



PROSPERITY REIT 泓富產業信託

HKEx Stock Code 股份代號 : 808



SOLID FUNDAMENTALS 穩建基礎

Interim Report 2009 中期報告

Manager 管理人

ARA

(An Affiliate of Cheung Kong Group)

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



About Prosperity REIT

Prosperity Real Estate Investment Trust ("Prosperity REIT") is the first private sector real estate investment trust ("REIT") listed on The Stock Exchange of Hong Kong Limited on 16 December 2005. Prosperity REIT owns a diverse portfolio of seven high-quality office, industrial/office and industrial 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 "REIT Manager").

About The REIT Manager

ARA Asset Management (Prosperity) Limited is a wholly-owned subsidiary of Singapore-listed ARA Asset Management Limited ("ARA"). ARA, an affiliate of the Cheung Kong Group, is an Asian real estate fund management company focusing on the management of public listed REITs and private real estate funds.

The REIT Manager is responsible for the management and administration of Prosperity REIT, as well as the implementation of Prosperity REIT's business strategies.

Our Mission

The REIT 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 multidimensional growth strategies.

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CHAIRMAN'S STATEMENT



Chiu Kwok Hung, Justin
Chairman

Despite the impact of the global economic downturn, Prosperity REIT has maintained positive results in terms of revenue and net property income in the first six months of 2009.

Dear Unitholders,

On behalf of the Board of Directors (the "Board") of ARA Asset Management (Prosperity) Limited (the "REIT Manager"), the manager of Prosperity Real Estate Investment Trust ("Prosperity REIT"), it is my pleasure to present Prosperity REIT's interim report for the six months from 1 January 2009 to 30 June 2009 (the "Reporting Period").

Results and Distribution

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

I am pleased to announce that our unitholders will receive an interim distribution per unit ("DPU") of HK\$0.0554 for the Reporting Period, representing an annualized distribution yield of 10.5%¹.

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

Market Review

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

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

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

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

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

Operations Review

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

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

¹ Based on Prosperity REIT's closing price of HK\$1.06 as at 30 June 2009

Chairman's Statement

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

Prospects

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

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

Acknowledgement

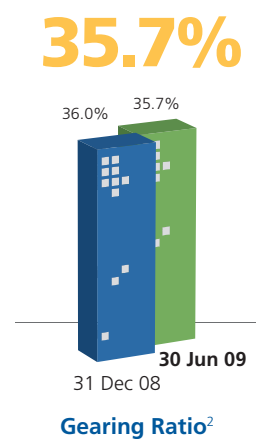
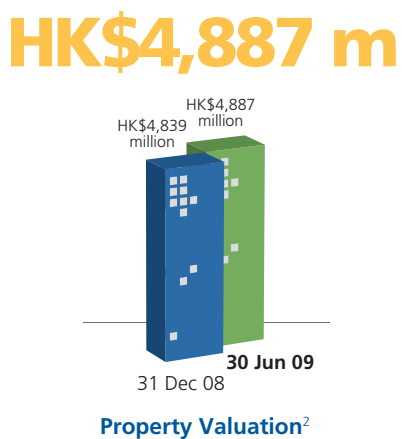
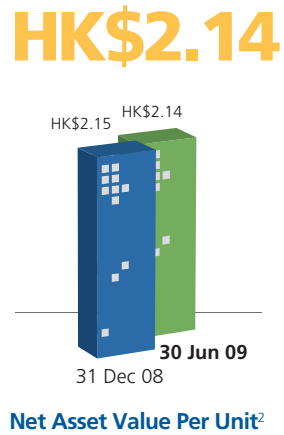
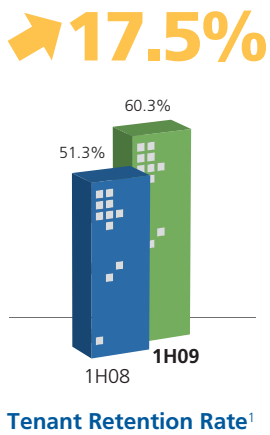
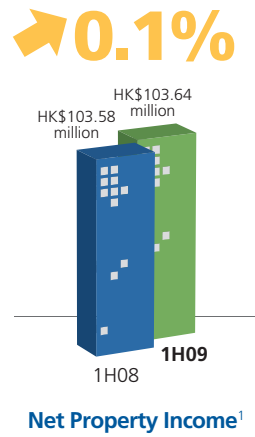
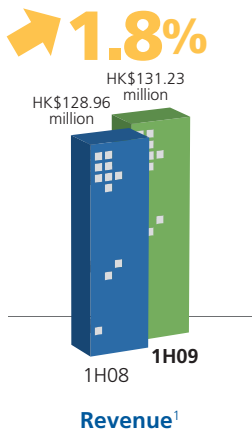
Finally, I would like to take this opportunity to thank my colleagues on the Board, our management team, property managers, service providers and partners for their loyalty, integrity and efforts. They have made invaluable contributions to Prosperity REIT, for which I am deeply grateful. I would also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

