront Landmark Premium Services Limited	428,584
Total	6,332,269

Confirmation by the INEDs

The Independent Non-executive Directors confirm that they have reviewed the terms of all relevant connected party transactions including those connected party transactions with the HSBC Group and that they are satisfied that these transactions have been entered into:

- (a) in the ordinary and usual course of business of Prosperity REIT;
- (b) on normal commercial terms (to the extent that there are comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to Prosperity REIT than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement governing them (if any) on terms that are fair and reasonable and in the interests of the unitholders of Prosperity REIT as a whole.

Connected Party Transactions

Confirmation by the Auditor of Prosperity REIT

Pursuant to the waiver from strict compliance with disclosure requirement under Chapter 8 of the REIT Code, the Manager has engaged the auditor of the Prosperity REIT to perform certain factual finding procedures in respect of the connected transactions on the rental and charge out collection on leasing of properties, remuneration of DMC Manager/Carpark Manager, carpark lease agency fee, marketing service fee, back-office support service fee as well as property management and lease management fee for the year ended 31 December 2007 of Prosperity REIT in accordance with the Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has performed these procedures and reported to the Board of the Manager their factual findings.

Confirmation by the Manager and Trustee of corporate finance transaction with the HSBC Group

Both the Manager and the Trustee confirm that there is no corporate finance transaction and other connected transaction (save and except for those disclosed hereinabove) with the HSBC Group during the Reporting Year.

Repurchase 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 SFC from time to time. During the Reporting Year, other than the disposal of 15,527,000 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.

Holding of Connected Persons in the Units of Prosperity REIT

As at 31 December 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)	13.81%
Wide Option Investments Limited	98,883,559 (Note 2)	7.75%
HKSCC Nominees Limited	943,517,046 (Note 3)	73.92%
ARA Asset Management (Prosperity) Limited	116 (Note 4)	0.000009%

Holding of Connected Persons in the Units of Prosperity REIT (continued)

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 31 December 2007 is 1,276,453,338.*

As at 31 December 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 116 units as at 31 December 2007 by virtue of his 100% shareholding in JL Investment Group Limited, which holds one third or more of shareholding interest in a chain of corporations including ARA Asset Management (Holdings) Limited, which holds 100% shareholding interest in the Manager.

Save as disclosed above, the Manager is not aware of any connected persons (as defined under the REIT Code) of Prosperity REIT holding any units as at 31 December 2007.

So far as the Manager is aware:

- (a) Total Win Group Limited was beneficially interested in 176,328,129 units as at 31 December 2007 and 31 December 2006;
- (b) Wide Option Investments Limited was beneficially interested in 98,883,559 units as at 31 December 2007 and 31 December 2006; and
- (c) The Trustee, HSBC Institutional Trust Services (Asia) Limited, had no beneficial interest in any units as at 31 December 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 31 December 2007 and 31 December 2006.
- (d) The Manager, ARA Asset Management (Prosperity) Limited, had beneficial interest in 116 units as at 31 December 2007 and 974 units as at 31 December 2006.

Valuation Report

29 February 2008

HSBC Institutional Trust Services (Asia) Limited
(as Trustee of Prosperity REIT)
Level 30
HSBC Main Building
1 Queen's Road Central
Hong Kong

ARA Asset Management (Prosperity) Limited
(as Manager of Prosperity REIT)
Units 5508-5509, 55th Floor
The Center
99 Queen's Road Central
Hong Kong

Dear Sirs

- (1) Office Accommodation of The Metropolis, No. 10 Metropolis Drive, Hung Hom, Kowloon
- (2) Prosperity Millennia Plaza, No. 663 King's Road, North Point, Hong Kong
- (3) Commercial Units on 3rd, 5th and 6th Floors, Harbourfront Landmark, No. 11 Wan Hoi Street, Hung Hom, Kowloon
- (4) Modern Warehouse, No. 6 Shing Yip Street, Kwun Tong, Kowloon
- (5) Trendy Centre, No. 682 Castle Peak Road, Cheung Sha Wan, Kowloon
- (6) Various Portions in Prosperity Center, No. 25 Chong Yip Street, Kwun Tong, Kowloon
- (7) Various Portions in New Treasure Centre, No. 10 Ng Fong Street, San Po Kong, Kowloon

In accordance with your instructions for us to value the captioned properties owned by Prosperity REIT, we confirm that we have carried out inspections, made relevant searches and enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of each property as at 31 December 2007 for accounting purposes.

Our valuation is our opinion of the market value of the property which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale or purchase, and without offset for any associated taxes.

We have valued the properties on the basis of capitalization of the net income shown on schedules handed to us and, where appropriate, by reference to sales evidence as available on the market. We have allowed for outgoings and, in appropriate cases, made provisions for reversionary income potential.

In undertaking our valuation of the properties, Income Capitalization and Direct Comparison approaches are adopted. Income Capitalization approach is considered to be the most appropriate method to assess market value of leased property, particularly taking into consideration of the property's type of use, building age and condition. Apart from Income Capitalization approach, Direct Comparison approach is adopted for cross referencing purpose.

Income Capitalization

By this approach, the existing net rental income, i.e. rent exclusive of rates, government rents, management fees and other tenants' outgoings, of all lettable units of a property are capitalized for its unexpired term of contractual tenancies. Upon reversion, i.e. at the expiry of the existing tenancy, each unit is assumed to be let at its market rent as at the date of valuation, which is in turn capitalized for the unexpired term of the Government lease under which the property is held. The capitalized value for the term income and the capitalized value of the reversion income as appropriately deferred provides the market value of the property. Vacant units are assumed to be let at their respective market rent as at the date of valuation.

In the valuation, the market rentals of all lettable units of the property are assessed and capitalized at market yield expected by investors for this type of property. The market rentals are assessed by reference to the rentals achieved in other lettable units of the property as well as other lettings of similar properties in the neighbourhood. The capitalization rate adopted is made by reference to the yields derived from analysing the sales transactions and our knowledge of the market expectation from property investors. This expected return reflects implicitly the quality of the investment, the expectation of future rental growth and capital appreciation, risk factor and the like.

Direct Comparison

By this method, sales evidence of similar types of properties are collected and analyzed in terms of a price per square footage. The analyzed result of each comparable sale is adjusted to take account of the discrepancies between the property and the comparable sale and also the market movement over time between the date of sale and the date of valuation. Adjustment factors therefore may include time, location, accessibility, age, building quality and condition, facilities and the like.

However, there is limited transactions of en-bloc/bulk transactions in the vicinity. Comparison with market sales therefore also made reference to transactions of individual property of strata-title in the neighbourhood. Such sales evidences are collected, analyzed and adjusted to provide a check for the valuation arrived from Income Capitalization Approach.

We have relied to a very considerable extent on information given by you and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, lettings, site and floor areas and all other relevant matters. Dimensions, measurements and areas included in the valuation report are based on information contained in the documents and leases provided to us and are therefore only approximations.

Valuation Report

We have carried out land search to the properties valued. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us. We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of your legal advisers.

In performing our valuation, we have taken note of the legal issues relating to the leasehold title of the properties as set forth in the section headed “Material Agreements and other Documents Relating to Prosperity REIT — Information Regarding the Leasehold Title to the Properties — Certain Matters Relating to the Leasehold Title to the Properties” and in the section headed “Material Agreements and other Documents Relating to Prosperity REIT — Deed of Undertaking and Indemnity in relation to Prosperity Center Property, Trendy Centre and Modern Warehouse” in the Offering Circular of Prosperity REIT dated 5 December 2005.

No allowance has been made in our report for any charge, mortgage or amount owing on the properties. Unless otherwise stated, it is assumed that all properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

This report is for the use of the Manager, the Board of Directors of the Manager and the Trustee in connection with the annual valuation of the properties, as required under the Code on Real Estate Investment Trusts. No responsibility is accepted to any other party for the whole or any part of its contents.

We have inspected the properties (including the building facilities) where available for our access to. However, no structural survey has been made but, in the course of our inspection, we did not note any serious defect. We are not, however, able to report that the properties are free from rot, infestation or any other structural defect. No tests were carried out to any of the services.

We have relied upon the property data supplied by the Manager which we assume to be true and accurate. We take no responsibility for inaccurate data provided to us and subsequent conclusions derived from such data.

The reported analyses, opinions and conclusions are limited only by the reported assumptions and limiting conditions and are our personal, unbiased professional analyses, opinions and conclusions. We have no present or prospective interest in the properties and are not a related corporation of nor do we have a relationship with the Manager and the Trustee or other party/parties who Prosperity REIT is contracting with.

We hereby certify that our valuers undertaking this valuation are authorised to practise as valuers and have the necessary expertise and experience in valuing similar types of properties.

We have prepared this valuation report pursuant to Chapter 6.8 of the Code on Real Estate Investment Trusts and The HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors.

Our valuation report comprises this letter, the attached summary of values, valuation and market overview.

