



GROWTH | FOCUS

INTERIM REPORT 2008 中期報告

Manager 管理人

ARA

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

 **PROSPERITY**
REIT 泓富產業信託

(Stock Code 股份代號: 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 unitholders through proactive asset management and multi-dimensional growth strategies.

Contents

| | |
|---|----|
| Chairman's Statement | 2 |
| Performance Highlights | 4 |
| Management Discussion and Analysis | 6 |
| Corporate Governance | 14 |
| Connected Party Transactions | 17 |
| Report on Review of Interim Financial Information | 24 |
| Interim Financial Statements | 25 |
| Performance Table | 43 |
| Investment Properties Portfolio | 44 |
| Corporate Information | 45 |



Chairman's Statement

Dear Unitholders,

On behalf of the Board of Directors (the "Board") of ARA Asset Management (Prosperity) Limited (the "Manager"), the manager of Prosperity Real Estate Investment Trust ("Prosperity REIT"), I am pleased to present Prosperity REIT's interim report for the six months from 1 January 2008 to 30 June 2008 (the "Reporting Period").

Results and Distribution

Prosperity REIT delivered an outstanding performance during the Reporting Period. Distribution per unit ("DPU") rose 8.0% year-on-year ("YoY") as revenue and net property income grew by 7.7% YoY and 10.2% YoY, respectively. With the upward valuation of our property portfolio, net asset value per unit also increased to HK\$2.58 as at 30 June 2008. Healthy organic growth was achieved through proactive asset management efforts and prudent cost management. The continued uptrend in the Hong Kong commercial property sector also contributed to Prosperity REIT's strong performance.

I am pleased to announce that our unitholders will receive an interim DPU of HK\$0.0690 for the Reporting Period, representing an attractive annualized distribution yield of 9.2%¹.

Market Review

Hong Kong's economy continued to grow in the first half of 2008, led by increased exports and further economic development in Mainland China. Trade flows with Mainland China achieved stable growth, rising by 9.3% YoY in the first half of the year. As Hong Kong offers a number of competitive edges in the provision of high value-added services, the demand for expertise in the banking, finance, sales and marketing services sectors are expected to remain strong as Mainland China moves up the value chain. In the first half of 2008, Hong Kong's Gross Domestic Product ("GDP") grew by 5.8% from a year ago, while the unemployment rate fell to a 10-year low of 3.3% in the second quarter.

GDP has continued to increase in Mainland China, with a high growth rate of 10.1% YoY recorded in the second quarter of 2008. This is poised to generate positive spillover effects as Hong Kong and Mainland China's economies are closely linked. The trading, manufacturing and real estate sectors are expected to benefit from improved trade links and business cooperation between the two economies. The current low interest rate environment has also contributed to the uptrend in the property sector as funding costs lowered. Local banks have reduced the best lending rates by 1.5% in the first half of 2008. Such low costs will facilitate Prosperity REIT's growth through accretive acquisition opportunities.

On the back of tight supply, rents in the central business districts continued to rise. The widening rental gap between central and decentralised business districts has shifted focus to the rapidly emerging decentralized business districts. Tenants from diversified industries, from banking, accounting, to retail and travel sectors, have been seen to relocate to high quality office space in decentralized areas. With Prosperity REIT's portfolio of quality office and industrial/office properties strategically located in these emerging business districts, we expect to capitalize on this decentralization trend for organic growth.

¹ Based on Prosperity REIT's closing unit price of HK\$1.50 on 30 June 2008

The industrial/office and industrial sectors continue to benefit from trade liberalization under the Closer Economic Partnership Arrangements. Coupled with the government's plan to launch 10 major infrastructure projects, the territory's logistics and trading business are expected to enjoy improved prospects. We are confident that Prosperity REIT's leasing activities will continue to generate stable returns for our unitholders.

Operation Review

Prosperity REIT delivered strong results during the Reporting Period on the back of the Manager's professional management expertise and a buoyant property market. Prosperity REIT's net property income of HK\$103.6 million and revenue of HK\$128.9 million rose 10.2% YoY and 7.7% YoY, respectively.

As a result of proactive leasing efforts and efficient tenant recruitment strategies, the average effective unit rent of the portfolio increased by 5.9% YoY to HK\$14.07 per sq.ft., complemented by a high occupancy rate of 99.1% as at 30 June 2008.

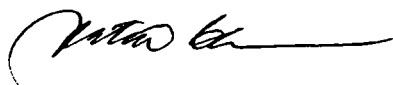
The cost-to-revenue ratio decreased to 19.6%, which is 8.8% lower than a year ago. Gearing ratio has improved to 32.5% as at the end of June 2008, enhancing Prosperity REIT's financial foundation for future growth.

Prospects

Looking ahead, the ongoing economic slowdown in the US and global financial market turbulence could affect business sentiment as uncertainty persists. However, Hong Kong's economy has remained resilient, supported by strong business links with Mainland China. We expect domestic demand to remain healthy, boosted by the low interest rate environment and firm job market conditions. It is expected that the Hong Kong commercial property market will continue to experience steady demand on the back of corporations seeking expansion opportunities. The Manager will implement more asset enhancement initiatives and effective cost control measures to enhance returns for unitholders.

Acknowledgement

I would like to express my gratitude to the outstanding efforts of the management team of the Manager, the property manager of Prosperity REIT, and 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, 18 August 2008

Performance Highlights

+8.0%

Distribution Per Unit¹

+24.6%

Average Rental Reversion²

99.1%

Occupancy Rate³

+7.7%

Revenue¹

+10.2%

Net Property Income¹

19.6%

Cost-to-Revenue Ratio²

Notes: ¹ Year-on-year comparison ² For the six months ended 30 June 2008 ³ As at 30 June 2008

Performance Highlights (Continued)

| | Six months ended 30 June (unaudited) | | Percentage change Increase/(Decrease) |
|-----------------------|--------------------------------------|------------|--|
| | 2008 | 2007 | |
| Distribution per unit | HK\$0.0690 | HK\$0.0639 | 8.0% |

Operation data

| | Six months ended 30 June (unaudited) | | Percentage change Increase/(Decrease) |
|--------------------------------|--------------------------------------|----------------------|--|
| | 2008 | 2007 | |
| Revenue | HK\$128.9 million | HK\$119.7 million | 7.7% |
| Net property income | HK\$103.6 million | HK\$94.0 million | 10.2% |
| Cost-to-revenue ratio | 19.6% | 21.5% | (8.8%) |
| Occupancy rate (as at 30 June) | 99.1% | 97.0% | 2.2% |
| Tenant retention rate | 51.3% | 56.1% | (8.6%) |
| Average effective unit rent | HK\$14.07 per sq.ft. | HK\$13.29 per sq.ft. | 5.9% |

Key financial figures

| | As at 30 Jun 2008 | As at 31 Dec 2007 | Percentage change Increase/(Decrease) |
|--------------------------|--------------------------|-------------------|--|
| | (unaudited) | (audited) | |
| Net asset value per unit | HK\$2.58 | HK\$2.50 | 3.2% |
| Property valuation | HK\$5,408 million | HK\$5,225 million | 3.5% |
| Gearing ratio** | 32.5% | 33.5% | (3.0%) |

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



Management Discussion and Analysis

Operation Review

Prosperity REIT owns a diversified portfolio of seven high-quality 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 about 1.22 million sq.ft. and 407 car park spaces. As at 30 June 2008, the appraised value of the portfolio rose to HK\$5,408 million.