Chiu Kwok Hung, Justin

Chairman

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

Hong Kong, 21 August 2009



Notes: ¹ Year-on-year comparison ² As at year/period end

Performance Highlights

	Six months ended 30 June (unaudited)		Percentage change
	2009	2008	Increase/(Decrease)
DPU	HK\$0.0554	HK\$0.0690	(19.7%)

Operation data

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

Key financial figures

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

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

Operations Review

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

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

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

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

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

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

Management Discussion and Analysis

Investment Review

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

Asset Enhancement

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

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

Prosperity Place

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

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

The Metropolis Tower

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

Outlook

The REIT Manager has been effectively managing and operating Prosperity REIT since its listing on 16 December 2005 (the "Listing Date"). While the office, industrial/office and industrial leasing markets are expected to be challenging in the short term, Prosperity REIT is well placed for future growth. With its extensive experience and management expertise, as well as the diligence and professionalism of Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT, the REIT Manager is confident of delivering stable and sustainable returns to unitholders.

Financial Review

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

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

Revenue

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

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

Net Property Income

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

Management Discussion and Analysis

Distribution Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders of Prosperity REIT was HK\$73,065,000, representing a DPU of HK\$0.0554. The distributable income for the Reporting Period is calculated by the REIT Manager as representing the consolidated net profit of Prosperity REIT and the subsidiaries of Prosperity REIT for the Reporting Period, as adjusted to eliminate the effects of certain non-cash adjustments (as defined in a trust deed dated 29 November 2005, as amended by a first supplemental deed dated 12 December 2005, a second supplemental deed dated 15 May 2007 and a third supplemental deed dated 14 May 2008 (collectively the "Trust Deed")) including finance cost of HK\$16,522,000 (equivalent to HK\$0.0125 per unit) due to the interest rate swap, which have been recorded in the consolidated income statement.

Distribution

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

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

Liquidity and Financing

As at 30 June 2009, Prosperity REIT had a facility of HK\$1,900 million, comprising a HK\$1,770 million term loan facility and a HK\$130 million revolving credit facility, each for a term of five years expiring on 16 December 2010. The whole term loan facility was fully drawn on the Listing Date and none of the revolving credit facility balance was drawn as at 30 June 2009. The term loan is repayable in five years from the date of the drawdown. The revolving facility will be repaid on each maturity date and can be redrawn upon maturity.

Each of the term loan facility and the revolving credit facility bears interest at a variable rate. In order to hedge against fluctuations in interest rate under the term loan, Prosperity REIT's finance company entered into three separate plain vanilla interest rate swap agreements to fix the interest rates for 100% of the HK\$1,770 million term loan until 16 December 2010 at the weighted average swap rate of 2.472%, excluding the spread of 0.49%.

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

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

Highlights for financial position

Investment Properties and Property Valuation

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

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

Charges on Assets

As at 30 June 2009, the seven properties of Prosperity REIT, with an aggregate carrying value of HK\$4,846.4 million, were pledged to secure bank loan facilities of Prosperity REIT's finance company.

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

Employees

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

Corporate Governance

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

Board of Directors of the REIT Manager

The Board of the REIT Manager is responsible for the overall governance of the REIT 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 REIT Manager. The Board exercises its general powers within the limits defined by the articles of association of the REIT 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 REIT 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.

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 REIT Manager but shall be eligible for re-election in accordance with the articles of association of the REIT 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. Yip Kam Thai was the Acting Chief Executive Officer, Executive Director and Responsible Officer of the REIT Manager until his relinquishment of his duties and responsibilities with effect from 1 February 2009. Mr. Stephen Henry Chu, a Responsible Officer of the REIT Manager, was appointed as Executive Director and Chief Executive Officer with effect from 1 February 2009.

Internal Controls

The REIT Manager has an internal audit function in place to provide an independent assessment of the REIT 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 REIT 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 REIT Manager.

Audit Committee

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

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

Disclosures Committee

The REIT 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 REIT 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 REIT Manager. The Disclosures Committee presently consists of three members, namely, Mr. Chiu Kwok Hung, Justin, Chairman and a Non-executive Director, Mr. Stephen Henry Chu, 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. Stephen Henry Chu who had succeeded Mr. Yip Kam Thai as a member and the chairman of the Disclosures Committee with effect from 1 February 2009.

Review of Interim Report

The interim report of Prosperity REIT for the six months ended 30 June 2009 has been reviewed by the Disclosures Committee and the Audit Committee. The interim financial statements have also been reviewed by Prosperity REIT's auditors, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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

The REIT Manager has adopted a code governing dealings in the securities of Prosperity REIT by Directors or the REIT 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 REIT Manager or Prosperity REIT's special purpose vehicles as the Board may determine.

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

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

Unitholders with a holding of 5% or more of the units in issue have a notifiable interest and will be required to notify The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and the REIT Manager of their holdings in Prosperity REIT. The REIT Manager shall then send copies of such notifications received by it to HSBC Institutional Trust Services (Asia) Limited as the trustee of Prosperity REIT (the "Trustee"). The REIT 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 REIT Manager.