Yours faithfully
For and on behalf of
Knight Frank Petty Limited

Alex S L Ng
MRICS MHKIS RPS (GP)
Executive Director

Summary of Values

Property	Approximate Gross Area (sq.ft.)	No. of Parking Lots	Market Value in existing state as at 31 December 2007
1. The Metropolis Tower	271,418	98	HK\$1,970,000,000
2. Prosperity Millennia Plaza	217,955	43	HK\$1,080,000,000
3. Harbourfront Landmark Property	77,021	N/A	HK\$350,000,000
4. Modern Warehouse	240,000	60	HK\$609,000,000
5. Trendy Centre	173,764	79	HK\$568,000,000
6. Prosperity Center Property	149,253	105	HK\$482,000,000
7. New Treasure Centre Property	86,168	22	HK\$166,000,000
Total	1,215,579	407	HK\$5,225,000,000

Valuation

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2007	Estimated Net Property Yield
1. Office Accommodation of The Metropolis, No. 10 Metropolis Drive, Hung Hom, Kowloon 24,734/247,769th undivided parts or shares of and in Kowloon Inland Lot No. 11077	<p>The Metropolis Tower is a 15-storey office building comprising 11th to 28th Floors (13th, 14th and 24th Floors are omitted from floor numberings) built over a multi-storey retail/carparking podium erected on an irregular site with a registered site area of approximately 50,058.00 sq.m. (538,824 sq.ft.). The building was completed in 2001.</p> <p>The Metropolis Tower forms part of a comprehensive development (known as The Metropolis). The Metropolis also comprises a shopping centre (The Metropolis Mall), two 18-storey residential towers (The Metropolis Residence) and a 12-storey hotel (Harbour Plaza Metropolis).</p> <p>The property comprises the entire office units from 11th to 28th Floors of the building with a total gross area of approximately 25,215.35 sq.m. (271,418 sq.ft.). The total saleable area of the property is approximately 18,832.87 sq.m. (202,717 sq.ft.).</p> <p>The property also comprises 98 carparking spaces within the retail/carparking podium of the development.</p> <p>Kowloon Inland Lot No. 11077 is held under Conditions of Grant No. 12444 for a term from 14 February 1997 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the property.</p>	<p>The office portion of the property is let under various tenancies for various terms with the latest expiring in July 2010, yielding a total monthly rental income of approximately HK\$5,359,000 mostly exclusive of Government rates and rent, management fees and utility charges.</p> <p>The overall occupancy rate is approximately 99.3%.</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average monthly income of approximately HK\$224,000 from January 2007 to December 2007. The Government rates and rent, management fees and utility charges for the carparks are at the expenses of the landlord.</p>	HK\$1,970,000,000	3.4%

Valuation Report

Notes:

(1) The registered owners of the property are as follows:

Floor	Registered Owner
11/F and 6 carparking spaces	Wisdom Champion Limited
12/F and 6 carparking spaces	Wisdom Champion (12) Limited
15/F and 6 carparking spaces	Wisdom Champion (15) Limited
16/F and 6 carparking spaces	Wisdom Champion (16) Limited
17/F and 6 carparking spaces	Wisdom Champion (17) Limited
18/F and 6 carparking spaces	Wisdom Champion (18) Limited
19/F and 6 carparking spaces	Wisdom Champion (19) Limited
20/F and 7 carparking spaces	Wisdom Champion (20) Limited
21/F and 7 carparking spaces	Wisdom Champion (21) Limited
22/F and 7 carparking spaces	Wisdom Champion (22) Limited
23/F and 7 carparking spaces	Wisdom Champion (23) Limited
25/F and 7 carparking spaces	Wisdom Champion (25) Limited
26/F and 7 carparking spaces	Wisdom Champion (26) Limited
27/F and 7 carparking spaces	Wisdom Champion (27) Limited
28/F and 7 carparking spaces	Wisdom Champion (28) Limited

(2) The property is subject to a Mortgage in the consideration of all moneys and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.

(3) The property lies within an area zoned "Other Specified Uses (For "Commercial Development and Freight Yard " only)".

(4) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.

(5) Estimated net property yield is based on the net monthly rental income for December 2007 and the average monthly car parking income for the period of January 2007 to December 2007.

(6) The analysis of the existing tenancies is shown below:

Lease Commencement Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2005	9,625	3.6%	192,912	3.6%	7	7.7%
2006	187,652	69.6%	3,994,302	74.5%	49	53.8%
2007	72,271	26.8%	1,171,972	21.9%	35	38.5%
Total	269,548	100%	5,359,186	100%	91	100%

Lease Expiry Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2007	1,316	0.5%	22,372	0.4%	1	1.0%
2008	90,710	33.6%	1,551,189	28.9%	38	41.8%
2009	164,359	61.0%	3,509,909	65.5%	44	48.4%
2010	13,163	4.9%	275,716	5.2%	8	8.8%
Total	269,548	100%	5,359,186	100%	91	100%

Lease Duration Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
Below and up to 2 years	94,446	35%	1,644,844	30.70%	40	44%
More than 2 years and up to 3 years	175,102	65%	3,714,342	69.30%	51	56%
Total	269,548	100%	5,359,186	100%	91	100%

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2007	Estimated Net Property Yield
2. Prosperity Millennia Plaza, No. 663 King's Road, North Point, Hong Kong 3,741/10,000th undivided parts or shares of and in Inland Lot No. 8885	<p>Prosperity Millennia Plaza is a 32-storey office building (including 3 mechanical floors and a refuge floor) surmounting a 2-level basement carport erected on portion of a site with a registered site area of approximately 3,404.00 sq.m. (36,641 sq.ft.). The building was completed in 1999.</p> <p>The 2-level basement of the building is devoted to carparking and ancillary purposes. The 1st Floor of the building (Ground Floor is omitted from floor numbering) is designed for lobby and circulation purposes whereas the remaining upper floors from the 2nd to 32nd Floors (4th, 13th, 14th and 24th Floors are omitted from floor numberings) are for office uses.</p> <p>The property comprises the entire office units within the building with a total gross area of approximately 20,248.51 sq.m. (217,955 sq.ft.). The total saleable area of the property is approximately 14,551.28 sq.m. (156,630 sq.ft.).</p> <p>The property also comprises 43 carparking spaces within the 2-level basement of the building.</p> <p>Inland Lot No. 8885 is held under Conditions of Exchange No. 12374 for a term from 24 January 1996 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the property.</p>	<p>The office portion of the property is let under various tenancies for various terms with the latest expiring in October 2010, yielding a total monthly rental income of approximately HK\$2,994,000 mostly exclusive of Government rates and rent, management fees and utility charges.</p> <p>The overall occupancy rate is approximately 99.4%.</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average monthly income of approximately HK\$152,000 from January 2007 to December 2007. The Government rates and rent, management fees and utility charges for the carparks are at the expenses of the landlord.</p>	HK\$1,080,000,000	3.5%

Valuation Report

Notes:

- (1) The registered owner of the property is Conestoga Limited.
- (2) The property is subject to a Mortgage in the consideration of all moneys and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.
- (3) The property lies within an area zoned "Commercial".
- (4) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (5) Estimated net property yield is based on the net monthly rental for December 2007 and the average monthly car parking income for the period of January 2007 to December 2007.
- (6) According to the information provided, the building name of the property (ie "MLC Millennia Plaza") has been changed to "Prosperity Millennia Plaza".
- (7) The analysis of the existing tenancies is shown below:

Lease Commencement Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2005	23,507	10.8%	276,127	9.2%	9	12.2%
2006	124,385	57.4%	1,652,977	55.2%	32	43.2%
2007	68,823	31.8%	1,064,985	35.6%	33	44.6%
Total	216,715	100%	2,994,089	100%	74	100%

Lease Expiry Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2007	12,019	5.5%	151,295	5.1%	2	2.7%
2008	71,356	32.9%	1,005,028	33.6%	29	39.2%
2009	112,613	52.0%	1,554,746	51.9%	36	48.6%
2010	20,727	9.6%	283,020	9.4%	7	9.5%
Total	216,715	100%	2,994,089	100%	74	100%

Lease Duration Profile

Tenancy Duration	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
Below and up to 2 years	65,422	30.2%	1,010,170	33.7%	31	41.9%
More than 2 years and up to 3 years	151,293	69.8%	1,983,919	66.3%	43	58.1%
Total	216,715	100%	2,994,089	100%	74	100%

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2007	Estimated Net Property Yield
3. Commercial Units on 3rd, 5th and 6th Floors, Harbourfront Landmark, No. 11 Wan Hoi Street, Hung Hom, Kowloon 7,031/74,479th undivided parts or shares of and in Kowloon Inland Lot No. 11055	<p>Harbourfront Landmark is a deluxe residential/office development comprising three blocks of 50 to 60-storey residential towers built over a level of clubhouse, 3 levels of office podium plus 2 levels of carport (including a basement carport) erected on a site with a registered site area of approximately 7,402.00 sq.m. (79,675 sq.ft.). The building was completed in 2001.</p> <p>The Basement and the Lower 1st Floor of the development are designed for carparking purposes whilst the Upper 1st Floor is for lobby and circulation purposes. The 3rd to 6th Floor (4th Floor is omitted from floor numbering) are devoted to office uses whilst the 7th Floor of the development is a clubhouse. The remaining upper floors of the 3 residential towers are designed for domestic uses.</p> <p>The property comprises the three office floors within the development with a total gross area of approximately 7,155.43 sq.m. (77,021 sq.ft.). The total saleable area of the property is approximately 5,875.98 sq.m. (63,249 sq.ft.).</p> <p>Kowloon Inland Lot No. 11055 is held under Conditions of Sale No. 12460 for a term from 3 June 1997 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the property.</p>	The property is let under a tenancy for a term of 6 years from November 2005 at a monthly rent of HK\$1,155,315 for the 1st three years and HK\$1,386,378 for the remaining years exclusive of Government rates and rent, management fees and utility charges with an option to renew for a further term of 3 years.	HK\$350,000,000	4.0%

Notes:

- (1) The registered owner of the property is Harbour Champ Limited.
- (2) The property is subject to a Mortgage in the consideration of all moneys and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.
- (3) The property lies within an area zoned "Residential (Group A)".
- (4) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (5) Estimated net property yield is based on the estimated net monthly rental income for December 2007.