Information on the properties in the portfolio as at 30 June 2008 is as follows:

| | Location | Gross rentable area (sq.ft.) | No. of car park spaces | Valuation (HK\$ million) | Occupancy rate | |
|--------------------------|---------------------------------|------------------------------|------------------------|--------------------------|----------------|--------------|
| Grade A Office | | | | | | |
| | The Metropolis Tower | Hunghom | 271,418 | 98 | 2,022 | 100.0% |
| | Prosperity Millennia Plaza | North Point | 217,955 | 43 | 1,181 | 100.0% |
| | Harbourfront Landmark (portion) | Hunghom | 77,021 | – | 350 | 100.0% |
| Industrial/Office | | | | | | |
| | Modern Warehouse | Kwun Tong | 240,000 | 60 | 618 | 98.1% |
| | Trendy Centre | Cheung Sha Wan | 173,764 | 79 | 581 | 97.4% |
| | Prosperity Center (portion) | Kwun Tong | 149,253 | 105 | 490 | 98.5% |
| Industrial | | | | | | |
| | New Treasure Centre (portion) | San Po Kong | 86,168 | 22 | 166 | 100.0% |
| Total | | | 1,215,579 | 407 | 5,408 | 99.1% |

During the Reporting Period, Hong Kong's economy remained healthy, underpinned by solid fundamentals and the territory's strong economic ties with the Mainland. Under these sound economic conditions, corporations in the office and industrial/office sectors continued to expand, enabling Prosperity REIT to record steady growth through higher rents and occupancy in the first half of this year. As at 30 June 2008, the portfolio's occupancy rate hit 99.1%, as compared to 97% as of 30 June 2007.

Through the Manager's proactive leasing efforts, the rental reversion rate was able to achieve a dynamic growth of 24.6%, for leases which were successfully renewed in the Reporting Period. The average effective unit rent of the portfolio also climbed to HK\$14.07 per sq.ft., representing an increase of 5.9% YoY.

+24.6% Average Rental Reversion¹

99.1% Occupancy Rate²

Notes:

¹ For the six months ended 30 June 2008

² As at 30 June 2008

Due to the Manager's efficient streamlining of operations, the cost-to-revenue ratio was lowered to 19.6% from 21.5% in the last corresponding period. Gearing ratio also narrowed to 32.5% as at 30 June 2008, which will provide Prosperity REIT a better financial foundation for future growth.

Investment Review

Backed by the strong performance of the existing portfolio and the sound financials, the Manager has been actively pursuing acquisition opportunities in the property sector within Hong Kong and beyond. The Manager is obliged to prudently assess acquisition targets as to asset enhancement potential, existing tenant base, as well as the synergies with the portfolio.

In May, Prosperity REIT obtained unitholders' approval to expand its scope of acquisition coverage to invest in office, commercial and retail properties, with no geographical restrictions. In July, Prosperity REIT unwound its interest rate swap arrangement to deliver a clean yield to unitholders.

These enable the Manager to seize greater investment opportunities and capture a more competitive cost of capital to facilitate growth through yield-accretive acquisitions, with a view to generate greater returns to unitholders in the future.

Asset Enhancement

Asset enhancement is the Manager's ongoing and integral strategy to upgrade tenants' business environment for continual growth in rental income and maintaining high occupancy. Asset enhancement initiatives also increase the properties' value accordingly.

The Manager has been proactively planning and executing asset enhancement initiatives with large-scale works in Modern Warehouse and Trendy Centre. A number of asset enhancement works were completed in the Reporting Period and more plans will be put in place within the portfolio of properties going forward.

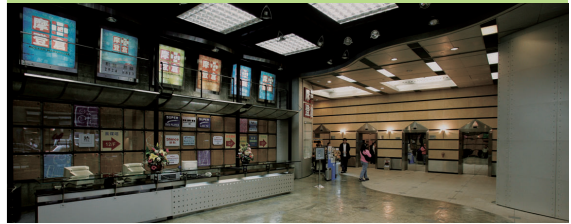
Modern Warehouse

Modern Warehouse is a high-rise industrial/office building. Ground-floor lobby and upper-floor passenger lift lobbies have been renovated to a modern design with an office ambience. All floors' renovation work will be completed in the second half of 2008. The façade of the building will also be uplifted, and is scheduled to be completed by the first quarter of 2009.

Before



Upon completion of the said renovation works, Modern Warehouse will be completely re-branded into a commercial landmark in Kwun Tong district. The building name will also be changed from "Modern Warehouse" to "Prosperity Place" to enhance the property's image.



After

Asset Enhancement



Trendy Centre

Trendy Centre is a high-rise industrial/office building. The passenger lift lobby and common corridor of each floor have been face-lifted to a modern office ambience. The renovation works were completed in July 2008. Together with the successful upgrade of the ground-floor lobby in 2007, the building is now transformed into a high-quality accommodation for business and this will raise Trendy Centre's competitiveness and attractiveness within the locality.