Change of Director's Information

Subsequent to publication of the Annual Report 2008 of Prosperity REIT, the REIT Manager received notifications regarding the following changes of Directors' information:

- (1) Mr. Lim Hwee Chiang, John ceased to be an independent director and member of audit committee of Inter-Roller Engineering Limited, a company listed in Singapore, with effect from 29 April 2009.
- (2) Mr. Ma Lai Chee, Gerald ceased to be an Alternate Director to Mr. Wong King Fai, Peter, Executive Director of Hutchison Telecommunications International Limited, a company listed in Hong Kong, with effect from 8 May 2009; and became an Alternate Director to Mr. Lai Kai Ming, Dominic, Non-Executive Director of Hutchison Telecommunications Hong Kong Holdings Limited, a company listed in Hong Kong, with effect from 9 June 2009.

Closure of Register of Unitholders

The register of unitholders will be closed from Thursday, 15 October 2009 to Tuesday, 20 October 2009, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Wednesday, 14 October 2009. The payment date of interim distribution will be on Tuesday, 27 October 2009.

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 Reporting Period:

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 six months ended 30 June 2009	Rental deposit received as at 30 June 2009
			HK\$	HK\$
Goodwell Property Management Limited	Subsidiary of a significant holder ¹	Tenancy of property of Prosperity REIT ³	601,946	323,472
Tremayne Investments Limited	Subsidiary of an associate of a significant holder ²	Tenancy of property of Prosperity REIT ⁴	9,398,772	see note 7
E-Park Parking Management Limited	Subsidiary of a significant holder ¹	Tenancy of property of Prosperity REIT ⁵	88,536	61,064
Hutchison Telephone Company Limited	Subsidiary of an associate of a significant holder ²	Licence of property of Prosperity REIT ⁶	24,000	15,000
Total			10,113,254	399,536

- 1 Significant holder being Cheung Kong (Holdings) Limited ("CKH").
- 2 The connected parties are the subsidiaries of Hutchison Whampoa Limited ("HWL"), an associate of a significant holder of Prosperity REIT, namely CKH.
- 3 For 2/F, Units 306-7 & Unit 703, New Treasure Centre.
- 4 For 3/F, 5/F & 6/F, Harbourfront Landmark.
- 5 For Unit 306, Prosperity Place.
- 6 For installation of micro-transmission station equipment at Prosperity Place.
- 7 By a bank guarantee of HK\$4,850,346 given by HWL.

Connected Party Transactions – Building Management Services

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

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Payment received/receivable for the six months ended 30 June 2009 HK\$
Goodwell Property Management Limited ¹	Subsidiary of a significant holder ³	Remuneration of DMC Manager	44,362
Goodwell Property Management Limited ²	Subsidiary of a significant holder ³	Remuneration of Carpark Manager	1,774
Citybase Property Management Limited ¹	Subsidiary of a significant holder ³	Remuneration of DMC Manager	129,453
Citybase Property Management Limited ²	Subsidiary of a significant holder ³	Remuneration of Carpark Manager	35,094
Harbourfront Landmark Premium Services Limited ¹	Subsidiary of an associate of a significant holder ⁴	Remuneration of DMC Manager	32,610
Total			243,293

- 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 CKH.
- 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 CKH.
- 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 Reporting Period:

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Expenses for the six months ended 30 June 2009 HK\$
Goodwell-Prosperity Property Services Ltd	Subsidiary of a significant holder ¹	Property management and lease management fee	3,075,722
Goodwell-Prosperity Property Services Ltd	Subsidiary of a significant holder ¹	Marketing service fee	3,828,988
E-Park Parking Management Limited	Subsidiary of a significant holder ¹	Carpark lease agency fee	614,044
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee fee	721,068
ARA Asset Management (Prosperity) Limited	REIT Manager	Base fee and variable fees	12,755,479
Cheung Kong Companies ²	Subsidiaries and associates of a significant holder ¹	Back-office support service fee	408,179
Total			21,403,480

1 Significant holder being CKH.

2 Cheung Kong Companies include CKH, Cheung Kong Real Estate Agency Limited, Randash Investment Limited, Hutchison Hotel Hong Kong Limited and Harbour Plaza Metropolis Limited.

Connected Party Transaction with HSBC Group* for Bank Deposits

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

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

Connected Party Transactions – 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 ² HK\$
Tremayne Investments Limited	Subsidiary of an associate of a significant holder ¹	Tenancy of 3/F, 5/F & 6/F, Harbourfront Landmark	16,636,536
Total			16,636,536

- 1 The connected party is an indirect wholly-owned subsidiary of HWL, an associate of a significant holder of Prosperity REIT, namely CKH.
- 2 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.

Connected Party Transactions

Other Connected Party Transactions

The following companies had provided back-office services, carpark management services and property management services to Prosperity REIT for the Reporting Period and hence amounts due from Prosperity REIT as at 30 June 2009 are as follows:

Name of Connected Party	Amount payable HK\$
Goodwell-Prosperity Property Services Limited	2,433,794
Goodwell Property Management Limited	2,935,999
E-Park Parking Management Limited	207,441
Citybase Property Management Limited	1,638,095
Harbourfront Landmark Premium Services Limited	338,294
Total	7,553,623

Repurchase or Redemption of Units

During the Reporting Period, other than the disposal of 14,499,000 units by the REIT Manager which the REIT Manager 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.

