



Prosperity Real Estate Investment Trust

(a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))
(Stock Code: 808)



ARA Asset Management (Prosperity) Limited FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2008

Prosperity Real Estate Investment Trust ("**Prosperity REIT**") is a real estate investment trust incorporated by 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**") between ARA Asset Management (Prosperity) Limited, as the manager of Prosperity REIT (the "**REIT Manager**"), and HSBC Institutional Trust Services (Asia) Limited, as the trustee of Prosperity REIT. Prosperity REIT was the first private sector Real Estate Investment Trust ("**REIT**") to list on The Stock Exchange of Hong Kong Limited on 16 December 2005 ("**Listing Date**"). Prosperity REIT owns a diverse portfolio of seven high-quality commercial properties in Hong Kong.

The REIT Manager is pleased to announce the audited consolidated results of Prosperity REIT and its subsidiaries for the year ended 31 December 2008 together with comparative figures for the corresponding period in 2007 as follows:

Performance Highlights

	<u>Year ended 31 Dec 2008</u>	<u>Year ended 31 Dec 2007</u>	<u>Percentage change Increase/(Decrease)</u>
Distribution per unit ("DPU")	HK\$0.1268	HK\$0.1298	(2.3%)

<u>Operation data</u>	<u>Year ended 31 Dec 2008</u>	<u>Year ended 31 Dec 2007</u>	<u>Percentage change Increase/(Decrease)</u>
Revenue	HK\$263.1 million	HK\$244.6 million	7.6%
Net property income	HK\$208.7 million	HK\$192.8 million	8.2%
Cost-to-revenue ratio	20.7%	21.2%	(2.4%)
Occupancy rate (as at 31/12)	98.5%	98.4%	0.1%
Tenant retention rate	51.5%	59.5%	(13.4%)
Average effective unit rent	HK\$14.28 per sq. ft.	HK\$13.38 per sq. ft.	6.7%

<u>Key financial figures</u>	<u>As at 31/12/2008</u>	<u>As at 31/12/2007</u>	<u>Percentage change Increase/(Decrease)</u>
Net asset value per unit	HK\$2.15	HK\$2.50	(14%)
Property valuation	HK\$4,839 million	HK\$5,225 million	(7.4%)
Gearing ratio **	36.0%	33.5%	7.5%

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

DISTRIBUTABLE INCOME

The annual distributable income of Prosperity REIT to unitholders for the year from 1 January 2008 to 31 December 2008 (the “Reporting Year”), amounted to HK\$164,516,000. The annual distributable income for the Reporting Year is calculated by the REIT Manager as representing the consolidated net profit/(loss) of Prosperity REIT and the subsidiaries of Prosperity REIT for that distribution period, after provision for tax, as adjusted to eliminate the effects of adjustments (as defined in the Trust Deed) including finance cost of HK\$55,017,000 (equivalent to HK\$0.0425 per unit) due to the interest rate swap, all of 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 for the financial year ended 31 December 2008. Pursuant to the Trust Deed, Prosperity REIT is required to ensure that the total amount distributed to unitholders shall be no less than 90% of Prosperity REIT's annual distributable income for each financial year.

The distributable income of the half year from 1 July 2008 to 31 December 2008 is HK\$75,492,000, equivalent to a DPU of HK\$0.0578. The interim DPU for the six months from 1 January 2008 to 30 June 2008 was HK\$0.0690, and the total DPU for the Reporting Year is HK\$0.1268, which is lower than 2007's total DPU of HK\$0.1298 by 2.3%.

The distribution of the half year from 1 July 2008 to 31 December 2008 will be paid on Wednesday, 29 April 2009.

RESULTS

Prosperity REIT delivered positive results for the Reporting Year. Revenue and net property income continued to grow by 7.6% and 8.2% respectively year-on-year (“YoY”). Organic growth, mainly attributable to the REIT Manager's proactive asset management efforts, remained sustainable despite the economic slowdown in the latter part of 2008.

I am pleased to announce that our unitholders are entitled to a total DPU of HK\$0.1268 for the Reporting Year, representing a distribution yield of 14.1%¹.

MARKET REVIEW

In the first half of 2008, Hong Kong's economy remained stable. Domestic demand was steady and trading activities with Mainland China were healthy. However, as the subprime mortgage crisis escalated in the USA, adverse consequences in the financial markets around the globe emerged in the latter part of the year. This worldwide “financial tsunami” impacted most industries and economic sectors, including the local office market. Credit markets remain tight and this added downward financial pressure on various business segments in Hong Kong.