Management Discussion and Analysis (Continued)

Outlook

The Manager has been effectively managing and operating Prosperity REIT since its public listing on 16 December 2005 (the "Listing Date") with impressive results. The office and industrial/office leasing markets are expected to remain buoyant on the back of strong economic growth in Hong Kong and Mainland China. Given the Manager's professional experience and management expertise, as well as the diligent devotion of Goodwell-Prosperity Property Services Limited as the property manager of Prosperity REIT, we are 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 | 35,866 | 7,954 | 43,820 | 36,836 |
| Prosperity Millennia Plaza | 19,287 | 5,961 | 25,248 | 18,837 |
| Harbourfront Landmark (portion) | 6,932 | 1,080 | 8,012 | 7,135 |
| Industrial/Office | | | | |
| Modern Warehouse | 17,279 | 250 | 17,529 | 13,620 |
| Trendy Centre | 13,054 | 3,013 | 16,067 | 13,012 |
| Prosperity Center (portion) | 11,406 | 1,606 | 13,012 | 10,151 |
| Industrial | | | | |
| New Treasure Centre (portion) | 4,442 | 832 | 5,274 | 3,990 |
| Total | 108,266 | 20,696 | 128,962 | 103,581 |

Revenue

During the Reporting Period, revenue stood at HK\$128.9 million, which was HK\$9.2 million or 7.7% higher than the last corresponding half year.

The revenue was made up of HK\$108.2 million of rental and car park income, plus HK\$20.7 million of rental related income. Rental and car park income was HK\$7.7 million or 7.7% above the last corresponding half year. The increase was mainly due to an increase in average effective unit rent and occupancy rate.

Net Property Income

Net property income was HK\$103.6 million, exceeding the last corresponding half year by HK\$9.6 million or 10.2%. The growth was attributed to higher revenue generated during the Reporting Period. The cost-to-revenue ratio has improved to 19.6% from 21.5% in the last corresponding half year.



Notes:

¹ Year-on-year comparison

² For the six months ended 30 June 2008

Distributable Income

For the Reporting Period, the unaudited distributable income of Prosperity REIT to unitholders was HK\$89,024,000, representing distribution per unit of HK\$0.0690. The distributable income for the Reporting Period is calculated by the Manager as representing the consolidated net profit of Prosperity REIT and the subsidiaries of Prosperity REIT for the Reporting Period, as adjusted to eliminate the effects of certain non-cash adjustments (as defined in a trust deed entered into on 29 November 2005, as amended by a first supplemental deed dated 12 December 2005, a second supplemental deed dated 15 May 2007 and a third supplemental deed dated 14 May 2008 (collectively the "Trust Deed")) including finance cost of HK\$34,126,000 (equivalent to HK\$0.0265 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. 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 distribution per unit is HK\$0.0690, representing an annualized distribution yield of 9.2% based on the last traded price of HK\$1.50 as of 30 June 2008, outperforming the last corresponding half year by 8.0%. The payment date of interim distribution will be on Tuesday, 28 October 2008.

Liquidity and Financing

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

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. Subsequent to the end of the Reporting Period, Prosperity REIT entered into an agreement to unwind the interest rate swap arrangement effective on 10 July 2008.

The total borrowings of Prosperity REIT, excluding the origination fees, as a percentage of Prosperity REIT's gross assets was 32.5% as at the end of the Reporting Period, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 41.0% as at the end of the Reporting Period.

Prosperity REIT with a cash balance of HK\$32.3 million and available revolving credit facility of approximate HK\$105 million as at 30 June 2008, has sufficient financial resources to satisfy its commitments and working capital requirements.

Management Discussion and Analysis (Continued)

Balance Sheet Highlights

Investment properties and property valuation

For the half year ended 30 June 2008, Prosperity REIT's portfolio recorded an investment property revaluation surplus of HK\$177.8 million, based on a professional valuation performed by an independent valuer, Knight Frank Petty Limited. The movements of fair values are tabulated below:

| | 30 Jun 2008 | 31 Dec 2007 |
|--|--------------------|-------------|
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (audited) |
| Fair value at beginning of the financial period/year | 5,225,000 | 4,864,000 |
| Acquisitions | – | 43,403 |
| Additional expenditure | 5,156 | 7,760 |
| Increase in fair value during the period/year | 177,844 | 309,837 |
| Fair value at the end of period/year | 5,408,000 | 5,225,000 |

Charges on Assets

As at 30 June 2008, certain properties of Prosperity REIT, with aggregate carrying value of HK\$5,364.5 million, were pledged to secure bank loan facilities of Prosperity REIT's finance company.

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

Employees

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

Corporate Governance

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

Board of Directors of the Manager

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

The Board is collectively responsible for the management of the business and affairs of the Manager. The Board exercises its general powers within the limits defined by the articles of association of the Manager, with a view to ensuring that the management discharges its duties and is compensated appropriately, and that sound internal control policies and risk management systems are maintained. The Board also reviews major financial decisions and the performance of the Manager. Subject to the matters specifically reserved to the Board 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 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. The Acting Chief Executive Officer is Mr. Yip Kam Thai who is an Executive Director and Responsible Officer.

Internal Controls

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

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

Audit Committee

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

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

Disclosures Committee

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

The Disclosures Committee is appointed by the Board from among the Directors of the Manager. The Disclosures Committee presently consists of three members, namely, Mr. Chiu Kwok Hung, Justin, Chairman and 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. Mr. Yip Kam Thai is the chairman of the Disclosures Committee.

Review of Interim Report

The interim report of Prosperity REIT for the six months ended 30 June 2008 has been reviewed by the Disclosures Committee and the Audit Committee. The interim financial statements have also been reviewed by Prosperity REIT's auditors, in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

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

The Manager has adopted a code governing dealings in the securities of Prosperity REIT (the "Units Dealing Code") by the Directors or the Manager (collectively, the "Management Persons"). The Units Dealing Code may be extended to apply to any senior executives, officers or other employees of the Manager or Prosperity REIT's special purpose vehicles as the Board may determine.

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

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

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

Closure of Register of Unitholders

The register of unitholders will be closed from Monday, 20 October 2008 to Monday, 27 October 2008, both days inclusive, during which no transfer of units will be effected. In order to qualify for the distribution, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited at Rooms 1806-07, 18/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Friday, 17 October 2008. The payment of interim distribution will be on Tuesday, 28 October 2008.