Valuation Report

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2007	Estimated Net Property Yield
4. Modern Warehouse, No. 6 Shing Yip Street, Kwun Tong, Kowloon Kun Tong Inland Lot No. 62	<p>Modern Warehouse is a 27-storey industrial/office building with ancillary parking and loading/unloading facilities erected on a rectangular site with a registered site area of approximately 1,858.06 sq.m. (20,000 sq.ft.). The building was completed in 1996.</p> <p>Portion of Ground Floor, 1st and 2nd Floors of the building are devoted to carparking and loading/unloading purposes whereas the remaining upper floors from 3rd to 29th Floors (4th, 14th and 24th Floors are omitted from floor numberings) are designed for workshop/office purposes.</p> <p>The property comprises the entire workshop/office units within the building with a total gross area of approximately 22,296.54 sq.m. (240,000 sq.ft.). The total saleable area of the property is approximately 14,754.09 sq.m. (158,813 sq.ft.).</p> <p>The property also consists of a total of 60 carparking spaces within the building.</p> <p>Kun Tong Inland Lot No. 62 is held under a Government lease for a term expiring on 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the property.</p>	<p>The workshop/office portion of the property is let under various tenancies for various terms with the latest expiring in August 2010, yielding a total monthly rental income of approximately HK\$2,041,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The overall occupancy rate is approximately 99.0% (including the leasing office).</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average monthly income of approximately HK\$249,000 from January 2007 to December 2007. The Government rates and rent, management fees and utility charges for the carparks are at the expenses of the landlord.</p>	HK\$609,000,000	4.5%

Notes:

- (1) The registered owner of the property is Bandick Limited.
- (2) The property is subject to a Mortgage in the consideration of all moneys and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.
- (3) The property lies within an area zoned "Other Specified Uses (For "Business" only)".
- (4) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (5) Estimated net property yield is based on the net monthly rental income for December 2007 and the average monthly car parking income for the period of January 2007 to December 2007.

(6) The analysis of the existing tenancies is shown below:

Lease Commencement Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2005	18,073	7.6%	154,137	7.6%	6	4.5%
2006	159,168	67.3%	1,323,732	64.8%	85	63.4%
2007	59,401	25.1%	563,447	27.6%	43	32.1%
Total	236,642	100.0%	2,041,316	100.0%	134	100.0%

Lease Expiry Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2007	11,774	5.0%	103,943	5.1%	6	4.5%
2008	97,395	41.1%	840,745	41.2%	57	42.5%
2009	112,560	47.6%	961,931	47.1%	63	47.0%
2010	14,913	6.3%	134,697	6.6%	8	6.0%
Total	236,642	100.0%	2,041,316	100.0%	134	100.0%

Lease Duration Profile

Tenancy Duration	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
Below and up to 2 years	71,444	30.2%	641,622	31.4%	49	36.6%
More than 2 years and up to 3 years	165,198	69.8%	1,399,694	68.6%	85	63.4%
Total	236,642	100.0%	2,041,316	100.0%	134	100.0%

Note: The above analysis excludes leasing office 956 sq.ft.

Valuation Report

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2007	Estimated Net Property Yield
5. Trendy Centre, No. 682 Castle Peak Road, Cheung Sha Wan, Kowloon	Trendy Centre is a 30-storey industrial/office building with ancillary parking and loading/unloading facilities erected on a rectangular site with a registered site area of approximately 1,393.50 sq.m. (15,000 sq.ft.). The building was completed in 1998.	The industrial/office portion of the property is let under various tenancies for various terms with the latest expiring in July 2010, yielding a total monthly rental income of approximately HK\$1,905,000 exclusive of Government rates and rent, management fees and utility charges.	HK\$568,000,000	4.6%
New Kowloon Inland Lot No. 6224	<p>Portion of Ground Floor and 1st to 3rd Floors of the building are devoted to carparking and/or loading/unloading purposes whereas the remaining portion of Ground Floor is for shop use. The upper floors from the 5th to 10th Floors (4th Floor is omitted from floor numbering) are designed for showroom use and the remaining floors from 11th to 33rd Floors (13th, 14th and 24th Floors are omitted from floor numberings) are designed for industrial/office purposes.</p> <p>The property comprises the entire units within the building with a total gross area of approximately 16,143.07 sq.m. (173,764 sq.ft.). The total saleable area of the property is approximately 10,934.23 sq.m. (117,696 sq.ft.).</p> <p>The property also comprises 79 carparking spaces within the building.</p> <p>New Kowloon Inland Lot No. 6224 is held under Conditions of Exchange No. 12399 for a term from 24 July 1996 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the property.</p>	<p>The overall occupancy rate is approximately 95.1% (including the leasing office).</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average monthly income of approximately HK\$283,000 from January 2007 to December 2007. The Government rates and rent, management fees and utility charges for the carparks are at the expenses of the landlord.</p>		

Notes:

- (1) The registered owner of the property is Top Easy Profits Limited.
- (2) The property is subject to a Mortgage in the consideration of all moneys and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.
- (3) The property lies within an area zoned "Other Specified Uses (For "Business" Only)".

- (4) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (5) Estimated net property yield is based on the net monthly rental for December 2007 and the average monthly car parking income for the period of January 2007 to December 2007.
- (6) The analysis of the existing tenancies is shown below:

Lease Commencement Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2005	5,493	3.3%	50,776	2.7%	4	2.8%
2006	72,157	43.9%	860,132	45.1%	62	44.3%
2007	86,860	52.8%	994,551	52.2%	74	52.9%
Total	164,510	100.0%	1,905,459	100.0%	140	100.0%

Lease Expiry Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2007	5,493	3.3%	50,776	2.7%	4	2.8%
2008	43,539	26.5%	473,041	24.8%	42	30.0%
2009	99,832	60.7%	1,211,834	63.6%	88	62.9%
2010	15,646	9.5%	169,808	8.9%	6	4.3%
Total	164,510	100%	1,905,459	100.0%	140	100.0%

Lease Duration Profile

Tenancy Duration	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
Below and up to 2 years	52,285	31.8%	587,105	30.8%	53	37.9%
More than 2 years and up to 3 years	112,225	68.2%	1,318,354	69.2%	87	62.1%
Total	164,510	100.0%	1,905,459	100.0%	140	100.0%

Note: The above analysis excludes leasing office 685 sq.ft..

Valuation Report

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2007	Estimated Net Property Yield
6. Various Portions in Prosperity Center, No. 25 Chong Yip Street, Kwun Tong, Kowloon (See note (1))	Prosperity Center is a 26-storey industrial/office building with ancillary parking and loading/unloading facilities erected on a site with registered site area of approximately 1,889.00 sq.m. (20,333 sq.ft.), completed in 1999.	The office/workshop portion of the property is let under various tenancies for various terms with the latest expiring in July 2010, yielding a total monthly rental income of approximately HK\$1,668,000 exclusive of Government rates and rent, management fees and utility charges.	HK\$482,000,000	4.8%
12,014/22,510th undivided parts or shares of and in Kwun Tong Inland Lot No. 729	<p>Portion of Ground Floor, 2nd to 5th Floors of the building (1st Floor and 4th Floor are omitted from floor numberings) are devoted to carparking or loading/unloading purposes whereas the remaining portion of Ground Floor and upper floors from 6th to 30th Floors (13th, 14th and 24th Floors are omitted from floor numberings) are designed for office/workshop purposes.</p> <p>The property comprises various office/workshop units and retained areas within the building with a total gross area of approximately 13,865.94 sq.m. (149,253 sq.ft.). The total saleable area of the property is approximately 10,095.60 sq.m. (108,669 sq.ft.).</p> <p>The property also consists of a total of 105 carparking spaces comprising 91 private carparking spaces, 13 lorry parking spaces and 1 container parking space within the building.</p> <p>Kwun Tong Inland Lot No. 729 is held under Conditions of Exchange No. 12317 for a term from 6 August 1994 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the property.</p>	<p>The overall occupancy rate is approximately 100%.</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average monthly income of approximately HK\$274,000 from January 2007 to December 2007. The Government rates and rent, management fees and utility charges for the carparks are at the expenses of the landlord.</p>		

Notes:

- (1) The property comprises Units G01, G02, G03, G05 and G06 on Ground Floor, Units 601–610 on 6th Floor, the whole of 7th Floor, 801–810 on 8th Floor, 901–910 on 9th Floor, 1001–1010 on 10th Floor, 1101–1110 on 11th Floor, 1201–1210 on 12th Floor, 1501–1510 on 15th Floor, 1701 and 1707–1710 on 17th Floor, 1801–1810 on 18th Floor, 1901–1910 on 19th Floor, 2007–2010 on 20th Floor, 2310 on 23rd Floor, 2601–2603, 2605 and 2607–2610 on 26th Floor, 2701–2706 and 2708–2710 on 27th Floor, 2805–2806 on 28th Floor, 2901–2907 on 29th Floor (Unit No. 04 is omitted in each floor), the Retained Areas on 6th Floor, 8th–12th Floors, 15th–16th Floors, 18th–19th Floors, 23rd Floor, 25th–27th Floors and 105 carparking spaces, Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon.
- (2) The registered owner of the property is Prodes Company Limited and the beneficial owner of the property is Winrise Champion Limited.
- (3) The property is subject to a Mortgage in the consideration of all moneys and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation. (Excluding units 1001–1010 on 10th Floor and units 2601–2603 and 2605 on 26th Floor)
- (4) The property lies within an area zoned "Other Specified Uses (For "Business" only)".
- (5) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (6) Estimated net property yield is based on the net monthly rental income for December 2007 and the average monthly car parking income for the period of January 2007 to December 2007.
- (7) The analysis of the existing tenancies is shown below:

Lease Commencement Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2005	3,113	2.1%	39,527	2.4%	3	4.4%
2006	85,626	57.4%	904,976	54.2%	39	56.5%
2007	60,514	40.5%	723,664	43.4%	27	39.1%
Total	149,253	100.0%	1,668,167	100.0%	69	100.0%