Holdings of Connected Persons in the Units of Prosperity REIT

As at 30 June 2009, the following persons, being connected persons (as defined under the REIT Code) of Prosperity REIT, held units of Prosperity REIT:

Name	Number of Units	Percentage of Unitholdings <i>(Note 6)</i>
Total Win Group Limited	176,328,129 <i>(Note 1)</i>	13.43%
Wide Option Investments Limited	98,883,559 <i>(Note 2)</i>	7.53%
HKSCC Nominees Limited	950,442,028 <i>(Note 3)</i>	72.38%
ARA Asset Management (Prosperity) Limited	572 <i>(Note 4)</i>	0.00004%
Stephen Henry Chu	100,000 <i>(Note 5)</i>	0.008%

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 REIT 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) Mr. Stephen Henry Chu is a connected person of Prosperity REIT as he is a Director of the REIT Manager as at such date.
- (6) The total number of issued units as at 30 June 2009 is 1,313,153,794.

Connected Party Transactions

Holdings of the REIT Manager, Directors and Chief Executive of the REIT Manager in the Units of Prosperity REIT

The interests of the REIT Manager, Directors and chief executive of the REIT Manager in the units of Prosperity REIT which were required to be notified to the REIT Manager and the Stock Exchange pursuant to the provisions of Part XV of the SFO, which are deemed to apply to the REIT Manager, Directors and chief executive of the REIT Manager and each unitholder and all persons claiming through or under him, are as follows:

Name	Number of Units		Percentage of Unitholdings (Note 2)
	Direct Interest	Indirect Interest	
Lim Hwee Chiang, John		572 (Note 1)	0.00004%
Stephen Henry Chu	100,000		0.008%
ARA Asset Management (Prosperity) Limited	572		0.00004%

Notes:

- (1) Mr. Lim Hwee Chiang John is deemed to be interested in 572 units of Prosperity REIT by virtue of his 0.24% direct interest in ARA Asset Management Limited ("ARA") as well as his 100% shareholding in JL Investment Group Limited which holds 36.45% of the issued shares capital of ARA, which in turn in a chain of corporations holds 100% of the issued shares capital of ARA Asset Management (Holdings) Limited, the holding company of the REIT Manager.
- (2) The total number of issued units as at 30 June 2009 is 1,313,153,794.

Save as disclosed above, the REIT Manager is not aware of any connected persons (as defined under the REIT Code) of Prosperity REIT holding any units of Prosperity REIT and none of the REIT Manager, Directors and chief executive of the REIT Manager had any interest in the units of Prosperity REIT as at 30 June 2009.

So far as the REIT Manager is aware:

- (a) Total Win Group Limited was beneficially interested in 176,328,129 units as at 30 June 2009 and 31 December 2008;
- (b) Wide Option Investments Limited was beneficially interested in 98,883,559 units as at 30 June 2009 and 31 December 2008;
- (c) the Trustee, HSBC Institutional Trust Services (Asia) Limited, had no beneficial interest in any units as at 30 June 2009 and 31 December 2008 and the controlling entities, holding company, subsidiaries and associated companies (within the meaning of the REIT Code) of the Trustee were beneficially interested in a total of 594 units as at 30 June 2009 and 31 December 2008;
- (d) the REIT Manager, ARA Asset Management (Prosperity) Limited, was beneficially interested in 572 units as at 30 June 2009 and 188 units as at 31 December 2008; and
- (e) Mr. Stephen Henry Chu, Director of the REIT Manager, was beneficially interested in 100,000 units as at 30 June 2009 and had no beneficial interest in any units as at 31 December 2008.

Deloitte.

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

Introduction

We have reviewed the interim financial information set out on pages 25 to 44, which comprises the condensed consolidated statement of financial position of Prosperity Real Estate Investment Trust and its subsidiaries as of 30 June 2009 and the related condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in net assets attributable to unitholders, condensed consolidated cash flow statement and the distribution statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. ARA Asset Management (Prosperity) Limited is responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

Conclusion

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

21 August 2009

Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2009

	Notes	Six months ended 30 June	
		2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Revenue	4	131,230	128,962
Property management fees		(3,076)	(3,004)
Property operating expenses	6	(24,516)	(22,377)
Total property operating expenses		(27,592)	(25,381)
Net property income		103,638	103,581
Interest income		89	69
Manager's fee		(12,755)	(13,712)
Trust and other expenses	7	(4,076)	(4,927)
Increase in fair value of investment properties during the period		45,411	177,844
Finance costs	8	(42,521)	(43,802)
Profit before taxation and transactions with unitholders		89,786	219,053
Taxation	9	(13,752)	(15,545)
Profit for the period, before transactions with unitholders		76,034	203,508
Distribution to unitholders		(73,065)	(89,024)
Profit for the period, after transactions with unitholders		2,969	114,484
Other comprehensive income (expense)			
Change in fair value of cashflow hedge		(6,246)	(10,528)
Reclassification adjustment in respect of cash flow hedge		14,591	–
Total other comprehensive income (expense)		8,345	(10,528)
Total comprehensive income for the period, after transactions with unitholders		11,314	103,956
Income available for distribution to unitholders		73,065	89,024
Earnings per unit and diluted earnings per unit (HK\$)	10	0.06	0.16