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 Code on Real Estate Investment Trust (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 six months ended 30 June 2008:

| 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 2008 HK\$ | Rental deposit received as at 30 June 2008 HK\$ |
|--------------------------------------|---|---|--|--|
| AMTD Financial Planning Limited | Subsidiary of a significant holder ¹ | Tenancy of property of Prosperity REIT ³ | 523,782 | – |
| e-Smart System Inc. | Subsidiary of a significant holder ¹ | Tenancy of properties of Prosperity REIT ⁴ | 186,219 | – |
| Goodwell Property Management Limited | Subsidiary of a significant holder ¹ | Tenancy of property of Prosperity REIT ⁵ | 583,914 | 323,472 |
| Tremayne Investments Limited | Subsidiary of an associate of a significant holder ² | Tenancy of property of Prosperity REIT ⁶ | 8,012,394 | see note 8 |
| E-Park Parking Management Limited | Subsidiary of a significant holder ¹ | Tenancy of property of Prosperity REIT ⁷ | 95,148 | 51,381 |
| Total | | | 9,401,457 | 374,853 |

1 Significant holder being Cheung Kong (Holdings) Limited ("Cheung Kong").

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

3 For Units 2501-11, Prosperity Millennia Plaza (the lease expired during the Reporting Period).

4 For Unit 2903, Modern Warehouse (the lease expired during the Reporting Period).

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 (Continued)

Connected Party Transactions – Building Management Services

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

| Name of Connected Party | Relationship with Prosperity REIT | Nature of the Connected Party Transaction | Payment received/ receivable for the six months ended 30 June 2008 HK\$ |
|---|---|---|---|
| Goodwell Property Management Limited ¹ | Subsidiary of a significant holder ³ | Remuneration of DMC Manager | 88,723 |
| Goodwell Property Management Limited ² | Subsidiary of a significant holder ³ | Remuneration of Carpark Manager | 3,549 |
| Citybase Property Management Limited ¹ | Subsidiary of a significant holder ³ | Remuneration of DMC Manager | 129,453 |
| Citybase Property Management Limited ² | Subsidiary of a significant holder ³ | Remuneration of Carpark Manager | 35,095 |
| Harbourfront Landmark Premium Services Limited ¹ | Subsidiary of an associate of a significant holder ⁴ | Remuneration of DMC Manager | 28,844 |
| Total | | | 285,664 |

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 (Continued)

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 2008 HK\$ |
|--|--|--|--|
| Goodwell Property Management Limited | Subsidiary of a significant holder ¹ | Carpark lease agency fee | 14,835 |
| Goodwell-Prosperity Property Services Ltd | Subsidiary of a significant holder ¹ | Property management and lease management fee | 3,003,995 |
| Goodwell-Prosperity Property Services Ltd | Subsidiary of a significant holder ¹ | Marketing service fee | 1,543,957 |
| E-Park Parking Management Limited | Subsidiary of a significant holder ¹ | Carpark lease agency fee | 590,902 |
| HSBC Institutional Trust Services (Asia) Limited | Trustee | Trustee fee | 786,115 |
| ARA Asset Management (Prosperity) Limited | Manager | Base fee and variable fee | 13,711,772 |
| Cheung Kong Companies ² | Subsidiaries and associates of a significant holder ¹ | Back-office support service fee | 410,786 |
| Total | | | 20,062,362 |

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 Transactions (Continued)

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.

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 agreement for 3/F, 5/F & 6/F, Harbourfront Landmark | 13,863,780 |
| Total | | | 13,863,780 |

- 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 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.

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

Connected Party Transactions (Continued)

Other Connected Party Transactions

The following companies had provided back-office services, carpark management services and property management services to Prosperity REIT during the Reporting Period and hence amounts due from Prosperity REIT as at 30 June 2008:

| Name of Connected Party | Amount payable HK\$ |
|--|-------------------------------|
| Citybase Property Management Limited | 2,387,960 |
| E-Park Parking Management Limited | 202,136 |
| Goodwell-Prosperity Property Services Limited | 1,469,845 |
| Goodwell Property Management Limited | 2,897,270 |
| Harbourfront Landmark Premium Services Limited | 302,113 |
| Cheung Kong Real Estate Agency Limited | 63,000 |
| Cheung Kong (Holdings) Limited | 2,734 |
| Total | 7,325,058 |

Repurchase or Redemption of Units

During the Reporting Period, other than the disposal of 4,213,000 units by the Manager which the Manager had received as payment of its management fee, there was no purchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or subsidiaries of Prosperity REIT.

Connected Party Transactions (Continued)

Holding of Connected Persons in the Units of Prosperity REIT

As at 30 June 2008, 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 <i>(Note 5)</i> |
|---|--------------------------------|---|
| Total Win Group Limited | 176,328,129 <i>(Note 1)</i> | 13.72% |
| Wide Option Investments Limited | 98,883,559 <i>(Note 2)</i> | 7.70% |
| HKSCC Nominees Limited | 942,236,682 <i>(Note 3)</i> | 73.33% |
| ARA Asset Management (Prosperity) Limited | 4,255,134 <i>(Note 4)</i> | 0.33% |

Notes:

- (1) Total Win Group Limited is a connected person of Prosperity REIT as it is a significant holder (as defined under the REIT Code) of Prosperity REIT as at such date.
- (2) Wide Option Investments Limited is a connected person of Prosperity REIT as it is an associated company (as defined under the REIT Code) of Total Win Group Limited as at such date.
- (3) HKSCC Nominees Limited is a connected person of Prosperity REIT as it is a significant holder (as defined under the REIT Code) of Prosperity REIT as at such date. So far as the Manager is aware HKSCC Nominees Limited holds such units as a nominee.
- (4) ARA Asset Management (Prosperity) Limited is a connected person of Prosperity REIT as it is the management company (as defined under the REIT Code) of Prosperity REIT as at such date.
- (5) The total number of issued units as at 30 June 2008 is 1,284,921,356.

Connected Party Transactions (Continued)

As at 30 June 2008, 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 4,255,134 units as at 30 June 2008 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 30 June 2008.

So far as the Manager is aware:

- (a) Total Win Group Limited was beneficially interested in 176,328,129 units as at 30 June 2008 and 31 December 2007;
- (b) Wide Option Investments Limited was beneficially interested in 98,883,559 units as at 30 June 2008 and 31 December 2007;
- (c) The Trustee, HSBC Institutional Trust Services (Asia) Limited, had no beneficial interest in any units as at 30 June 2008 and 31 December 2007 but 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 2008 and 31 December 2007.
- (d) The Manager, ARA Asset Management (Prosperity) Limited, had beneficial interest in 4,255,134 units as at 30 June 2008 and 116 units as at 31 December 2007.

Deloitte.