Lease Expiry Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2007	789	0.5%	14,991	0.9%	1	1.5%
2008	34,601	23.2%	378,525	22.7%	17	24.6%
2009	78,881	52.9%	861,256	51.6%	39	56.5%
2010	34,982	23.4%	413,395	24.8%	12	17.4%
Total	149,253	100.0%	1,668,167	100.0%	69	100.0%

Lease Duration Profile

Tenancy Duration	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
Below and up to 2 years	27,201	18.2%	302,664	18.1%	11	15.9%
More than 2 years and up to 3 years	122,052	81.8%	1,365,503	81.9%	58	84.1%
Total	149,253	100.0%	1,668,167	100.0%	69	100.0%

Valuation Report

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2007	Estimated Net Property Yield
7. Various Portions in New Treasure Centre, No. 10 Ng Fong Street, San Po Kong, Kowloon (See note (1))	New Treasure Centre is a 30-storey industrial building (including a Mezzanine Floor) with ancillary parking and loading/unloading facilities erected on a rectangular site with a registered site area of approximately 1,304.35 sq.m. (14,040 sq.ft.). The building was completed in 1995.	The factory portion of the property is let under various tenancies for various terms with the latest expiring in July 2010, yielding a total monthly rental income of approximately HK\$623,000 exclusive of Government rates and rent, management fees and utility charges.	HK\$166,000,000	5.3%
11,163/26,198th undivided parts or shares of and in New Kowloon Inland Lot No. 4864	<p>Portion of Ground Floor and Mezzanine of the building are devoted to carparking and/or loading/unloading purposes whereas the remaining upper floors from 1st to 31st Floors (4th, 14th and 24th Floors are omitted from floor numberings) are designed for factory purposes.</p> <p>The property comprises the various factory units within the building with a total gross area of approximately 8,005.20 sq.m. (86,168 sq.ft.). The total saleable area of the property is approximately 5,947.70 sq.m. (64,021 sq.ft.).</p> <p>The property also consists of flat roof areas on the 1st Floor with a total area of approximately 401.99 sq.m. (4,327 sq.ft.) and 22 carparking spaces within the building.</p> <p>New Kowloon Inland Lot No. 4864 is held under a Government lease for a term expiring on 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the property.</p>	<p>The overall occupancy rate is approximately 95.9%.</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average monthly income of approximately HK\$111,000 from January 2007 to December 2007. The Government rates and rent, management fees and utility charges for the carparks are at the expenses of the landlord.</p>		

Notes:

- (1) The property comprises Units 101 (and portion of Flat Roof adjacent thereto), 103 (and portion of Flat Roof adjacent thereto) and 107 on 1st Floor, 201–203, 205–207 on 2nd Floor, 301–303, 306 and 307 on 3rd Floor, 501–503, 505–507 on 5th Floor, 603, 606 and 607 on 6th Floor, 703 on 7th Floor, 801–803, 806 and 807 on 8th Floor, 1005 on 10th Floor, 1201–1203, 1205 and 1207 on 12th Floor, 1302, 1303 and 1306 on 13th Floor, 1506 and 1507 on 15th Floor, 1602, 1603, 1605 and 1607 on 16th Floor, 1702, 1703, 1705–1707 on 17th Floor, 1801–1803 and 1805–1807 on 18th Floor, 2202, 2203 and 2205 on 22nd Floor, 2301–2303, 2306 and 2307 on 23rd Floor, 2706 and 2707 on 27th Floor, 2803 on 28th Floor, 2903, 2906 and 2907 on 29th Floor and 22 carparking spaces, New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon.

- (2) *The registered owner of the property is Haskins Investments Limited.*
- (3) *The property is subject to a Mortgage in the consideration of all moneys and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.*
- (4) *The property lies within an area zoned "Other Specified Uses (For "Business" only).*
- (5) *In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.*
- (6) *Estimated net property yield is based on the net monthly rental for December 2007 and the average monthly car parking income for the period of January 2007 to December 2007.*
- (7) *The analysis of the existing tenancies is shown below:*

Lease Commencement Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2005	2,498	3.0%	17,628	2.8%	2	3.8%
2006	29,727	36.0%	215,501	34.6%	20	38.5%
2007	50,440	61.0%	389,451	62.6%	30	57.7%
Total	82,665	100%	622,580	100.0%	52	100.0%

Lease Expiry Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2007	1,267	1.5%	9,503	1.5%	1	1.9%
2008	24,114	29.2%	176,118	28.3%	17	32.7%
2009	42,391	51.3%	331,051	53.2%	29	55.8%
2010	14,893	18.0%	105,908	17.0%	5	9.6%
Total	82,665	100%	622,580	100.0%	52	100.0%

Lease Duration Profile

Tenancy Duration	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
Below and up to 2 years	42,213	51.1%	328,272	52.7%	28	53.8%
More than 2 years and up to 3 years	40,452	48.9%	294,308	47.3%	24	46.2%
Total	82,665	100%	622,580	100.0%	52	100.0%

Valuation Report

Market Overview

Office

According to the HK Property Review 2007 issued by The Rating and Valuation Department (RVD), the total new Grade A office area, to be completed in 2007 and 2008, are estimated to be 2,246,000 sq.ft. and 3,457,000 sq.ft. respectively. The new stock mainly comes from non-core districts like Yau Tsim Mong and Kowloon East; and only 2% of which from the core districts. Hong Kong East and Kwun Tong would account for about 83% of all Grade A office space completed in 2008. The Landmark East project in Kwun Tong, having an area of 1.2 million sq.ft., is scheduled for completion in mid-2008. Pre-lease of International Commercial Centre (ICC) Phase 2 in West Kowloon has already commenced. In Central, the redevelopment of Ritz Carlton Hotel will provide about 225,000 sq.ft. office space in the future.

The tight supply in Central encourages continual decentralization of tenants, resulted in a drop of vacancy rate in the non-core areas in the second half of 2007. For instance, One Kowloon in Kowloon Bay has almost achieved full occupancy; Phase 1 of ICC has been fully pre-let; less than 30% of One Island East remains available for lease. According to Knight Frank's office market research, the vacancy rates of Grade A offices in Tsim Sha Tsui and Causeway Bay stand at about 3.9% and 3.1% respectively, while that of Wan Chai and Quarry Bay have dropped to about 2% in December 2007. It is anticipated that office decentralization will continue in 2008 especially for those cost-sensitive companies.

Grade A office rental on Hong Kong Island however recorded a growth of about 30% in 2007. And the fast absorption rate of ICC and One Island East has made a positive outlook of office rentals in non-core districts.

Industrial and Industrial/Office

According to the statistics published by the Census and Statistics Department, the volume of import goods in November 2007 has increased by 9.6% comparing with November 2006; whilst the Hong Kong's re-exports of goods increased by 5% in November 2007 over the same period in 2006. As a whole, the volume of total exports of goods increased continuously by 8.5% on year-on-year basis. As a result of the buoyant export performance, there is a rising demand for industrial floor spaces.

In accordance with the RVD statistics, at the end of 2006, the total stock for godown is estimated at 3,430,100 sq.m. on internal floor area whereas no new supply in 2007 and only 5,300 sq.m. new supply of godown spaces are estimated in 2008. The total stock for factories is recorded at 17,396,500 sq.m. and was distributed evenly between the urban area and the New Territories. Whilst, the only new supply of factories in 2007 will be in Wong Tai Sin district with internal floor area of about 15,700 sq.m.. New completions of 72,700 sq.m. are expected to be available in 2008, of which three quarters would be in Kwun Tong. The total stock for industrial/office is recorded at 612,800 sq.m. with no supply in 2007. New completion of 4,300 sq.m. of industrial/office is forecast in Kwun Tong in 2008. The vacancy rates for godown, factories and industrial/office are 3%, 7.2% and 6.9% of the stock respectively.

In view of the persistent improvement on industrial market together with the forecasted limited new supply of industrial premises and active investment activities, the general industrial property market is expected to remain stable in the first half of 2008.

Report of the Trustee

We hereby confirm that, in our opinion, the manager of Prosperity Real Estate Investment Trust has, in all material respects, managed Prosperity Real Estate Investment Trust in accordance with the provisions of the Trust Deed dated 29 November 2005, as amended by the First Supplemental Deed dated 12 December 2005 and the Second Supplemental Deed dated 15 May 2007 for the financial year ended 31 December 2007.

HSBC Institutional Trust Services (Asia) Limited
in its capacity as the trustee of Prosperity Real Estate Investment Trust
Hong Kong, 12 March 2008

Independent Auditor's Report



TO THE UNITHOLDERS OF
PROSPERITY REAL ESTATE INVESTMENT TRUST

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

We have audited the consolidated financial statements of Prosperity Real Estate Investment Trust ("Prosperity REIT") and its subsidiaries (collectively referred to as the "Group") set out on pages 72 to 96, which comprise the consolidated balance sheet as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in net assets attributable to unitholders, the consolidated cash flow statement and the distribution statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Manager's responsibility for the consolidated financial statements

The Manager of Prosperity REIT is responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the relevant provisions of the Trust Deed dated 29 November 2005, as amended by the First Supplemental Deed dated 12 December 2005 and the Second Supplemental Deed dated 15 May 2007 (collectively referred to as the "Trust Deed") and the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts (the "Code") issued by the Securities and Futures Commission of Hong Kong. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Appendix C of the Code, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the disposition of the assets and liabilities of the Group as at 31 December 2007 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the Code.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