For the year ahead, it is expected that the Hong Kong office market will face an overall downward trend. To remain competitive during the downturn, companies will cut unnecessary costs, rationalise their resources, and streamline their workforce. Many tenants have relocated from the more expensive core business districts to offices in decentralised business districts at lower rents. Although the office market is generally expected to experience lower demand, individual tenants with solid balance sheets are looking to expand their office needs.

¹ Based on Prosperity REIT's closing unit price of HK\$0.90 on 31 December 2008

For 2009, Prosperity REIT endeavours to capitalise on the decentralisation trend with its portfolio of quality office and industrial/office buildings located in strategic decentralised districts throughout Hong Kong.

OPERATIONS REVIEW

Prosperity REIT recorded positive results throughout the Reporting Year. In 2008, revenue reached HK\$263.1 million while net property income rose to HK\$208.7 million, an increase of 7.6% and 8.2% over that of 2007 respectively. The cost-to-revenue ratio has also come down to 20.7%.

As a result of proactive leasing efforts and efficient tenant recruitment strategies, the average effective unit rent of the portfolio increased by 6.7% from the 2007 figure to HK\$14.28 per sq. ft. and occupancy rate increased to 98.5% as at 31 December 2008. The rental reversion rate was positive at 22.8% on tenant renewal rentals, reflecting the REIT Manager's successful leasing strategies. Tenant retention rate stood at 51.5% but still remained relatively stable.

PROSPECTS

Looking ahead, the economic uncertainties and volatility of financial markets worldwide is expected to continue during 2009, and the Hong Kong office leasing market would face challenges in the near term. Given Hong Kong's solid underlying fundamentals and strong backing of Mainland China, we expect Hong Kong to remain fairly resilient during the downturn.

Though leases which are to expire in 2009 account for 50.6% of our portfolio's gross rental income, aggressive leasing initiatives have been launched to address the situation. We are cautiously optimistic that through the implementation of well-planned business strategies, along with prudent cost controls, reinforced tenant relations and effective asset enhancements, the REIT Manager will be able to continue to deliver reasonable returns to unitholders in the coming year.

ACKNOWLEDGEMENT

I would like to take this opportunity to thank my fellow directors, service providers, partners, and staff at all levels for their high level of integrity, hard work and dedication in delivering positive growth for the Reporting Year. 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 March 2009

MANAGEMENT DISCUSSION AND ANALYSIS

Operation 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 portfolio of properties as at 31 December 2008 is as follows:

	Location	Gross rentable area <i>Sq. ft.</i>	No. of car park spaces	Valuation <i>HK\$ Million</i>	Occupancy rate
Grade A Office					
The Metropolis Tower	Hunghom	271,418	98	1,779	99.7%
Prosperity Millennia Plaza	North Point	217,955	43	1,053	98.4%
Harbourfront Landmark (portion)	Hunghom	77,021	–	309	100.0%
Industrial/Office					
Prosperity Place (formerly named as Modern Warehouse)	Kwun Tong	240,000	60	585	97.4%
Trendy Centre	Cheung Sha Wan	173,764	79	515	98.7%
Prosperity Center (portion)	Kwun Tong	149,253	105	445	96.7%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	153	100%
Total		<u>1,215,579</u>	<u>407</u>	<u>4,839</u>	<u>98.5%</u>

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain organic growth in the Reporting Year. A high occupancy rate of 98.5% was recorded as at 31 December 2008, and the average effective unit rent rose 6.7% YoY, reflecting progressive and effective leasing strategies. As a result of increased revenue coupled with efficient streamlining of operations, the cost-to-revenue ratio improved to 20.7%.