德勤

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 42, which comprises the condensed consolidated balance sheet of Prosperity Real Estate Investment Trust as of 30 June 2008 and the related condensed consolidated income statement, condensed consolidated statement of changes in net assets attributable to unitholders and condensed consolidated cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. ARA Asset Management (Prosperity) Limited is responsible for the preparation and presentation of this interim financial information in accordance with HKAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of review

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

Conclusion

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

18 August 2008

Condensed Consolidated Income Statement

For the six months ended 30 June 2008

| | Notes | Six months ended 30 June | |
|--|-------|---------------------------------|---------------------------------|
| | | 2008 HK\$'000 (unaudited) | 2007 HK\$'000 (unaudited) |
| Revenue | 4 | 128,962 | 119,705 |
| Property management fees | | (3,004) | (2,763) |
| Property operating expenses | 5 | (22,377) | (22,959) |
| Total property operating expenses | | (25,381) | (25,722) |
| Net property income | | 103,581 | 93,983 |
| Interest income | | 69 | 351 |
| Manager's fee | | (13,712) | (12,676) |
| Trust and other expenses | 6 | (4,927) | (5,595) |
| Increase in fair value of investment properties at period end | | 177,844 | 124,062 |
| Finance costs | 7 | (43,802) | (42,190) |
| Profit before taxation and transactions with unitholders | | 219,053 | 157,935 |
| Taxation | 8 | (15,545) | (23,905) |
| Profit for the period, before transactions with unitholders | | 203,508 | 134,030 |
| Distribution to unitholders | | (89,024) | (81,331) |
| Change in net assets attributable to unitholders | | 114,484 | 52,699 |
| Income available for distribution to unitholders | | 89,024 | 81,331 |
| Earnings per unit and diluted earnings per unit (HK\$) | 9 | 0.16 | 0.11 |

Distribution Statement

For the six months ended 30 June 2008

| | Six months ended 30 June 2008 HK\$'000 (unaudited) | 2007 HK\$'000 (unaudited) |
|--|---|---------------------------------|
| Profit for the period, before transactions with unitholders | 203,508 | 134,030 |
| Adjustments: | | |
| Manager's fee | 13,689 | 12,625 |
| Increase in fair value of investment properties at period end | (177,844) | (124,062) |
| Finance costs | 34,126 | 34,833 |
| Deferred tax | 15,545 | 23,905 |
| Income available for distribution (note (i)) | 89,024 | 81,331 |
| Distributions to unitholders: | | |
| For the six months ended 30 June | 89,024 | 81,331 |
| Distribution per unit (HK\$) (note (ii)) | 0.0690 | 0.0639 |

Notes:

- (i) These adjustments for the current period include:
- (a) manager's fee paid and payable in units of HK\$13,689,000 (1 January 2007 to 30 June 2007: HK\$12,625,000) out of the total manager's fee of HK\$13,712,000 (1 January 2007 to 30 June 2007: HK\$12,676,000) (the difference of HK\$23,000 (1 January 2007 to 30 June 2007: HK\$51,000) are paid in cash);
 - (b) increase in fair value of investment properties of HK\$177,844,000 (1 January 2007 to 30 June 2007: HK\$124,062,000);
 - (c) the adjustment is the difference between the accounting finance cost of HK\$43,802,000 (1 January 2007 to 30 June 2007: HK\$42,190,000) less cash finance cost of HK\$9,676,000 (1 January 2007 to 30 June 2007: HK\$7,357,000); and
 - (d) deferred tax of HK\$15,545,000 (1 January 2007 to 30 June 2007: HK\$23,905,000).

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\$0.0690 is calculated based on Prosperity REIT's income available for distribution of HK\$89,024,000 for the Reporting Period and 1,289,519,568 units, representing units as at 30 June 2008 plus the number of units issued after the distribution period to the Manager as manager's fee for the second quarter of 2008.

In previous period, the distribution per unit of HK\$0.0639 is calculated based on Prosperity REIT's income available for distribution of HK\$81,331,000 for the period and 1,272,267,245 units, representing units as at 30 June 2007 plus the number of units issued after the distribution period to the Manager as manager's fee for the second quarter of 2007.

Condensed Consolidated Balance Sheet

As at 30 June 2008

| Notes | 30 June 2008 HK\$'000 (unaudited) | 31 December 2007 HK\$'000 (audited) |
|--|--|--|
| ASSETS AND LIABILITIES | | |
| Non-current assets | | |
| Investment properties | 10 5,408,000 | 5,225,000 |
| Derivative financial instruments | 11 – | 108,288 |
| Total non-current assets | 5,408,000 | 5,333,288 |
| Current assets | | |
| Derivative financial instruments | 11 65,800 | – |
| Trade and other receivables | 12 8,209 | 7,856 |
| Tax recoverable | 302 | 302 |
| Bank balances and cash | 32,289 | 23,854 |
| Total current assets | 106,600 | 32,012 |
| Total assets | 5,514,600 | 5,365,300 |
| Non-current liabilities, excluding net assets attributable to unitholders | | |
| Secured term loan | 13 1,760,024 | 1,758,266 |
| Deferred tax liabilities | 266,094 | 250,548 |
| Total non-current liabilities, excluding net assets attributable to unitholders | 2,026,118 | 2,008,814 |
| Current liabilities | | |
| Trade and other payables | 14 104,735 | 95,986 |
| Amount due to related companies | 15 7,325 | 6,332 |
| Secured revolving loan | 13 25,000 | 25,000 |
| Manager's fee payable | 6,934 | 6,719 |
| Distribution payable | 89,024 | 84,396 |
| Total current liabilities | 233,018 | 218,433 |
| Total liabilities, excluding net assets attributable to unitholders | 2,259,136 | 2,227,247 |
| Net assets attributable to unitholders | 3,255,464 | 3,138,053 |
| Units in issue ('000) | 16 1,284,921 | 1,276,453 |
| Net asset value per unit (HK\$) attributable to unitholders | 17 2.58 | 2.50 |

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 |
| Net adjustment to cashflow hedging reserve, representing loss recognised directly in statement of changes in net assets | - | - | (10,528) | - | (10,528) |
| Total income (expense) for the period, before transactions with unitholders | - | - | (10,528) | 203,508 | 192,980 |
| UNITHOLDERS' TRANSACTIONS | | | | | |
| Unit issued to Manager | 13,455 | - | - | - | 13,455 |
| Distribution payable | - | - | - | (89,024) | (89,024) |
| Increase (Decrease) in net assets resulting from unitholders' transactions | 13,455 | - | - | (89,024) | (75,569) |
| 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 Statement of Changes in Net Assets Attributable to Unitholders *(Continued)*

For the six months ended 30 June 2007

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

Condensed Consolidated Cash Flow Statement

For the six months ended 30 June 2008

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2008 HK\$'000 (unaudited) | 2007 HK\$'000 (unaudited) |
| Net cash from operating activities | 108,001 | 94,559 |
| Net cash used in investing activities | (5,087) | (40,472) |
| Net cash used in financing activities: | | |
| Distribution to unitholders | (84,396) | (78,913) |
| Other financing cash flows | (10,083) | 12,699 |
| | (94,479) | (66,214) |
| Net increase (decrease) in cash and cash equivalents | 8,435 | (12,127) |
| Cash and cash equivalents at beginning of the period | 23,854 | 41,737 |
| Cash and cash equivalents at end of period, represented by bank balances and cash | 32,289 | 29,610 |

Notes to the Condensed Consolidated Financial Statements

For the six months ended 30 June 2008

1 GENERAL

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

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

2 BASIS OF PREPARATION

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

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

3 PRINCIPAL ACCOUNTING POLICIES

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

The accounting policies used in the condensed consolidated financial statements are consistent with those used in the preparation of the Group’s annual financial statements for the year ended 31 December 2007.