Distribution Statement

For the six months ended 30 June 2009

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

Notes:

(i) These adjustments for the half year include:

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

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

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

Condensed Consolidated Statement of Financial Position

As at 30 June 2009

	Notes	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	11	4,887,000	4,839,000
Current assets			
Trade and other receivables	12	8,083	8,870
Tax recoverable		302	302
Bank balances and cash		56,957	67,154
Total current assets		65,342	76,326
Total assets		4,952,342	4,915,326
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments	13	38,751	32,505
Secured term loan	14	1,763,825	1,761,893
Deferred tax liabilities		204,899	191,712
Total non-current liabilities, excluding net assets attributable to unitholders		2,007,475	1,986,110
Current liabilities			
Trade and other payables	15	108,234	115,015
Amounts due to related companies	16	7,554	7,307
Provision for taxation		662	97
Manager's fee payable		6,400	6,392
Distribution payable		73,065	75,492
Total current liabilities		195,915	204,303
Total liabilities, excluding net assets attributable to unitholders		2,203,390	2,190,413
Net assets attributable to unitholders		2,748,952	2,724,913
Units in issue ('000)	17	1,313,154	1,298,654
Net asset value per unit (HK\$) attributable to unitholders	18	2.14	2.15

Condensed Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 30 June 2009

	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 2009 (audited)	2,773,698	(91,278)	(66,900)	109,393	2,724,913
OPERATIONS					
Profit for the period, before transactions with unitholders	-	-	-	76,034	76,034
Change in fair value of cashflow hedge			(6,246)		(6,246)
Reclassification adjustment in respect of cash flow hedge	-	-	14,591	-	14,591
Total comprehensive income for the period, before transactions with unitholders	-	-	8,345	76,034	84,379
UNITHOLDERS' TRANSACTIONS					
Distribution to unitholders	-	-	-	(73,065)	(73,065)
Total comprehensive income for the period, after transactions with unitholders	-	-	8,345	2,969	11,314
Units issued to REIT Manager	12,725	-	-	-	12,725
Net assets attributable to unitholders as at 30 June 2009 (unaudited)	2,786,423	(91,278)	(58,555)	112,362	2,748,952

Condensed Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the six months ended 30 June 2008

	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 2008 (audited)	2,746,240	(91,278)	(48,040)	531,131	3,138,053
OPERATIONS					
Profit for the period, before transactions with unitholders	–	–	–	203,508	203,508
Change in fair value of cashflow hedge	–	–	(10,528)	–	(10,528)
Total comprehensive (expense) income for the period, before transactions with unitholders	–	–	(10,528)	203,508	192,980
UNITHOLDERS' TRANSACTIONS					
Distribution to unitholders	–	–	–	(89,024)	(89,024)
Total comprehensive income for the period, after transactions with unitholders	–	–	(10,528)	114,484	103,956
Unit issued to REIT Manager	13,455	–	–	–	13,455
Net assets attributable to unitholders as at 30 June 2008 (unaudited)	2,759,695	(91,278)	(58,568)	645,615	3,255,464

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2009

	Six months ended 30 June	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Net cash from operating activities	93,793	108,001
Net cash used in investing activities	(2,499)	(5,087)
Net cash used in financing activities:		
Distribution to unitholders	(75,492)	(84,396)
Other financing cash flows	(25,999)	(10,083)
	(101,491)	(94,479)
Net (decrease) increase in cash and cash equivalents	(10,197)	8,435
Cash and cash equivalents at beginning of the period	67,154	23,854
Cash and cash equivalents at end of period, represented by bank balances and cash	56,957	32,289

1 GENERAL

Prosperity REIT is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units have been listed on The Stock Exchange of Hong Kong Limited since 16 December 2005. Prosperity REIT is governed by the deed of trust dated 29 November 2005, as amended by a first supplemental deed dated 12 December 2005, second supplemental deed dated 15 May 2007 and a third supplemental deed dated 14 May 2008 (collectively the "Trust Deed") made between ARA Asset Management (Prosperity) Limited (the "REIT Manager") and HSBC Institutional Trust Services (Asia) Limited (the "Trustee") and the Code on Real Estate Investment Trusts (the "REIT Code") issued by the Securities and Futures Commission.

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

2 BASIS OF PREPARATION

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

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

3 PRINCIPAL ACCOUNTING POLICIES

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

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

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

HKAS 1 (revised 2007) Presentation of Financial Statements

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

HKFRS 8 Operating Segments (“HKFRS 8”)

HKFRS 8 requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, HKAS 14 Segment Reporting (“HKAS 14”), require the identification of business and geographical segments using a risks and returns approach. All of Prosperity REIT’s operations are located and carried out in Hong Kong, and the sole principal activity of Prosperity REIT is investing in offices and commercial properties. Accordingly, no segment information by business and geographical segment was presented under HKAS 14 in prior periods. In the current period, Prosperity REIT adopted HKFRS 8 and the segment information is set out in note 5.