12 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 HK\$'000	2006 HK\$'000
Revenue	5	244,628	217,127
Property management fees		(5,676)	(4,988)
Property operating expenses	6	(46,172)	(44,604)
Total property operating expenses		(51,848)	(49,592)
Net property income		192,780	167,535
Interest income		693	2,265
Manager's fee		(25,986)	(24,104)
Trust and other expenses	7	(10,379)	(11,297)
Increase in fair value of investment properties		309,837	316,000
Finance costs	8	(85,931)	(82,244)
Profit before taxation and transactions with unitholders		381,014	368,155
Taxation	9	(54,002)	(57,411)
Profit for the year, before transactions with unitholders		327,012	310,744
Distribution to unitholders		(165,727)	(151,549)
Change in net assets attributable to unitholders		161,285	159,195
Income available for distribution for unitholders		165,727	151,549
Earnings per unit and diluted earnings per unit (HK\$)	10	0.26	0.25

Distribution Statement

For the year ended 31 December 2007

	2007 HK\$'000	2006 HK\$'000
Profit for the year, before transactions with unitholders	327,012	310,744
Adjustments for non-cash items:		
Manager's fee	25,875	24,104
Increase in fair value of investment properties	(309,837)	(316,000)
Finance costs	68,675	74,998
Deferred tax	54,002	57,703
Income available for distribution (note (i))	165,727	151,549
Distributions to unitholders:		
HK\$0.0639 (2006: HK\$0.0577) per unit for the six month ended 30 June (note (ii))	81,331	72,636
HK\$0.0659 (2006: HK\$0.0624) per unit for the six month ended 31 December (note (iii))	84,396	78,913
	165,727	151,549
Distribution per unit (HK\$)	0.1298	0.1201

Notes:

(i) These adjustments for the current year include:

- (a) managers fee paid in units of HK\$25,875,000 out of the total managers fee of HK\$25,986,000 (the difference of HK\$111,000 are paid in cash);
- (b) increase in fair value of investment properties of HK\$309,837,000;
- (c) the difference between the accounting finance cost of HK\$85,931,000 less cash finance cost of HK\$17,256,000; and
- (d) deferred tax of HK\$54,002,000.

In accordance with the Trust Deed, Prosperity REIT is required to distribute to unitholders not less than 90% of its distributable income for each financial period and it is the Manager's stated policy to distribute 100% of the distributable income. Pursuant to the Trust Deed, distributable income is defined as the amount calculated by the Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial year, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) which have been recorded in the income statement for the relevant financial year.

- (ii) The distribution per unit of HK\$0.0639 (2006: HK\$0.0577) for the half year ended 30 June 2007 is calculated based on Prosperity REIT's income available for distribution of HK\$81,331,000 (2006: HK\$72,636,000) over 1,272,267,245 units (2006: 1,257,494,730 units), as at 30 June 2007 plus the number of units issued after the distribution period to the Manager as manager's fee for its service in the second quarter of 2007. The distribution was paid to unitholders on 26 October 2007.
- (iii) The distribution per unit of HK\$0.0659 (2006: HK\$0.0624) for the half year ended 31 December 2007 is calculated based on Prosperity REIT's income available for distribution of HK\$84,396,000 (2006: HK\$78,913,000) over 1,280,666,612 units (2006: 1,264,613,795 units), as at 31 December 2007 plus the number of units issued after the distribution period to the Manager as manager's fee for its service in the last quarter of the relevant distribution year.

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 HK\$'000	2006 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	11	5,225,000	4,864,000
Derivative financial instruments	12	108,288	190,375
Total non-current assets		5,333,288	5,054,375
Current assets			
Trade and other receivables	13	7,856	7,855
Purchase deposit for investment properties		—	4,115
Tax recoverable		302	609
Bank balances and cash	14	23,854	41,737
Total current assets		32,012	54,316
Total assets		5,365,300	5,108,691
Non-current liabilities, excluding net assets attributable to unitholders			
Secured term loan	15	1,758,266	1,754,996
Deferred tax liabilities	16	250,548	196,546
Total non-current liabilities, excluding net assets attributable to unitholders		2,008,814	1,951,542
Current liabilities			
Trade and other payables	17	95,986	74,790
Amount due to related companies	18	6,332	9,434
Secured revolving loan	15	25,000	20,000
Manager's fee payable		6,719	6,264
Distribution payable		84,396	78,913
Total current liabilities		218,433	189,401
Total liabilities, excluding net assets attributable to unitholders		2,227,247	2,140,943
Net assets attributable to unitholders		3,138,053	2,967,748
Units in issue ('000)	19	1,276,453	1,260,927
Net asset value per unit (HK\$) attributable to unitholders	20	2.50	2.38

The financial statements on pages 72 to 96 were approved and authorised for issue by the Manager on 12 March 2008 and were signed on its behalf by:

Chiu Kwok Hung, Justin

Yip Kam Thai

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 31 December 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	2,720,789	(91,278)	(31,609)	369,846	2,967,748
OPERATIONS					
Profit for the year, before transactions with unitholders	—	—	—	327,012	327,012
Net adjustment to cashflow hedging reserve, representing expense recognised directly in statement of changes in net assets	—	—	(16,431)	—	(16,431)
Total income (expense) for the year, before transactions with unitholders	—	—	(16,431)	327,012	310,581
UNITHOLDERS' TRANSACTIONS					
Unit issued to Manager	25,451	—	—	—	25,451
Distribution paid and payable	—	—	—	(165,727)	(165,727)
Increase (decrease) in net assets resulting from unitholders' transactions	25,451	—	—	(165,727)	(140,276)
Net assets attributable to unitholders as at 31 December 2007	2,746,240	(91,278)	(48,040)	531,131	3,138,053

For the year ended 31 December 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	2,702,078	(91,278)	(11,196)	210,651	2,810,255
OPERATIONS					
Profit for the year, before transactions with unitholders	—	—	—	310,744	310,744
Net adjustment to cashflow hedging reserve, representing expense recognised directly in statement of changes in net assets	—	—	(20,413)	—	(20,413)
Total income (expense) for the year, before transactions with unitholders	—	—	(20,413)	310,744	290,331
UNITHOLDERS' TRANSACTIONS					
Unit issued to Manager	18,711	—	—	—	18,711
Distribution paid and payable	—	—	—	(151,549)	(151,549)
Increase (decrease) in net assets resulting from unitholders' transactions	18,711	—	—	(151,549)	(132,838)
Net assets attributable to unitholders as at 31 December 2006	2,720,789	(91,278)	(31,609)	369,846	2,967,748

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	Note	2007 HK\$'000	2006 HK\$'000
Operating activities			
Profit before taxation and transactions with unitholders		381,014	368,155
Adjustments for:			
Allowance for doubtful debts		31	65
Manager's fees		25,875	24,104
Increase in fair value of investment properties		(309,837)	(316,000)
Interest income		(693)	(2,265)
Finance costs		85,931	82,244
Operating cashflow before working capital changes		182,321	156,303
Decrease in amount due from related companies		—	11,458
(Decrease) increase in amount due to related companies		(3,102)	9,434
(Increase) decrease in trade and other receivables		(32)	24,902
Increase in trade and other payables		21,196	4,788
Increase in manager's fee payable		31	—
Cash generated from operations		200,414	206,885
Income tax refund (paid)		307	(998)
Net cash from operating activities		200,721	205,887
Investing activities			
Interest received		693	2,265
Deposit paid for acquisition of investment properties		—	(4,115)
Acquisition of investment properties		(39,288)	—
Additional expenditure to investment properties		(7,760)	—
Net cash used in investing activities		(46,355)	(1,850)
Financing activities			
Issue cost paid		—	(32,472)
Drawdown (repayment) of secured revolving loan		5,000	(110,000)
Interest payment of term loan and revolving loan		(17,005)	(7,042)
Distribution to unitholders		(160,244)	(101,675)
Net cash used in financing activities		(172,249)	(251,189)
Net decrease in cash and cash equivalents		(17,883)	(47,152)
Cash and cash equivalents at beginning of the year		41,737	88,889
Cash and cash equivalents at end of year, represented by bank balances and cash		23,854	41,737

Notes to the Financial Statements

For the year ended 31 December 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 (the “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 and a 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 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 addresses of the registered office of the Manager and the Trustee are Units 5508–5509, 55 Floor, The Center, 99 Queen’s Road Central, Hong Kong and 1 Queen’s Road Central, Hong Kong, respectively.

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

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*

Under the Property Management Agreement, the Property Manager, Goodwell-Prosperity Property Services Limited, will receive from each of the property holding subsidiaries 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 carpark income.

(b) *Marketing services*

For the marketing services, the property holding subsidiaries 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.

Notes to the Financial Statements

For the year ended 31 December 2007

1 General (continued)

(c) Trustee's fees

The Trustee is entitled to receive a 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.

(d) 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

The Manager will receive a base fee from Prosperity REIT at 0.4% per annum on the value of the properties on a quarterly basis. 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 the HKSE. Thereafter, the Manager may elect whether the base fee is to be paid in cash or in units.

Variable fee

The Manager will receive from each property holding subsidiary a variable fee of 3% of its net property income (before deduction therefrom the base fee and variable fee) on a quarterly basis. The variable fee will be paid in units during the first five years after the units are listed on the 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 Application of New And Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Accountants (the "HKICPA"), which are effective for the Group's financial year beginning from 1 January 2007.

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives
HK(IFRIC)-Int 10	Interim Financial Reporting and Impairment

The adoption of the new HKFRSs has resulted in changes to the Group's financial statements in the following areas:

The Group has applied the disclosure requirements under HKAS 1 (Amendment) and HKFRS 7 retrospectively. Certain information presented in prior year under the requirements of HKAS 32 has been removed and the relevant comparative information based on the requirements of HKAS 1 (Amendment) and HKFRS 7 has been presented for the first time in the current year.

2 Application of New And Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

The Group has not early adopted the following new and revised standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements ¹
HKAS 23 (Revised)	Borrowing costs ¹
HKFRS 8	Operating Segments ¹
HK(IFRIC)-Int 11	HKFRS 2-Group and Treasury Share Transactions ²
HK(IFRIC)-Int 12	Service Concession Arrangements ³
HK(IFRIC)-Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC)-Int 14	HKAS 19 — The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

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

² Effective for annual periods beginning on or after 1 March 2007.