In the current interim period, the Group has applied, for the first time, the following new standards, amendment and interpretations (“new HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning 1 January 2008.

| | |
|--------------------|---|
| HK(IFRIC) – Int 11 | HKFRS 2 – Group and Treasury Share Transactions |
| HK(IFRIC) – Int 12 | Service Concession Arrangements |
| HK(IFRIC) – Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2008

3 PRINCIPAL ACCOUNTING POLICIES (Continued)

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

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

| | |
|-----------------------------|---|
| HKAS 1 (Revised) | Presentation of Financial Statements ¹ |
| HKAS 23 (Revised) | Borrowing Costs ¹ |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements ² |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation ¹ |
| HKFRS 2 (Amendment) | Vesting Conditions and Cancellations ¹ |
| HKFRS 3 (Revised) | Business Combinations ² |
| HKFRS 8 | Operating Segments ¹ |
| HK(IFRIC) – Int 13 | Customer Loyalty Programmes ³ |

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

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

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

4 REVENUE

| | Six months ended 30 June | |
|---|---------------------------------|---------------------------------|
| | 2008 HK\$'000 (unaudited) | 2007 HK\$'000 (unaudited) |
| Gross rental from investment properties | | |
| Rental income | 100,351 | 92,911 |
| Car park income | 7,915 | 7,574 |
| | 108,266 | 100,485 |
| Rental related income | 20,696 | 19,220 |
| | 128,962 | 119,705 |

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2008

5 PROPERTY OPERATING EXPENSES

| | Six months ended 30 June | |
|--|--------------------------|---------------|
| | 2008 | 2007 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Building management fees | 10,544 | 10,159 |
| Utilities | 2,519 | 2,603 |
| Car park operating expenses | 1,815 | 1,991 |
| Marketing service fee | 1,544 | 1,293 |
| Lease commission | 776 | 768 |
| Landlord provision, repair and maintenance | 2,424 | 2,910 |
| Valuation fees (paid to principal valuer) | 99 | 120 |
| Audit fee | 565 | 665 |
| Back-office support service fee | 378 | 378 |
| Others | 1,713 | 2,072 |
| | 22,377 | 22,959 |

6 TRUST AND OTHER EXPENSES

| | Six months ended 30 June | |
|-----------------------------------|--------------------------|--------------|
| | 2008 | 2007 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Audit fee | 258 | 235 |
| Trustee's fee | 786 | 730 |
| Bank charges | 102 | 141 |
| Legal and professional fees | 618 | 1,584 |
| Registrar fee | 768 | 768 |
| Back-office support service fee | 33 | 39 |
| Public relations-related expenses | 62 | – |
| Trust administrative expenses | 2,300 | 2,098 |
| | 4,927 | 5,595 |

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2008

7 FINANCE COSTS

| | Six months ended 30 June | |
|--|---------------------------------|---------------------------------|
| | 2008 HK\$'000 (unaudited) | 2007 HK\$'000 (unaudited) |
| Interest expense on: | | |
| – Secured term loan | 29,305 | 42,014 |
| – Equalisation of interest expense through cashflow hedges | 14,267 | (467) |
| | 43,572 | 41,547 |
| – Secured revolving loan | 230 | 643 |
| | 43,802 | 42,190 |

8 TAXATION

| | Six months ended 30 June | |
|--------------|---------------------------------|---------------------------------|
| | 2008 HK\$'000 (unaudited) | 2007 HK\$'000 (unaudited) |
| Current tax | – | – |
| Deferred tax | 15,545 | 23,905 |
| | 15,545 | 23,905 |

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

9 EARNINGS PER UNIT

The earnings per unit is calculated by dividing the profit for the period, before transactions with unitholders of HK\$203,508,000 (1 January 2007 to 30 June 2007: HK\$134,030,000) by the weighted average of 1,281,421,535 (1 January 2007 to 30 June 2007: 1,265,284,024) 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\$203,508,000 (1 January 2007 to 30 June 2007: HK\$134,030,000) by the weighted average of potential units (units issued for manager's fee) of 1,285,053,751 (1 January 2007 to 30 June 2007: 1,268,425,441) units issued during the period.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2008

10 INVESTMENT PROPERTIES

| | 30 June 2008 HK\$'000 (unaudited) | 31 December 2007 HK\$'000 (audited) |
|---|--|--|
| FAIR VALUE | | |
| At beginning of the period/year | 5,225,000 | 4,864,000 |
| Acquisitions | – | 43,403 |
| Additional expenditure | 5,156 | 7,760 |
| Increase in fair value of investment properties | 177,844 | 309,837 |
| At end of the period/year | 5,408,000 | 5,225,000 |

On 30 June 2008, 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 by reference to sales evidence as available on the market and, where appropriate, on the basis of capitalization of the net income.

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 2008, with aggregate carrying value of HK\$5,364.5 million (31 December 2007: HK\$5,182.0 million), have been pledged to secure banking facilities granted to the Group.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2008

11 DERIVATIVE FINANCIAL INSTRUMENTS

| | 30 June 2008 HK\$'000 (unaudited) | 31 December 2007 HK\$'000 (audited) |
|--|--|--|
| Cash flow hedges – interest rate swaps | 65,800 | 108,288 |

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

| Notional amount | Maturity | Swaps |
|------------------------|------------------|--|
| HK\$885,000,000 | 16 December 2010 | From 3 months HIBOR+0.49% to average rate of 1.4% per annum over 5 years |
| HK\$885,000,000 | 16 December 2010 | From 3 months HIBOR+0.49% to average rate of 1.4% per annum over 5 years |

The interest rate swaps are measured at fair value at the balance sheet date. The fair value is determined based on the discounted future cash flows using the applicable yield curve for the duration of the swaps. Subsequently to the period end date, the Group entered into an agreement to unwind the interest rate swap arrangement as disclosed in Note 22. Accordingly, it is classified as current asset as at 30 June 2008.