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

HKAS 32 (Amendments) require that if an entity has instruments, or components of instruments, that impose on the entity an obligation to deliver to the holders a pro-rata share of the net assets of the entity only on liquidation, such instruments or components, should be presented as equity if certain specified criteria are met. The REIT Manager has considered the amendments and has determined that HKAS 32 (Amendments) has no material impact to the accounting treatment for the units issued to unitholders as the component of the units that would be classified as equity is insignificant. Accordingly the units continue to be classified as financial liabilities, representing the obligation of Prosperity REIT to distribute no less than 90% of Prosperity REIT’s distributable income to the unitholders.

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

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

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

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

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

⁴ Effective for transfers on or after 1 July 2009.

4 REVENUE

	Six months ended 30 June	
	2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Gross rental from investment properties		
Rental income	102,763	100,351
Car park income	7,659	7,915
	110,422	108,266
Rental related income	20,808	20,696
	131,230	128,962

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

5 SEGMENT INFORMATION

As disclosed in note 3, the application of HKFRS 8 in current period requires operating segments to be identified on the basis of internal reports about components of Prosperity REIT that are regularly reviewed by the chief operating decision maker which is the REIT Manager in order to allocate resources to segments and to assess their performance.

Prosperity REIT is currently investing in seven properties, namely The Metropolis Tower, Prosperity Millennia Plaza, portion of Harbourfront Landmark, Prosperity Place, Trendy Centre, portion of Prosperity Center and portion of New Treasure Centre. These properties are the basis on which Prosperity REIT reports its segment information and is presented below:

Six months ended 30 June 2009

	The Metropolis Tower HK\$'000	Prosperity Millennia Plaza HK\$'000	Portion of Harbourfront Landmark HK\$'000	Prosperity Place HK\$'000	Trendy Centre HK\$'000	Portion of Prosperity Center HK\$'000	Portion of New Treasure Centre HK\$'000	Consolidated HK\$'000
Revenue	43,586	24,518	9,398	19,041	16,600	12,628	5,459	131,230
Net property income	34,608	17,944	8,358	15,077	13,678	9,483	4,490	103,638
Interest income								89
Manager's fee								(12,755)
Trust and other expenses								(4,076)
Increase in fair value of investment properties during the period								45,411
Finance costs								(42,521)
Profit before taxation and transactions with unitholders								89,786

5 SEGMENT INFORMATION (Continued)

Six months ended 30 June 2008

	The Metropolis Tower HK\$'000	Prosperity Millennia Plaza HK\$'000	Portion of Harbourfront Landmark HK\$'000	Prosperity Place HK\$'000	Trendy Centre HK\$'000	Portion of Prosperity Center HK\$'000	Portion of New Treasure Centre HK\$'000	Consolidated HK\$'000
Revenue	43,820	25,248	8,012	17,529	16,067	13,012	5,274	128,962
Net property income	36,836	18,837	7,135	13,620	13,012	10,151	3,990	103,581
Interest income								69
Manager's fee								(13,712)
Trust and other expenses								(4,927)
Increase in fair value of investment properties during the period								177,844
Finance costs								(43,802)
Profit before taxation and transactions with unitholders								219,053

Net property income is the measure reported to the REIT Manager for the purposes of resource allocation and performance assessment.

6 PROPERTY OPERATING EXPENSES

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Building management fees	11,216	10,544
Utilities	2,700	2,519
Car park operating expenses	1,812	1,815
Marketing service fee	3,829	1,544
Lease commission	1,071	776
Repair and maintenance	1,255	2,424
Valuation fees (paid to principal valuer)	92	99
Audit fee	578	565
Back-office support service fee	378	378
Others	1,585	1,713
	24,516	22,377

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

7 TRUST AND OTHER EXPENSES

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Audit fee	203	258
Trustee's fee	721	786
Bank charges	119	102
Legal and professional fees	455	618
Registrar fee	770	768
Back-office support service fee	30	33
Public relations-related expenses	11	62
Trust administrative expenses	1,767	2,300
	4,076	4,927

8 FINANCE COSTS

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Interest expense on:		
– Secured term loan	15,871	29,305
– Reclassification adjustment in respect of cash flow hedge	14,591	–
– Equalisation of interest expense through cashflow hedges	12,059	14,267
	42,521	43,572
– Secured revolving loan	–	230
	42,521	43,802

9 TAXATION

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Current tax	565	–
Deferred tax	13,187	15,545
	13,752	15,545

Hong Kong profit tax is calculated at 16.5% of the estimated assessable profit for the period. No provision for Hong Kong profits tax is required for certain subsidiaries of Prosperity REIT as these subsidiaries did not have any assessable profits for the period or the assessable profit is wholly absorbed by tax losses brought forward.

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

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

10 EARNINGS PER UNIT

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

The diluted earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$76,034,000 (2008: HK\$203,508,000) by the weighted average units issued during the period together with the effects of potential units (units issued for manager's fee) of 1,312,835,251 (2008: 1,285,053,751).