	Occupancy rate (%) <i>As at 31 Dec 08</i>	Occupancy rate (%) <i>As at 31 Dec 07</i>	Percentage change Increase/(Decrease)
Grade A Office			
The Metropolis Tower	99.7	99.3	0.4%
Prosperity Millennia Plaza	98.4	99.4	(1.0%)
Harbourfront Landmark (portion)	100.0	100.0	-
Industrial/Office			
Prosperity Place (formerly named as Modern Warehouse)	97.4	98.6	(1.2%)
Trendy Centre	98.7	94.7	4.2%
Prosperity Center (portion)	96.7	100.0	(3.3%)
Industrial			
New Treasure Centre (portion)	100	95.9	4.3%
Portfolio	98.5	98.4	0.1%

Investment Review

In light of current economic uncertainties, the REIT Manager will act prudently in our acquisition strategy. We shall only assess potential targets which are beneficial to Prosperity REIT and unitholders as a whole. 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. Having done these, the REIT Manager is now able to seize greater investment opportunities to facilitate growth through yield-accretive acquisitions, when opportunities arise.

Financial Review

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

	Turnover <i>HK\$'000</i>	Rental related income <i>HK\$'000</i>	Revenue <i>HK\$'000</i>	Net property income <i>HK\$'000</i>
Grade A Office				
The Metropolis Tower	72,728	15,981	88,709	73,084
Prosperity Millennia Plaza	39,697	11,735	51,432	39,230
Harbourfront Landmark (portion)	14,326	2,161	16,487	14,578
Industrial/Office				
Prosperity Place (formerly known as "Modern Warehouse")	35,950	569	36,519	28,122
Trendy Centre	27,059	6,026	33,085	25,716
Prosperity Center (portion)	22,884	3,142	26,026	20,240
Industrial				
New Treasure Centre (portion)	9,226	1,662	10,888	7,707
Total	<u>221,870</u>	<u>41,276</u>	<u>263,146</u>	<u>208,677</u>

Revenue

During the Reporting Year, revenue improved to HK\$263.1 million, being HK\$18.5 million or 7.6% higher than in 2007.

The revenue comprised of HK\$221.9 million worth of rental and car park income, plus HK\$41.2 million of rental related income. Rental and car park income was HK\$16.0 million, or 7.8% above that of 2007. This increase was mainly due to an effective and proactive lease management system which led to an overall improvement in average effective rent.

Net Property Income

The net property income was HK\$208.7 million, exceeding that of 2007 by HK\$15.9 million or 8.2%. The cost-to-revenue ratio also improved to 20.7% from 21.2% in 2007. The improvement was a result of the increase in revenue and the REIT Manager's effective cost control measures.

Liquidity and Financing

As at 31 December 2008, Prosperity REIT had a facility of HK\$1,900 million, comprising of 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 31 December 2008. The term loan is repayable five years from the date of the drawdown. The revolving facility will be repaid on each maturity date and can be redrawn upon maturity.

Each of the term loan facility and the revolving credit facility bears interest at a variable rate. In order to hedge against fluctuations in interest rate under the term loan, effective on the Listing Date, Prosperity REIT's finance company entered into interest rate swap agreement for a total notional amount equivalent to HK\$1,770 million. In July 2008, Prosperity REIT entered into an agreement to unwind this interest rate swap arrangement, effective on 10 July 2008, at a total consideration of approximately HK\$71.0 million.

The REIT Manager continued to monitor interest rate movements and in the latter part of 2008, Prosperity REIT hedged against interest rate fluctuations, through its finance company, by entering 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. After entering into these interest rate swap agreements, the weighted average swap rate for the term loan, excluding the spread of 0.49%, is 2.472%. The total borrowings of Prosperity REIT, excluding the origination fees, as a percentage of Prosperity REIT's gross assets was 36.0% as at 31 December 2008, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 44.6%.

Prosperity REIT, with a cash balance of HK\$67.2 million and an available revolving credit facility of approximately HK\$130 million as at 31 December 2008, has sufficient financial resources to satisfy its commitments and working capital requirements.

Balance Sheet Highlights

Investment Properties and Property Valuation

For the year ended 31 December 2008, Prosperity REIT's portfolio recorded an investment property revaluation deficit of HK\$398.4 million, based on a professional valuation performed by an independent valuer, Savills Valuation and Professional Services Limited (2007: Knight Frank Petty Limited). The movements of fair values are tabulated below:

	31 Dec 2008 HK\$' 000	31 Dec 2007 HK\$' 000
Fair value at beginning of the financial year	5,225,000	4,864,000
Acquisitions	-	43,403
Additional expenditure	12,406	7,760
(Decrease)/increase in fair value during the year	(398,406)	309,837
Fair value at the end of year	<u>4,839,000</u> =====	<u>5,225,000</u> =====

Charges on Assets

As at 31 December 2008, the seven properties of Prosperity REIT, with an aggregate carrying value of HK\$4,799 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.