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2008

12 TRADE AND OTHER RECEIVABLES

| | 30 June 2008 HK\$'000 (unaudited) | 31 December 2007 HK\$'000 (audited) |
|--------------------------|--|--|
| Trade receivables | 668 | 504 |
| Deposits and prepayments | 7,536 | 7,352 |
| Other receivables | 5 | – |
| | 8,209 | 7,856 |

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

| | 30 June 2008 HK\$'000 (unaudited) | 31 December 2007 HK\$'000 (audited) |
|-------------------|--|--|
| Current – 1 month | 574 | 503 |
| 2 – 3 months | 94 | 1 |
| | 668 | 504 |

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

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2008

13 BORROWINGS

| | 30 June 2008 HK\$'000 (unaudited) | 31 December 2007 HK\$'000 (audited) |
|------------------------|--|--|
| Long-term borrowing: | | |
| Secured term loan | 1,770,000 | 1,770,000 |
| Origination fees | (9,976) | (11,734) |
| | 1,760,024 | 1,758,266 |
| Short-term borrowing: | | |
| Secured revolving loan | 25,000 | 25,000 |
| | 1,785,024 | 1,783,266 |

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

The term and conditions of the facilities are as follows:

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

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

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2008

14 TRADE AND OTHER PAYABLES

| | 30 June 2008 HK\$'000 (unaudited) | 31 December 2007 HK\$'000 (audited) |
|----------------------------|--|--|
| Trade payables | 850 | 1,292 |
| Tenants' deposits | | |
| – Outside parties | 70,632 | 65,604 |
| – Related parties | 375 | 1,105 |
| Rental received in advance | | |
| – Outside parties | 1,975 | 2,210 |
| Other payables | 30,903 | 25,775 |
| | 104,735 | 95,986 |

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

| | 30 June 2008 HK\$'000 (unaudited) | 31 December 2007 HK\$'000 (audited) |
|-------------------|--|--|
| Current – 1 month | 324 | 75 |
| 2 – 3 months | 384 | 1,070 |
| Over 3 months | 142 | 147 |
| | 850 | 1,292 |

15 AMOUNT DUE TO RELATED COMPANIES

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

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2008

16 ISSUED UNITS

| | Number of units | HK\$'000 |
|--|-----------------|-----------|
| Balance at 1 January 2008 | 1,276,453,338 | 2,746,240 |
| Payment of Manager's base fee and variable fee through issuance of new units during the period | 8,468,018 | 13,455 |
| Balance at 30 June 2008 | 1,284,921,356 | 2,759,695 |

Subsequent to the balance sheet date, 4,598,212 units at HK\$1.5054 per unit were issued to the Manager as settlement of base fee and variable fee for the period from 1 April 2008 to 30 June 2008.

17 NET ASSET VALUE PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The net asset value per unit is calculated based on the net assets of the Group excluding hedging reserve and the total number of 1,284,921,356 units in issue at 30 June 2008 (31 December 2007: 1,276,453,338).

18 MAJOR NON-CASH TRANSACTION

During the period, the Manager earned a fee of HK\$13,712,000 (1 January 2007 to 30 June 2007: HK\$12,676,000) of which HK\$13,689,000 (1 January 2007 to 30 June 2007: HK\$12,625,000) was paid through the issuance of units to the Manager. An amount of HK\$6,767,000 (1 January 2007 to 30 June 2007: HK\$6,266,000) was settled through the issuance of units to the Manager while the balance of HK\$6,922,000 (1 January 2007 to 30 June 2007: HK\$6,359,000) will be paid in units subsequent to the period end.

19 NET CURRENT LIABILITIES

At the balance sheet date, the Group's net current liabilities, defined as current liabilities less current assets, amounted to HK\$126,418,000 (31 December 2007: HK\$186,421,000). Under the existing banking facility, the Group has in place a revolving credit facility to meet its liabilities should it be necessary.

20 TOTAL ASSETS LESS CURRENT LIABILITIES

At the balance sheet date, the Group's total assets less current liabilities amounted to HK\$5,281,582,000 (31 December 2007: HK\$5,146,867,000).

21 SEGMENTAL REPORTING

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

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2008

22 POST BALANCE SHEET EVENT

Subsequent to the balance sheet date, the Group entered into an agreement to unwind the interest rate swap arrangement effective on 10 July 2008 at a total consideration of approximately HK\$71.0 million. As a result of unwinding the Interest Rate Swap, the interest rate of the term loan is now kept at floating rate which is HIBOR plus 0.49% as from 10 July 2008 onwards.

23 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 | |
|---|------|---------------------------------|---------------------------------|
| | | 2008 HK\$'000 (unaudited) | 2007 HK\$'000 (unaudited) |
| Rent and rental related income from | | | |
| AMTD Financial Planning Limited | (a) | 524 | 1,000 |
| E-Park Parking Management Limited | (b) | 95 | 95 |
| e-Smart System Inc. | (b) | 186 | 274 |
| Goodwell Property Management Limited | (b) | 584 | 426 |
| Tremayne Investments Limited | (c) | 8,012 | 8,012 |
| Carpark lease agency fee for the operations of the Group's carpark | | | |
| E-Park Parking Management Limited | (b) | 591 | 704 |
| Goodwell Property Management Limited | (b) | 15 | 15 |
| Property management fee | | | |
| Goodwell-Prosperity Property Services Limited | (b) | 3,004 | 2,763 |
| Marketing service fee | | | |
| Goodwell-Prosperity Property Services Limited | (b) | 1,544 | 1,293 |
| Trustee's fee | | | |
| HSBC Institutional Trust Services (Asia) Limited | | 786 | 730 |
| Manager's fee | | | |
| ARA Asset Management (Prosperity) Limited | | 13,712 | 12,676 |
| Back-office support service fee | | | |
| Cheung Kong Companies | (d) | 411 | 417 |

Notes to the Condensed Consolidated Financial Statements (Continued)