³ Effective for annual periods beginning on or after 1 January 2008.

⁴ Effective for annual periods beginning on or after 1 July 2008.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3 Significant 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 HKICPA. In addition, the financial statements include the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts issued by the Securities and Future Commission and the Rules Governing the Listing of Securities on the HKSE.

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

(b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Prosperity REIT and the subsidiaries controlled by Prosperity REIT. Control is achieved where Prosperity REIT has the power to govern the financial and operating policies of the subsidiaries so as to obtain benefits from their activities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated 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.

(c) Investment properties

Investment properties are properties held to earn rentals and for capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

Notes to the Financial Statements

For the year ended 31 December 2007

3 Significant Accounting Policies *(continued)*

(d) 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 are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

Financial assets

The Group's financial assets are classified into loans and receivables. Loans and receivables 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 (including trade and other receivables and bank balances and cash) 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.

For certain categories of financial asset, such as trade and other receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio and observable changes in national or local economic conditions that correlate with default on receivables.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) or payment through the expected life of the financial asset or liability, or, where appropriate, a shorter period.

The carrying amount of the loans and receivables is reduced by the impairment loss through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent 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

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

In accordance with the Trust Deed, Prosperity REIT has a limited life of 80 years less one day from the date of commencement of Prosperity REIT. Accordingly, the units contain a contractual obligation upon the termination of Prosperity REIT to distribute a share of all net cash proceeds derived from the sale or realisation of the assets of Prosperity REIT less any liabilities to its unitholders, in accordance with their proportionate interests in Prosperity REIT at the date of its termination. The unitholders' funds are therefore classified as financial liabilities in accordance with Hong Kong Accounting Standard 32: Financial Instruments: Presentation. It is presented on the balance sheet as net assets attributable to existing unitholders.

3 Significant Accounting Policies *(continued)*

(d) Financial instruments (continued)

Financial liabilities *(continued)*

Financial liabilities, excluding Prosperity REIT's obligation to return the net assets attributable to the unitholders on termination of Prosperity REIT, include trade and other payables, amount due to related companies and borrowings. They are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Group uses interest rate swaps to hedge its exposure against changes in interest rates. Hedging relationships are classified as cash flow hedges when such relationships are used to hedge against exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability and such variability could affect profit or loss.

At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as other gains or losses.

Amounts deferred in hedging reserve are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in the hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred is recognised immediately in profit or loss. The hedging reserve is presented as a separate item in the consolidated statement of changes in net assets attributable to unitholders.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in hedging reserve is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

(e) Unit issue costs

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

Notes to the Financial Statements

For the year ended 31 December 2007

3 Significant Accounting Policies *(continued)*

(f) *Leasing*

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

(g) *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

Rental related income, representing mainly air conditioning fee, management fee and promotion fee 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.

(h) *Borrowings cost*

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

(i) *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 consolidated income statement because it excludes items of income or expense that are taxable or deductible in other periods 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.

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.

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 net assets attributable to unitholders, in which case the deferred tax is also dealt within net assets attributable to unitholders.

4 Financial Instruments

(a) Categories of financial instruments

	2007 HK\$'000	2006 HK\$'000
Loans and receivables		
Trade receivables	504	162
Other receivables	—	367
Bank balances and cash	23,854	41,737
	24,358	42,266
Derivative instruments in designated hedge accounting relationships		
Interest rate swap	108,288	190,375
Financial liabilities at amortised costs		
Trade payables	1,292	567
Amount due to related companies	6,332	9,434
Secured revolving loan	25,000	20,000
Secured term loan	1,758,266	1,754,996
Manager's fee payable	31	—
Distribution payable	84,396	78,913
	1,875,317	1,863,910

Details of the financial instruments are disclosed in respective notes.

(b) Financial risks management objectives and policies

The risks associated with the Group's financial instruments include interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(i) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 15 for details of these borrowings). The Group aims at keeping borrowings at fixed rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in interest rate on its secured term loan. These interest rate swaps are designated as effective hedging instruments and hedge accounting is used (see note 12 for details).

The Group's exposures to interest rate risk on financial liabilities are detailed in the liquidity risk management section of note (iii) below.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for both derivatives and non-derivatives instruments at the balance sheet date. For variable rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the effect from possible change in interest rates.

If the interest rates have been higher/lower and all other variables were held constant, the Group's:

- profit for the year ended 31 December 2007 would decrease/increase by HK\$125,000 (2006: decrease/increase by HK\$100,000). This is mainly attributable of the Group's exposure to interest rates on its secured revolving loan.
- other equity reserves would increase/decrease by HK\$22,781,000 (2006: increase/decrease by HK\$28,773,000) mainly as a result of the changes in the fair value of interest rate swap.

Notes to the Financial Statements

For the year ended 31 December 2007

4 Financial Instruments *(continued)*

(b) Financial risks management objectives and policies (continued)

(ii) Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

To mitigate the risk of financial loss from default, tenants are required to pay three months deposits upon entering the lease. The Group has the right to offset the deposits against the outstanding receivables. There is no credit period given to debtors, mainly the tenants of the rental properties. Interest is charged on receivables overdue for more than 10 days at the rate of 12% per annum. In addition, the Manager reviews the recoverable amount of each individual trade debtor regularly to ensure that adequate impairment losses are recognised for irrecoverable debts.

The credit risk on liquid funds is limited because cash and fixed deposits are placed with reputable financial institutions which are banks with high credit ratings assigned by international credit-rating agencies.

The credit risk on derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(iii) Liquidity risk management

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.

As at 31 December 2007, the Group had a bank loan 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, each for a term of five years. The whole term loan facility was fully drawn on the Listing Date and revolving credit facility amounted to HK\$25,000,000 was drawn down as at 31 December 2007. The term loan is repayable five years from the date of the drawdown. The revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity. The Group with a cash balance of HK\$23,854,000 and available revolving credit facility of approximately HK\$105,000,000 as at 31 December 2007 has sufficient financial resources to satisfy its commitments and working capital requirements.

Liquidity and interest risk tables

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

4 Financial Instruments (continued)

(b) Financial risks management objectives and policies (continued)

(iii) Liquidity risk management (continued)

Liquidity and interest risk tables (continued)

For derivative instruments settled on a net basis, undiscounted net cash inflows are presented. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

	Weighted average effective interest rate %	Less than 1 month or on demand HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-2 years HK\$'000	2-3 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31/12/2007 HK\$'000
2007								
Non-derivative								
Trade payables	—	1,292	—	—	—	—	1,292	1,292
Amount due to related companies	—	6,332	—	—	—	—	6,332	6,332
Secured revolving loan	3.94%	25,087	—	—	—	—	25,087	25,000
Secured term loan	3.94%	5,923	11,464	52,542	69,738	1,836,872	1,976,539	1,758,266
Manager's fee payable	—	31	—	—	—	—	31	31
Distribution payable	—	—	—	84,396	—	—	84,396	84,396
		38,665	11,464	136,938	69,738	1,836,872	2,093,677	1,875,317
Derivatives — net settlement								
Interest rate swap		2,992	6,178	33,806	20,753	21,489	85,218	108,288

	Weighted average effective interest rate %	Less than 1 month or on demand HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	1-2 years HK\$'000	2-3 years HK\$'000	3-5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31/12/2006 HK\$'000
2006									
Non-derivative									
Trade payables	—	567	—	—	—	—	—	567	567
Amount due to related companies	—	9,434	—	—	—	—	—	9,434	9,434
Secured revolving loan	4.48%	20,081	—	—	—	—	—	20,081	20,000
Secured term loan	4.48%	6,735	12,818	59,744	79,296	79,296	1,846,037	2,083,926	1,754,996
Distribution payable	—	—	—	78,913	—	—	—	78,913	78,913
		36,817	12,818	138,657	79,296	79,296	1,846,037	2,192,921	1,863,910
Derivatives — net settlement									
Interest rate swap		7,633	9,691	37,180	52,786	33,217	26,117	166,624	190,375

(c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions;
- the fair value of derivative instruments is determined based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments.

The Manager considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

Notes to the Financial Statements

For the year ended 31 December 2007

5 Revenue

	2007 HK\$'000	2006 HK\$'000
Gross rental from investment properties		
Rental income	190,512	166,148
Car park income	15,349	14,201
	205,861	180,349
Rental related income	38,767	36,778
	244,628	217,127

6 Property Operating Expenses

	2007 HK\$'000	2006 HK\$'000
Building management fees	19,945	20,812
Utilities	5,605	5,834
Government rent and rates	490	879
Car park operating expenses	3,941	4,053
Marketing service fee	2,307	3,405
Lease commission	2,231	1,546
Landlord provision, repair and maintenance	6,434	3,738
Legal cost and stamp duty	843	1,021
Secretarial fee	1,235	883
Valuation fees (paid to principal valuer)	158	140
Audit fee	1,028	638
Tax fees	171	128
Back-office support service fee	756	693
Others	1,028	834
	46,172	44,604

7 Trust and Other Expenses

	2007 HK\$'000	2006 HK\$'000
Audit fee	319	590
Trustee's fee	1,499	1,413
Bank charges	356	291
Legal and professional fees	1,930	2,200
Registrar fee	1,536	1,600
Back-office support service fee	63	—
Public relations-related expenses	60	—
Trust administrative expenses	4,616	5,203
	10,379	11,297

8 Finance Costs

	2007 HK\$'000	2006 HK\$'000
Interest expense on:		
— Secured term loan	87,848	87,861
Reduction of interest expense through cashflow hedges	(3,140)	(7,554)
	84,708	80,307
— Secured revolving loan	1,223	1,937
	85,931	82,244

9 Taxation

	2007 HK\$'000	2006 HK\$'000
Current tax credit	—	(292)
Deferred tax (<i>note 16</i>)	54,002	57,703
	54,002	57,411

No provision for Hong Kong profits tax is required as the Group did not have any assessable profits for the year. Deferred tax is provided on temporary differences using the current applicable rates. The taxation for the years can be reconciled to the accounting profit as follows:

	2007 HK\$'000	2006 HK\$'000
Income tax expense at statutory rate of 17.5%	66,677	64,427
Tax effect of temporary differences not recognised	(15,595)	(8,750)
Tax effect of non-taxable income	(121)	(397)
Tax effect of non-deductible expenses	2,284	2,589
Underprovision in respect of prior period	11	1
Tax effect of tax losses not recognised	746	162
Utilisation of tax losses previously not recognised	—	(178)
Utilisation of deductible temporary differences previously not recognised	—	(443)
Taxation for the year	54,002	57,411

10 Earnings Per Unit

The earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$327,012,000 (2006: HK\$310,744,000) by the weighted average of 1,269,189,951 (2006: 1,255,196,023) units in issue during the year.