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Year, other than the disposal of 22,201,000 units by the REIT Manager which the REIT Manager 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.

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, sound internal control, transparency and accountability to all unitholders. The REIT Manager has adopted its compliance manual (the "**Compliance Manual**") in relation to the management and operation of Prosperity REIT, which sets out the key processes, systems and measures, and certain corporate governance policies and procedures to be applied for compliance with all applicable regulation and legislation. A summary of the key components of the corporate governance policies that have been adopted and complied with by the REIT Manager and Prosperity REIT will be set out in the Annual Report of Prosperity REIT for the Reporting Year. During the Reporting Year, both the REIT Manager and Prosperity REIT have complied with the provisions of the Compliance Manual.

CLOSURE OF REGISTER OF UNITHOLDERS

The register of unitholders will be closed from Monday, 20 April 2009 to Thursday, 23 April 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 Friday, 17 April 2009. The payment date of final distribution will be on Wednesday, 29 April 2009.

REVIEW OF FINAL RESULTS

The final results of Prosperity REIT for the Reporting Year have been reviewed by the Audit Committee and the Disclosures Committee of the REIT Manager.

PUBLIC FLOAT

As far as the REIT Manager is aware, more than 25% of the issued units of Prosperity REIT were held in public hands as of 31 December 2008.

ISSUANCE OF ANNUAL REPORT

The Annual Report of Prosperity REIT for the Reporting Year will be dispatched or sent to unitholders on or before Thursday, 30 April 2009.

ANNUAL GENERAL MEETING

It is proposed that the annual general meeting of Prosperity REIT will be held on Wednesday, 20 May 2009. Notice of the annual general meeting will be published and issued to unitholders in the manner as required by the Trust Deed in due course.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

	<i>Notes</i>	2008 HK\$'000	2007 HK\$'000
Turnover	3	221,870	205,861
Rental related income		41,276	38,767
Revenue		263,146	244,628
Property management fees		(6,142)	(5,676)
Property operating expenses		(48,327)	(46,172)
Total property operating expenses		(54,469)	(51,848)
Net property income		208,677	192,780
Interest income		543	693
Manager's fee		(27,197)	(25,986)
Trust and other expenses		(8,364)	(10,379)
(Decrease)/increase in fair value of investment properties		(398,406)	309,837
Finance costs	5	(91,183)	(85,931)
(Loss)/profit before taxation and transactions with unitholders		(315,930)	381,014
Taxation	6	58,708	(54,002)
(Loss)/profit for the year, before transactions with unitholders		(257,222)	327,012
(Loss)/earnings per unit and diluted (loss)/earnings per unit (HK\$)	7	(0.20)	0.26

DISTRIBUTION STATEMENT

For the year ended 31 December 2008

	2008 HK\$'000	2007 HK\$'000
(Loss)/profit for the year, before transactions with unitholders	(257,222)	327,012
Adjustments for non-cash items:		
Manager's fee	27,151	25,875
Decrease/(increase) in fair value of investment properties	398,406	(309,837)
Finance costs	55,017	68,675
Deferred tax	(58,836)	54,002
	164,516	165,727
Income available for distribution (note (i))	164,516	165,727
Distributions to unitholders:		
HK\$0.0690 (2007: HK\$0.0639) per unit for the six month ended 30 June (note (ii))	89,024	81,331
HK\$0.0578 (2007: HK\$0.0659) per unit for the six month ended 31 December (note (iii))	75,492	84,396
	164,516	165,727
Total distribution per unit (HK\$)	0.1268	0.1298

Notes:

- (i) These adjustments for the current year include:
- (a) manager's fee paid in units of HK\$27,151,000 (2007: HK\$25,875,000) out of the total manager's fee of HK\$27,197,000 (2007: HK\$25,986,000) (the difference of HK\$46,000 (2007: HK\$111,000) are paid in cash);
 - (b) decrease in fair value of investment properties of HK\$398,406,000 (2007: increase of HK\$309,837,000);
 - (c) the adjustment is the difference between the accounting finance cost of HK\$91,183,000 (2007: HK\$85,931,000) less cash finance cost of HK\$36,166,000 (2007: HK\$17,256,000); and
 - (d) deferred tax reversal of HK\$58,836,000 (2007: deferred tax provision of HK\$54,002,000).