For the six months ended 30 June 2008

23 CONNECTED AND RELATED PARTY TRANSACTIONS (Continued)

Balances with related parties are as follows:

| | 30 June 2008 HK\$'000 (unaudited) | 31 December 2007 HK\$'000 (audited) |
|--|--|--|
| Amount due to related companies | | |
| Cheung Kong Real Estate Agency Limited (b) | 63 | – |
| Citybase Property Management Limited (b) | 2,388 | 1,400 |
| Goodwell-Prosperity Property Services Limited (b) | 1,470 | 1,290 |
| Goodwell Property Management Limited (b) | 2,897 | 2,988 |
| Harbourfront Landmark Premium Services Limited (c) | 302 | 429 |
| E-Park Parking Management Limited (b) | 202 | 225 |
| Cheung Kong (Holdings) Limited | 3 | – |
| Deposits placed with the Group for the lease of the Group's properties | | |
| E-Park Parking Management Limited (b) | 51 | 51 |
| e-Smart System Inc. (b) | – | 191 |
| Goodwell Property Management Limited (b) | 324 | 324 |
| AMTD Financial Planning Limited (a) | – | 539 |

Notes:

- (a) The company has been a subsidiary of Cheung Kong (Holdings) Limited ("CKH"), a significant holder of Prosperity REIT, since July 2007 and was previously an associate of CKH.
- (b) These companies are the subsidiaries of CKH.
- (c) These companies are the subsidiaries of Hutchison Whampoa Limited ("HWL"), an associate of CKH and a significant holder of Prosperity REIT.
- (d) These companies are the subsidiaries and associates of CKH being Cheung Kong Real Estate Agency Limited, Randash Investment Limited, The Kowloon Hotel Limited and Harbour Plaza Metropolis Limited.

Under the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission, the deed of mutual covenant which binds the Manager and all the owners of a development and their successors-in-title which include members of CKH group technically constitutes a contract between the Group and CKH group. Remuneration to the building managers, which are the wholly-owned subsidiaries of CKH, for the building management services provided constitutes a connected transaction. During the period, remuneration paid from the funds of the buildings, attributable to the properties owned by the Group, to the building managers amounted to HK\$286,000 (1 January 2007 to 30 June 2007: HK\$284,000).

Results Analysis

| | Six months ended 30 June | |
|---|--------------------------|-------------|
| | 2008 | 2007 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Revenue | 128,962 | 119,705 |
| Net property income | 103,581 | 93,983 |
| Profit for the period, before transactions with unitholders | 203,508 | 134,030 |
| Income available for distribution | 89,024 | 81,331 |
| Earnings per unit and diluted earnings per unit (HK\$) | 0.16 | 0.11 |
| Distribution per unit (HK\$) | 0.0690 | 0.0639 |

Major Assets and Liabilities

| | 30 June | 31 December |
|--|-------------|-------------|
| | 2008 | 2007 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (audited) |
| Investment properties | 5,408,000 | 5,225,000 |
| Secured bank loans, excluding origination fees | (1,795,000) | (1,795,000) |
| Net asset value | 3,255,464 | 3,138,053 |
| Net asset value per unit (HK\$) (Note 17) | 2.58 | 2.50 |

Other Information

| | | |
|---|-------------------|-------------------|
| The highest traded price during the period/year (HK\$) | 1.72 | 1.85 |
| The highest (discount) premium of the traded price to net asset value | (33.3%) | (26.0%) |
| The lowest traded price during the period/year (HK\$) | 1.50 | 1.52 |
| The lowest discount of the traded price to net asset value | (41.9%) | (39.2%) |
| The net yield per unit based on market price at the end of period/year ¹ | 9.2% ¹ | 8.4% ¹ |

1. Annualised yield based on the distribution per unit of HK\$0.0690 for the six months ended 30 June 2008 and last traded price of HK\$1.50 as of 30 June 2008. For the year ended 31 December 2007, the yield is based on the distribution of HK\$0.1298 for the year of 2007 and the closing market price of HK\$1.54 as at 31 December 2007.

Investment Properties Portfolio

As at 30 June 2008

| Property | Type | Lease term | Lease expiry date | Location | Valuation 30 June 2008 HK\$ Million |
|---------------------------------|------|-------------------|-------------------|---|---|
| The Metropolis Tower | O | Medium-term lease | 30 June 2047 | No. 10 Metropolis Drive Hung Hom Kowloon Hong Kong | 2,022 |
| Prosperity Millennia Plaza | O | Medium-term lease | 30 June 2047 | No. 663 King's Road North Point Hong Kong | 1,181 |
| Harbourfront Landmark (portion) | O | Medium-term lease | 30 June 2047 | No. 11 Wan Hoi Street Hung Hom Kowloon Hong Kong | 350 |
| Modern Warehouse | I/O | Medium-term lease | 30 June 2047 | No. 6 Shing Yip Street Kwun Tong Kowloon Hong Kong | 618 |
| Trendy Centre | I/O | Medium-term lease | 30 June 2047 | No. 682 Castle Peak Road Cheung Sha Wan Kowloon Hong Kong | 581 |
| Prosperity Center (portion) | I/O | Medium-term lease | 30 June 2047 | No. 25 Chong Yip Street Kwun Tong Kowloon Hong Kong | 490 |
| New Treasure Centre (portion) | I | Medium-term lease | 30 June 2047 | No. 10 Ng Fong Street San Po Kong Kowloon Hong Kong | 166 |
| Total | | | | | 5,408 |

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

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
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 1806-07, 18/F
Hopewell Centre
183 Queen's Road East
Hong Kong

Internet Address

www.prosperityreit.com

This interim report (in bilingual version) (“Interim Report 2008”) has been posted on Prosperity REIT’s website at www.prosperityreit.com and the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk. 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 Interim Report 2008 posted on Prosperity REIT’s website may request the printed copy of the Interim Report 2008.

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 at Rooms 1806-07, 18/F., Hopewell Centre, 183 Queen’s Road East, Hong Kong.

本中期報告雙語版本（「二零零八年中中期報告」）均已於泓富產業信託網站www.prosperityreit.com及香港聯合交易所有限公司網站www.hkexnews.hk登載。選擇依賴泓富產業信託在其網站登載之企業通訊（包括但不限於年報、中期報告、會議通告、上市文件、通函及代表委任表格）而非印刷本之基金單位持有人，或因任何理由於接收或獲准瀏覽於泓富產業信託網站登載之二零零八年中中期報告時遇有困難，可要求索取二零零八年中中期報告之印刷本。

基金單位持有人可隨時以書面通知泓富產業信託之基金單位過戶登記處香港中央證券登記有限公司，地址為香港皇后大道東183號合和中心18樓1806-07室，以更改日後收取泓富產業信託企業通訊的語文版本及／或收取方式（即印刷本或透過泓富產業信託網站收取電子版本）之選擇。

Portfolio Map

物業分佈圖



Central Business District
核心商業區

Decentralized Business District
非核心商業區

Commercial & Industrial District
商業及工業區

Industrial District
工業區

 Airport Express
機場快線

 MTR
港鐵