The diluted earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$327,012,000 (2006: HK\$310,744,000) by the weighted average units issued during the year together with the effects of potential units (units issued for manager's fee) of 1,272,498,124 (2006: 1,257,622,735).

Notes to the Financial Statements

For the year ended 31 December 2007

11 Investment Properties

	2007 HK\$'000	2006 HK\$'000
FAIR VALUE		
At beginning of the year	4,864,000	4,548,000
Acquisitions	43,403	—
Additional expenditure	7,760	—
Increase in fair value of investment properties	309,837	316,000
At end of the year	5,225,000	4,864,000

On 31 December 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. In the valuation, the market rentals of all lettable units of the properties are assessed and capitalised at market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in other lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yields derived from analysing the sales transactions and the valuer's knowledge of the market expectation from property investors.

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 31 December 2007, with aggregate carrying value of HK\$5,182 million (2006: HK\$4,864 million), have been pledged to secure banking facilities granted to the Group.

12 Derivative Financial Instruments

	2007 HK\$'000	2006 HK\$'000
Cash flow hedges — interest rate swaps	108,288	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 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 future cash flows using the applicable yield curve for the duration of the swap.

13 Trade and Other Receivables

	2007 HK\$'000	2006 HK\$'000
Trade receivables	538	195
Less: allowance for doubtful debts	(34)	(33)
	504	162
Deposit and prepayments	7,352	7,326
Other receivables	—	367
	7,856	7,855

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

	2007 HK\$'000	2006 HK\$'000
Current-1 month	503	162
2-3 months	1	—
	504	162

Included in the Group's trade receivable balance are debtors with aggregate carrying amount of HK\$504,000 (2006: HK\$162,000) which are past due at the reporting date for which the Group has not provided for impairment loss.

Ageing of trade receivables which are past due but not impaired:

	2007 HK\$'000	2006 HK\$'000
Current-1 month	503	162
2-3 months	1	—
	504	162

The Group has provided in full all receivables overdue for 120 days after netting off the deposits received from tenant because historical experience is such that receivables that are past due beyond 120 days are generally not recoverable.

Movement of allowance for doubtful debt:

	2007 HK\$'000	2006 HK\$'000
Balance at beginning of the year	33	9
Impairment losses recognised on receivables	31	65
Impairment losses reversed	—	(9)
Amounts written off as uncollectible	(30)	(32)
Balance at the end of year	34	33

Notes to the Financial Statements

For the year ended 31 December 2007

14 Bank Balances and Cash

	2007 HK\$'000	2006 HK\$'000
Cash at bank	12,722	7,730
Fixed deposits with financial institutions	11,132	34,007
	23,854	41,737

Fixed deposits with financial institutions consist of overnight deposits bearing interest at approximately 3.3% (31 December 2006: 3.6%) per annum.

Fixed deposits and cash at bank are placed with The Hongkong and Shanghai Banking Corporation Limited, a related company of the Trustee.

15 Borrowings

	2007 HK\$'000	2006 HK\$'000
Long-term borrowing:		
Secured term loan	1,770,000	1,770,000
Origination fees	(11,734)	(15,004)
	1,758,266	1,754,996
Short-term borrowing:		
Secured revolving loan	25,000	20,000
	1,783,266	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 terms and conditions of the facilities are as follows:

- (i) HK\$1,770,000,000 term loan bears interest at floating interest rate of HIBOR+0.49% per annum and is repayable in full in December 2010.
- (ii) HK\$130,000,000 revolving loan bears interest at floating interest rate of HIBOR+0.49% per annum and is repayable on demand.

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

Both the term loan and revolving loan were secured by the Group's investment properties as disclosed in note 11. In addition, Prosperity REIT and certain of its subsidiaries provide a guarantee for the term loan and revolving loan granted to a subsidiary.

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 with 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 year:

	Accelerated tax depreciation HK\$'000	Revaluation of Investment properties HK\$'000	Tax losses HK\$'000	Total HK\$'000
As at 31 December 2005	69,098	96,840	(27,095)	138,843
Charge to income statement for the year	6,901	46,550	4,252	57,703
As at 31 December 2006	75,999	143,390	(22,843)	196,546
Charge to income statement for the year	12,020	38,627	3,355	54,002
As at 31 December 2007	88,019	182,017	(19,488)	250,548

At the balance sheet date, tax loss amounting to approximately HK\$5,264,000 (31 December 2006: HK\$1,006,000) were not recognised, due to unpredictability of future profits stream.

17 Trade and Other Payables

	2007 HK\$'000	2006 HK\$'000
Trade payables	1,292	567
Tenants' deposits		
— Outside parties	65,604	56,601
— Related parties	1,105	996
Rental received in advance		
— Outside parties	2,210	881
Other payables	25,775	15,745
	95,986	74,790

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

	2007 HK\$'000	2006 HK\$'000
Current-1 month	75	96
2-3 months	1,070	275
Over 3 months	147	196
	1,292	567

Notes to the Financial Statements

For the year ended 31 December 2007

18 Amount Due to Related Companies

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

19 Issued Units

	Number of units	HK\$'000
Creation and issuance of new units on 16 December 2005 and balance at 1 January 2006	1,250,962,222	2,702,078
Payment of Manager's base fee and variable fee through issuance of new units during the year	9,964,974	18,711
Balance at 31 December 2006	1,260,927,196	2,720,789
Payment of Manager's base fee and variable fee through issuance of new units during the year	15,526,142	25,451
Balance at 31 December 2007	1,276,453,338	2,746,240

Subsequent to the balance sheet date, 3,304,943 units at HK\$1.5874 per unit and 908,331 units at HK\$1.5874 per unit were issued to the Manager as settlement of base fee and variable fee for the period from 1 October 2007 to 31 December 2007.

20 Net Asset Value Per Unit Attributable to Unitholders

The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve and the total number of 1,276,453,338 units in issue at 31 December 2007 (1,260,927,196 units in issue at 31 December 2006).

21 Major Non-cash Transaction

During the year, the Manager earned a fee of HK\$25,986,000 (2006: HK\$24,104,000) of which HK\$25,875,000 (2006: HK\$24,104,000) was paid through the issuance of units to the Manager. An amount of HK\$19,187,000 (2006: HK\$17,840,000) had been settled through the issuance of units to the Manager while the balance of HK\$6,688,000 (2006: HK\$6,264,000) will be paid in units subsequent to the year end.

22 Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, which are described in note 3, management has considered the following key sources of estimation uncertainty at the balance sheet date, that would have significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

As described in note 3(c), 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.

22 Key Sources of Estimation Uncertainty *(continued)*

As described in note 3(d), 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 Liabilities

At the balance sheet date, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$186,421,000 (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.

24 Total Assets Less Current Liabilities

At the balance sheet date, the Group's total assets less current liabilities amounted to HK\$5,146,867,000 (31 December 2006: HK\$4,919,290,000).

25 Segmental Reporting

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

26 Operating Lease Commitments

	2007 HK\$'000	2006 HK\$'000
Minimum lease income under operating leases included in the income statement	190,512	166,148
Commitments in respect of non-cancellable operating leases for the rental of investment properties were as follows:		
Future minimum lease payments receivable:		
Within one year	165,829	159,668
In the second to fifth year inclusive	114,419	186,570
Total	280,248	346,238

Notes to the Financial Statements

For the year ended 31 December 2007

27 Connected and Related Party Transactions

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

	Note	2007 HK\$'000	2006 HK\$'000
Rent and rental related income from			
AMTD Financial Planning Limited	(a)	2,037	1,850
E-Park Parking Management Limited	(b)	190	187
e-Smart System Inc.	(b)	646	2,068
Fusion System Limited	(b)	—	131
Goodwell Property Management Limited	(b)	990	853
Tremayne Investments Limited	(c)	16,025	16,025
Carpark lease agency fee for the operations of the Group's carpark			
E-Park Parking Management Limited	(b)	1,397	1,388
Goodwell Property Management Limited	(b)	30	29
Property management fee			
Goodwell-Prosperity Property Services Limited	(b)	5,676	4,988
Marketing service fee			
Goodwell-Prosperity Property Services Limited	(b)	2,307	3,405
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited		1,499	1,413
Manager's fee			
ARA Asset Management (Prosperity) Limited		25,986	24,104
Back-office support service fee			
Cheung Kong Companies	(d)	819	693
Balances as at year end with related parties are as follows:			
Amount due to related companies			
Cheung Kong Real Estate Agency Limited	(b)	—	693
Citybase Property Management Limited	(b)	1,400	1,345
Goodwell-Prosperity Property Services Limited	(b)	1,290	2,217
Goodwell Property Management Limited	(b)	2,988	4,852
Harbourfront Landmark Premium Services Limited	(c)	429	106
E-Park Parking Management Limited	(b)	225	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
Goodwell Property Management Limited	(b)	324	224

Notes:

- (a) The company became the subsidiary of Cheung Kong (Holdings) Limited ("CKH"), a unitholder of Prosperity REIT, since July 2007. It was the associate of CKH before that time.
- (b) These companies are the subsidiaries of CKH.
- (c) The companies are the subsidiaries 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 year, remuneration paid from the funds of the buildings, attributable to the properties owned by the Group, to the building managers amounted to HK\$471,000 (31 December 2006: HK\$438,000).