In accordance with the Trust Deed, Prosperity REIT is required to distribute to unitholders not less than 90% of its distributable income for each financial period and it is the 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 year, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) which have been recorded in the consolidated income statement for the relevant financial year.

- (ii) The distribution per unit of HK\$0.0690 (2007: HK\$0.0639) for the half year ended 30 June 2008 is calculated based on Prosperity REIT's income available for distribution of HK\$89,024,000 (2007: HK\$81,331,000) over 1,289,519,568 units (2007: 1,272,267,245 units), as at 30 June 2008 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 2008. The distribution was paid to unitholders on 28 October 2008.
- (iii) The distribution per unit of HK\$0.0578 (2007: HK\$0.0659) for the half year ended 31 December 2008 is calculated based on Prosperity REIT's income available for distribution of HK\$75,492,000 (2007: HK\$84,396,000) over 1,305,921,359 units (2007: 1,280,666,612 units), as at 31 December 2008 plus the number of units issued after the distribution period to the REIT Manager as manager's fee for its service in the last quarter of the relevant distribution year.

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Notes	2008 HK\$'000	2007 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		4,839,000	5,225,000
Derivative financial instruments		-	108,288
Total non-current assets		<u>4,839,000</u>	<u>5,333,288</u>
Current assets			
Trade and other receivables	8	8,870	7,856
Tax recoverable		302	302
Bank balances and cash		67,154	23,854
Total current assets		<u>76,326</u>	<u>32,012</u>
Total assets		<u>4,915,326</u>	<u>5,365,300</u>
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments		32,505	-
Secured term loan		1,761,893	1,758,266
Deferred tax liabilities		191,712	250,548
Total non-current liabilities, excluding net assets attributable to unitholders		<u>1,986,110</u>	<u>2,008,814</u>
Current liabilities			
Trade and other payables	9	115,015	95,986
Amounts due to related companies		7,307	6,332
Secured revolving loan		-	25,000
Provision for taxation		97	-
Manager's fee payable		6,392	6,719
Distribution payable		75,492	84,396
Total current liabilities		<u>204,303</u>	<u>218,433</u>
Total liabilities, excluding net assets attributable to unitholders		<u>2,190,413</u>	<u>2,227,247</u>
Net assets attributable to unitholders		2,724,913	3,138,053
Units in issue ('000)	10	<u>1,298,654</u>	<u>1,276,453</u>
Net asset value per unit (HK\$)	11	<u>2.15</u>	<u>2.50</u>

Notes

(1) Application of new and revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, Prosperity REIT has applied the following amendments and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") which are or have become effective.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
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

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Prosperity REIT has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing Costs ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ²
HKAS 39 (Amendment)	Eligible hedged items ³
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ²
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations ²
HKFRS 3 (Revised)	Business Combinations ³
HKFRS 7 (Amendment)	Improving Disclosures about Financial Instruments ²
HKFRS 8	Operating Segments ²
HK(IFRIC) - Int 13	Customer Loyalty Programmes ⁴
HK(IFRIC) - Int 15	Agreements for the Construction of Real Estate ²
HK(IFRIC) - Int 16	Hedges of a Net Investment in a Foreign Operation ⁵
HK(IFRIC) - Int 17	Distributions of Non-cash Assets to Owners ³
HK(IFRIC) - Int 18	Transfers of Assets from Customers ⁶

¹ Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2009

³ Effective for annual periods beginning on or after 1 July 2009

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

⁵ Effective for annual periods beginning on or after 1 October 2008

⁶ Effective for transfers on or after 1 July 2009

The application of HKAS 1 results in a change in the presentation of primary statements of the financial statements.

The adoption of HKAS 32 and 1 (Amendments) will affect the presentation and accounting treatment of the units issued by Prosperity REIT in the financial statements. It is in the process of assessing the impact of these amendments on the results and financial position of Prosperity REIT.

The application of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary. The REIT Manager anticipates that the application of the other new and revised standards, amendments or interpretations will have no material impact on the results and the financial position of Prosperity REIT.

(2) Significant Accounting Policies

Basis of preparation of financial statements

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA. In addition, the financial statements include the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission and the Rules Governing the Listing of Securities on the HKSE.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of Prosperity REIT and the subsidiaries controlled by Prosperity REIT. Control is achieved where Prosperity REIT has the power to govern the financial and operating policies of the subsidiaries so as to obtain benefits from their activities. The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances are eliminated on consolidation.