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

11 INVESTMENT PROPERTIES

	1 January 2009 to 30 June 2009 HK\$'000 (unaudited)	1 January 2008 to 31 December 2008 HK\$'000 (audited)
FAIR VALUE		
At beginning of the period/year	4,839,000	5,225,000
Additional expenditure	2,589	12,406
Increase (decrease) in fair value of investment properties	45,411	(398,406)
At end of the period/year	4,887,000	4,839,000

On 30 June 2009 and 31 December 2008, an independent valuation was undertaken by Savills Valuation and Professional Services 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 on the basis of capitalization of the net income and, where appropriate, by reference to sales evidence as available on the market.

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

Certain of the Group's investment properties as at 30 June 2009, with aggregate carrying value of HK\$4,846.4 million (31 December 2008: HK\$4,799.0 million), have been pledged to secure banking facilities granted to the Group.

12 TRADE AND OTHER RECEIVABLES

	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Trade receivables	524	1,067
Deposits and prepayments	7,559	7,743
Other receivables	–	60
	8,083	8,870

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

	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Current – 1 month	491	945
2 – 3 months	–	93
Over 3 months	33	29
	524	1,067

13 DERIVATIVE FINANCIAL INSTRUMENTS

	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Cash flow hedges – interest rate swaps	(38,751)	(32,505)

The Group uses interest rate swaps to minimise its exposure to cash flow changes of its floating-rates term loan of principal of HK\$1,770 million by swapping from floating rates to fixed rates. The interest rate swaps of the Group as at 30 June 2009 and 31 December 2008 with aggregate notional amount of HK\$1,770 million have fixed interest payments at fixed interest rates ranging from 2.09% to 2.65% per annum and floating interest receipts at three months HIBOR for periods up until December 2010. The interest rate swaps and the corresponding bank borrowings have the same terms and the REIT Manager designated that the interest rate swaps are effective hedging instruments.

The above derivatives are measured at fair value at the end of each reporting date. Their fair values are determined based on the discounted future cash flows using the applicable yield curve for the duration of the swap.

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

14 BORROWINGS

	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Long-term borrowing:		
Secured term loan	1,770,000	1,770,000
Origination fees	(6,175)	(8,107)
	1,763,825	1,761,893

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

The term and conditions of the facilities are as follows:

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

The term loan, after hedging, gave an effective interest rate of 2.962% per annum.

15 TRADE AND OTHER PAYABLES

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

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

	30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Current – 1 month	372	38
2 – 3 months	383	152
Over 3 months	72	301
	827	491

16 AMOUNTS DUE TO RELATED COMPANIES

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

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

17 ISSUED UNITS

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

Subsequent to the period end date, 5,567,119 units at HK\$1.1476 per unit were issued to the REIT Manager as settlement of base fee and variable fee for the period from 1 April 2009 to 30 June 2009.

18 NET ASSET VALUE PER UNIT ATTRIBUTABLE TO UNITHOLDERS

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

19 MAJOR NON-CASH TRANSACTION

During the period, the REIT Manager earned a fee of HK\$12,755,000 (1 January 2008 to 30 June 2008: HK\$13,712,000) of which HK\$12,733,000 (1 January 2008 to 30 June 2008: HK\$13,689,000) was paid through the issuance of units to the REIT Manager. An amount of HK\$6,344,000 (1 January 2008 to 30 June 2008: HK\$6,767,000) was settled through the issuance of units to the REIT Manager while the balance of HK\$6,389,000 (1 January 2008 to 30 June 2008: HK\$6,922,000) will be paid in units subsequent to the period end.

20 NET CURRENT LIABILITIES

As at 30 June 2009, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$130,573,000 (31 December 2008: HK\$127,977,000). Under the existing banking facility, the Group has in place a revolving credit facility to meet its liabilities should it be necessary.

21 TOTAL ASSETS LESS CURRENT LIABILITIES

As at 30 June 2009, the Group's total assets less current liabilities amounted to HK\$4,756,427,000 (31 December 2008: HK\$4,711,023,000).

22 CONNECTED AND RELATED PARTY TRANSACTIONS

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

	Note	Six months ended 30 June	
		2009 HK\$'000 (unaudited)	2008 HK\$'000 (unaudited)
Rent and rental related income from			
AMTD Financial Planning Limited	(a)	–	524
E-Park Parking Management Limited	(a)	88	95
e-Smart System Inc.	(a)	–	186
Goodwell Property Management Limited	(a)	602	584
Hutchison Telephone Company Limited	(b)	24	–
Tremayne Investments Limited	(b)	9,399	8,012
Carpark lease agency fee for the operations of the Group's carpark			
E-Park Parking Management Limited	(a)	614	591
Goodwell Property Management Limited	(a)	–	15
Property management fee			
Goodwell-Prosperity Property Services Limited	(a)	3,076	3,004
Marketing service fee			
Goodwell-Prosperity Property Services Limited	(a)	3,829	1,544
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited		721	786
Manager's fee			
ARA Asset Management (Prosperity) Limited		12,755	13,712
Back-office support service fee			
Cheung Kong Companies	(c)	408	411

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2009

22 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

Balances with related parties are as follows:

		30 June 2009 HK\$'000 (unaudited)	31 December 2008 HK\$'000 (audited)
Amount due to related companies			
Citybase Property Management Limited	(a)	1,638	1,487
Goodwell-Prosperity Property Services Limited	(a)	2,434	1,408
Goodwell Property Management Limited	(a)	2,936	3,842
Harbourfront Landmark Premium Services Limited	(b)	338	370
E-Park Parking Management Limited	(a)	208	194
Cheung Kong (Holdings) Limited		–	6
Deposits placed with the Group for the lease of the Group's properties			
E-Park Parking Management Limited	(a)	61	51
Goodwell Property Management Limited	(a)	324	324
Hutchison Telephone Company Limited	(b)	15	15

Notes:

- (a) These companies are the subsidiaries of Cheung Kong (Holdings) Limited ("CKH"), a significant unitholder of Prosperity REIT.
- (b) These companies are the subsidiaries of Hutchison Whampoa Limited ("HWL"), an associate of CKH and a unitholder of Prosperity REIT.
- (c) These companies are the subsidiaries and associates of CKH being Cheung Kong Real Estate Agency Limited, Randash Investment Limited, Hutchison Hotel Hong Kong 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 REIT Manager and all the owners of a development and their successors-in-title which include members of CKH group technically constitutes a contract between the Group and CKH group. Remuneration to the building managers, which are the wholly-owned subsidiaries of CKH, for the building management services provided constitutes a connected transaction. During the period, remuneration paid from the funds of the buildings, attributable to the properties owned by the Group, to the building managers amounted to HK\$243,000 (1 January 2008 to 30 June 2008: HK\$286,000).

Results Analysis

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Revenue	131,230	128,962
Net property income	103,638	103,581
Profit for the period, before transactions with unitholders	76,034	203,508
Income available for distribution	73,065	89,024
Earnings per unit and diluted earnings per unit (HK\$)	0.06	0.16
Distribution per unit (HK\$)	0.0554	0.0690

Major Assets and Liabilities

	30 June 2009	31 December 2008
	HK\$'000	HK\$'000
	(unaudited)	(audited)
Investment properties	4,887,000	4,839,000
Secured bank loans, excluding origination fees	(1,770,000)	(1,770,000)
Net asset value	2,748,952	2,724,913
Net asset value per unit (HK\$) (Note 18)	2.14	2.15

Other Information

The highest traded price during the period/year (HK\$)	1.12	1.72
The highest (discount) premium of the traded price to net asset value	(47.7%)	(20.0%)
The lowest traded price during the period/year (HK\$)	0.84	0.59
The lowest discount of the traded price to net asset value	(60.7%)	(72.6%)
The net yield per unit based on market price at the end of period/year ¹	10.5% ¹	14.1% ¹

1. Annualised yield based on the distribution per unit of HK\$0.0554 for the six months ended 30 June 2009 and last traded price of HK\$1.06 as of 30 June 2009. For the year ended 31 December 2008, the yield is based on the distribution of HK\$0.1268 for the year of 2008 and the closing market price of HK\$0.90 as at 31 December 2008.

Investment Properties Portfolio

As at 30 June 2009

Property	Type	Lease term	Lease expiry date	Location	Valuation 30 June 2009 HK\$ Million
The Metropolis Tower	O	Medium-term lease	30 June 2047	No. 10 Metropolis Drive Hungom Kowloon Hong Kong	1,796
Prosperity Millennia Plaza	O	Medium-term lease	30 June 2047	No. 663 King's Road North Point Hong Kong	1,061
Harbourfront Landmark (portion)	O	Medium-term lease	30 June 2047	No. 11 Wan Hoi Street Hungom Kowloon Hong Kong	312
Prosperity Place	I/O	Medium-term lease	30 June 2047	No. 6 Shing Yip Street Kwun Tong Kowloon Hong Kong	591
Trendy Centre	I/O	Medium-term lease	30 June 2047	No.682 Castle Peak Road Cheung Sha Wan Kowloon Hong Kong	521
Prosperity Center (portion)	I/O	Medium-term lease	30 June 2047	No. 25 Chong Yip Street Kwun Tong Kowloon Hong Kong	451
New Treasure Centre (portion)	I	Medium-term lease	30 June 2047	No. 10 Ng Fong Street San Po Kong Kowloon Hong Kong	155
Total					4,887

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

BOARD OF DIRECTORS OF THE REIT MANAGER

Chiu Kwok Hung, Justin
Chairman and Non-executive Director

Lim Hwee Chiang, John
Non-executive Director

Ma Lai Chee, Gerald
Non-executive Director

Stephen Henry Chu
Chief Executive Officer and 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

TRUSTEE

HSBC Institutional Trust Services (Asia) Limited

COMPANY SECRETARY OF THE REIT MANAGER

Seng Sze Ka Mee, Natalia

AUDITORS OF PROSPERITY REIT

Deloitte Touche Tohmatsu

PRINCIPAL VALUER

Savills Valuation and Professional Services
Limited

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking
Corporation Limited
Sumitomo Mitsui Banking Corporation
DBS Bank Limited

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 1712-16, 17/F
Hopewell Centre
183 Queen's Road East
Hong Kong

WEBSITE

www.prosperityreit.com

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Portfolio Map 物業分佈圖





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

泓富產業信託
由泓富資產管理有限公司管理