List of Subsidiaries

As at 31 December 2007

Name of company	Country of incorporation	Effective equity interest held by Prosperity REIT		Share capital	Principal activities in Hong Kong
		Directly %	Indirectly %		
Bandick Limited	Hong Kong	100	—	HK\$2	Property investment
Conestoga Limited	Hong Kong	—	100	HK\$10,000	Property investment
Haskins Investments Limited	Hong Kong	100	—	HK\$2	Property investment
Harbour Champ Limited	British Virgin Islands	100	—	US\$1	Property investment
Jade Arch Investment Limited	British Virgin Islands	100	—	HK\$15,053	Investment holding
Prodes Company Limited	Hong Kong	—	100	HK\$10	Property owner
Progain Group Limited	British Virgin Islands	100	—	US\$1	Financing
Top Easy Profits Limited	British Virgin Islands	100	—	US\$1	Property investment
Unicenter Limited	British Virgin Islands	100	—	US\$1	Investment holding
Winrise Champion Limited	British Virgin Islands	—	100	US\$1	Property investment
Wisdom Champion Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (12) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (15) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (16) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (17) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (18) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (19) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (20) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (21) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (22) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (23) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (25) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (26) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (27) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (28) Limited	British Virgin Islands	100	—	US\$1	Property investment

Performance Table

Results analysis for the year ended 31 December 2007

	Year ended 31 December 2007 HK\$'000	Year ended 31 December 2006 HK\$'000	Period from 16 December 2005 to 31 December 2005 HK\$'000
Gross rental from investment properties	205,861	180,349	6,483
Net property income	192,780	167,535	814
Profit for the year, before transactions with unitholders	327,012	310,744	239,690
Income available for distribution	165,727	151,549	29,039
Earnings per unit (HK\$)	0.26	0.25	0.19
Distribution per unit (HK\$)	0.1298	0.1201	0.0231 ⁽¹⁾

Major assets and liabilities of Prosperity REIT as at 31 December 2007

	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
Investment properties	5,225,000	4,864,000	4,548,000
Secured bank loans, excluding origination fees	(1,795,000)	(1,790,000)	(1,900,000)
Net asset value	3,138,053	2,967,748	2,810,255
Net asset value per unit (HK\$) (Note 20)	2.50	2.38	2.26
Other Information			
The highest traded price during the year (HK\$)	1.85	2.475	2.90
The highest premium of the traded price to net asset value	(26.0%)	4.0%	28.3%
The lowest traded price during the year (HK\$)	1.52	1.59	2.325
The lowest premium/(discount) of the traded price to net asset value	(39.2%)	(33.2%)	2.9%
The net yield per unit based on market price at the end of year	8.4% ⁽²⁾	7.1%	N/A ⁽¹⁾

(1) Pursuant to the terms of the Trust Deed, Prosperity REIT's first distribution after the Listing Date was for the period from the Listing Date to 30 June 2006. The distribution was paid to unitholders of Prosperity REIT on 20 October 2006 together with the distribution for the half year ended 30 June 2006. As there were only 16 days for the period ended 31 December 2005, no annualized net yield per unit was presented.

(2) Based on the distribution for the year ended 31 December 2007 and the closing market price of HK\$1.54 as at 31 December 2007

Investment Properties Portfolio

As at 31 December 2007

Property	Type	Lease term	Lease expiry date	Location	Valuation 2007 HK\$ Million
The Metropolis Tower	O	Medium-term lease	30 June 2047	No. 10 Metropolis Drive Hungohm Kowloon Hong Kong	1,970
Prosperity Millennia Plaza	O	Medium-term lease	30 June 2047	No. 663 King's Road North Point Hong Kong	1,080
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	609
Trendy Centre	I/O	Medium-term lease	30 June 2047	No.682 Castle Peak Road Cheung Sha Wan Kowloon Hong Kong	568
Prosperity Center (portion)	I/O	Medium-term lease	30 June 2047	No. 25 Chong Yip Street Kwun Tong Kowloon Hong Kong	482
New Treasure Centre (portion)	I	Medium-term lease	30 June 2047	No. 10 Ng Fong Street San Po Kong Kowloon Hong Kong	166
Total					5,225

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

Summary Financial Information

Following is a summary of the consolidated income statements and the consolidated balance sheets of Prosperity REIT for the past financial years/period prepared on a basis as consistent to the financial year ended 2007:

Consolidated Income Statements

	Year ended 31 December 2007 HK\$'000	Year ended 31 December 2006 HK\$'000	Period from 16 December 2005 to 31 December 2005 HK\$'000
Revenue	244,628	217,127	note (a) 8,202
Profit before taxation and transactions with unitholders	381,014	368,155	239,186
Taxation	(54,002)	(57,411)	504
Profit for the years/period, before transactions with unitholders	327,012	310,744	239,690
Distribution to unitholders	165,727	151,549	29,039
Distribution per unit (HK\$)	0.1298	0.1201	0.0231

Consolidated Balance Sheets

	2007 HK\$'000	2006 HK\$'000	2005 HK\$'000
Non-current assets	5,333,288	5,054,375	4,831,799
Current assets	32,012	54,316	133,169
Current liabilities	218,433	189,401	263,920
Net assets attributable to unitholders	3,138,053	2,967,748	2,810,255

Notes:

- (a) The result of Prosperity REIT for the period from the Listing Date to 31 December 2005 was extracted for the summary. No full year financial information of Prosperity REIT for the year ended 31 December 2005 has been published.

Corporate Information

Board of Directors of the Manager

Chiu Kwok Hung, Justin
Chairman and Non-executive Director

Lim Hwee Chiang, John
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

Baker & McKenzie

Registered Office

Units 5508–09, 55/F,
The Center,
99 Queen's Road Central,
Hong Kong.

Unit Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
Rooms 1806–07, 18/F
Hopewell Centre
183 Queen's Road East
Hong Kong

Internet Address

www.prosperityreit.com

Notice of Annual General Meeting

Annual Report 2007

NOTICE IS HEREBY GIVEN that an Annual General Meeting of unitholders of Prosperity Real Estate Investment Trust ("Prosperity REIT") will be held at Exhibition Venue A on Level 7, The Metropolis Mall, 6 Metropolis Drive, Hung Hom, Kowloon, Hong Kong on Wednesday, 14 May 2008 at 2:30 p.m. for the following purposes:

- (1) To note the audited financial statements of Prosperity REIT together with the Auditors' Report for the year ended 31 December 2007; and
- (2) To note the appointment of Auditors of Prosperity REIT and the fixing of their remuneration.

By Order of the Board
ARA Asset Management (Prosperity) Limited
as manager of Prosperity Real Estate Investment Trust
Seng Sze Ka Mee, Natalia
Company Secretary

Hong Kong, 18 April 2008

Notes:

- (a) *The Register of Unitholders of Prosperity REIT will be closed from Thursday, 8 May 2008 to Wednesday, 14 May 2008, both days inclusive, during which period no transfer of units will be effected. In order to qualify for attending the Annual General Meeting, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's Unit Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1806-07, 18/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 7 May 2008.*
- (b) *Reference is made to the announcement made by ARA Asset Management (Prosperity) Limited as manager of Prosperity REIT on 12 March 2008. The Register of Unitholders of Prosperity REIT will be closed from Thursday, 17 April 2008 to Thursday, 24 April 2008, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution per unit of HK\$0.0659 payable to unitholders on Friday, 25 April 2008, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's Unit Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1806-07, 18/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 16 April 2008.*
- (c) *Any unitholder entitled to attend at the Annual General Meeting is entitled to appoint a proxy to attend in his stead.*
- (d) *In order to be valid, an instrument of proxy, together with any power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney or authority, if any, must be deposited at Prosperity REIT's Unit Registrar, Computershare Hong Kong Investor Services Limited at Rooms 1806-07, 18/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 48 hours before the commencement of the Annual General Meeting.*

This annual report (“Annual Report 2007”) is available in both English and Chinese. Unitholders who have received either the English or the Chinese version of the Annual Report 2007 may request a copy in the language different from that has been received in writing to Prosperity REIT’s unit registrar, Computershare Hong Kong Investor Services Limited at Rooms 1806–07, 18/F., Hopewell Centre, 183 Queen’s Road East, Hong Kong.

The Annual Report 2007 (in both English and Chinese versions) has been posted on Prosperity REIT’s website at www.prosperityreit.com. Unitholders who have chosen to rely on copies of Prosperity REIT’s Corporate Communications (including but not limited to annual report, interim report, notice of meeting, listing documents, circular and proxy form) posted on Prosperity REIT’s website in lieu of the printed copies thereof or who for any reason have difficulty in receiving or gaining access to the Annual Report 2007 posted on Prosperity REIT’s website may request the printed copy of the Annual Report 2007.

Unitholders may at any time change their choice of language and/or means of receipt (i.e. in printed form or by electronic means through Prosperity REIT’s website) of Prosperity REIT’s Corporate Communications by notice in writing to Prosperity REIT’s unit registrar, Computershare Hong Kong Investor Services Limited.