- (3) Turnover of Prosperity REIT is as follows:

	2008	2007
	HK\$'000	HK\$'000
Rental income	205,634	190,512
Car park income	16,236	15,349
	<u>221,870</u>	<u>205,861</u>

- (4) Business and Geographical segment

During the year, the sole principal activity of Prosperity REIT is to own and invest in a portfolio of industrial, offices and commercial properties located in Hong Kong and accordingly, no analysis of business and geographical segment is presented.

- (5) Finance costs:

	2008	2007
	HK\$'000	HK\$'000
Interest expense on		
– Secured term loan	58,462	87,848
Release of hedging reserve	19,242	-
Equalisation of interest expense through cashflow hedges	13,214	(3,140)
	<u>90,918</u>	<u>84,708</u>
– Secured revolving loan	265	1,223
	<u>91,183</u>	<u>85,931</u>

- (6) On 26 June 2008, the Hong Kong Legislative Council passed the Revenue Bill 2008 which reduced corporate profits tax rate from 17.5% to 16.5% effective from the year of assessment 2008/09. Therefore Hong Kong Profit Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year. 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 year or the assessable profit is wholly absorbed by tax losses brought forward. Deferred tax is provided on temporary differences using the current applicable rates.

	2008	2007
	HK\$'000	HK\$'000
Current tax	128	-
Deferred tax	(58,836)	54,002
	<u>(58,708)</u>	<u>54,002</u>

- (7) The calculation of loss per unit is based on the loss for the year, before transactions with unitholders of HK\$257,222,000 (2007: profit of HK\$327,012,000) and on the weighted average of 1,286,663,207 (2007: 1,269,189,951) units in issue during the year. The diluted loss per unit is based on the loss for the year, before

transactions with unitholders of HK\$257,222,000 (2007: profit of HK\$327,012,000) and on the weighted average of potential units (units issued for manager's fee) of 1,291,694,000 (2007: 1,272,498,124).

(8) Trade and other receivables at the balance sheet date is as follows:

	2008	2007
	HK\$'000	HK\$'000
Trade receivables	1,067	504
Deposit and prepayments	7,743	7,352
Other receivables	60	-
	<u>8,870</u>	<u>7,856</u>

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

	2008	2007
	HK\$'000	HK\$'000
Current – 1 month	945	503
2 – 3 months	93	1
Over 3 months	29	-
	<u>1,067</u>	<u>504</u>

Prosperity REIT maintains a defined credit policy. The collection of rental income is closely monitored to minimise any credit risk associated with receivables.

(9) Trade and other payable at the balance sheet date is as follows:

	2008	2007
	HK\$'000	HK\$'000
Trade payables	491	1,292
Tenants' deposits		
- Outside parties	76,197	65,604
- Related parties	390	1,105
Rental received in advance – Outside parties	1,231	2,210
Other payables	36,706	25,775
	<u>115,015</u>	<u>95,986</u>

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

	2008	2007
	HK\$'000	HK\$'000
Current – 1 month	38	75
2 – 3 months	152	1,070
Over 3 months	301	147
	<u>491</u>	<u>1,292</u>

(10) 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 year	<u>22,201,072</u>	<u>27,458</u>
Balance at 31 December 2008	<u><u>1,298,654,410</u></u>	<u><u>2,773,698</u></u>

- (11) The net asset value per unit is calculated based on the net assets of Prosperity REIT excluding hedging reserve and the total number of units used for computing the net asset value per unit is 1,298,654,410 (2007: 1,276,453,338).
- (12) At the balance sheet date, Prosperity REIT's net current liabilities, defined as current assets less current liabilities, amounted to HK\$127,977,000 (2007: HK\$186,421,000) and Prosperity REIT's total assets less current liabilities amounted to HK\$4,711,023,000 (2007: HK\$5,146,867,000).
- (13) The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.
- (14) The results have been reviewed by the Disclosures Committee and Audit Committee.

The directors of the REIT Manager as at the date of this announcement are Mr. Chiu Kwok Hung, Justin (Chairman), Mr. Lim Hwee Chiang and Mr. Ma Lai Chee, Gerald as Non-executive Directors; Mr. Stephen Henry Chu as Executive Director; Mr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Robert Douglas Pope as Independent Non-executive Directors.