

Chairman's Statement



“ Leveraging on the Manager's professional experience and management expertise, Prosperity REIT continued to outperform the Forecast and deliver higher returns to our unitholders. ”

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 annual report for 2006.

Results and Distribution

2006 was a fruitful and challenging year for Prosperity REIT. Solid growth was achieved during the course of the year, reflected by our strong financial results.

By implementing proactive and well-planned business strategies, we continued to outperform the forecast in Prosperity REIT's offering circular (“**Forecast**”) dated 5 December 2005 (“**Offering Circular**”). For the year ended 31 December 2006, a total distribution per unit of HK\$0.1201 was delivered, 4.8% more than the Forecast. Net asset value per unit rose by 5.3% to HK\$2.38 as at year end.

Market Review

Hong Kong's economy continued to prosper in 2006, boosted by thriving global markets and the territory's ongoing economic ties with the Mainland. Last year, Hong Kong's Gross Domestic Product leapt by 6.8% over 2005. Hong Kong's solid economic growth is expected to continue in 2007, driven by the rapid expansion of the Mainland economy, a weak US dollar, as well as an improving employment situation.

Against this positive economic backdrop, together with the U.S. Federal Reserve's policy of stabilizing U.S. interest rates at 5.25% since June 2006, the



Real Estate Investment Trust (“REIT”) market in Hong Kong has stabilized. As at year end, four out of the five REITs listed in Hong Kong offered an annualized dividend yield of over 6.8%, with a spread of over 300 basis points above the 10-year Exchange Fund Note yield.

REITs are relatively low-risk investment products, characterized by a stable rental income stream and a high distribution payout ratio. We are confident that the high dividend yield offered by Prosperity REIT, with a wide spread above the risk-free rate, will continue to attract investors.

In the office property market in Hong Kong, the buoyant finance, insurance, real estate and business services sectors have boosted demand for office space in the central business district, resulting in soaring rents in Central. As a consequence of escalating rents, there has been a growing trend of relocation to decentralized business districts, such as those areas where Prosperity REIT’s portfolio of quality office and industrial/office properties are strategically located. It is expected that Prosperity REIT will continue to capitalize on this upward trend of decentralization.

The industrial and manufacturing sectors have benefited from robust trading activity in the year under review. Cross-border economic activities increased and were further strengthened through the implementation of Phase III of the Closer Economic Partnership Arrangement launched in July 2006. Under these favourable conditions, 2006 was another active year for both en bloc sales transactions and leasing activities in industrial/office and warehouse markets.

Operation Review

Leveraging on the Manager’s professional experience and management expertise, Prosperity REIT continued to outperform the Forecast and deliver higher returns to our unitholders. For the year under review, Prosperity REIT reported a net property income of HK\$167.5 million, exceeding the Forecast by 5.5%. A strong rental reversion rate of 56.7% was attained, complemented by a high tenant retention rate of 74.9%. The average effective unit rent of the portfolio rose by 18.8% to HK\$11.98 per sq. ft. The occupancy rate also improved to 97.4% as at 31 December 2006.

Through the Manager’s efficient streamlining of operations, the cost-to-revenue ratio was improved to 22.8% from the 25.0% as stated in the Forecast. The gearing ratio was lowered to 35.0% from 38.3% as at the end of the year, resulting in savings in our finance costs.

In tandem with strong organic growth, we have successfully secured two yield- accretive acquisitions in 2006, thereby increasing the Manager’s ownership shares in Prosperity Center and strengthening our management control in the building. The acquisitions are expected to bring in additional distributable income in 2007. Our investment team will continue to actively look for acquisition opportunities, with a view to generating more incremental returns to unitholders.

Going Forward

Looking ahead, as both the local and Mainland economies flourish, the office and industrial/office markets are expected to record continued growth on the back of keen demand from companies seeking expansion opportunities. With the overriding objective of maximizing returns for unitholders, the Manager will undertake well-planned asset enhancement initiatives to further strengthen our tenant base, as well as pursue yield-accretive acquisitions. We are confident that through the successful execution of our business plans, Prosperity REIT will continue to perform well and bring attractive distribution to our unitholders in 2007.

Acknowledgement

I would like to express my thanks to the outstanding efforts and commitment of the management teams of both the Manager and Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT, as well as the wisdom and guidance from my fellow Board members. They have all contributed greatly in our successful delivery of higher returns to our unitholders. Finally, on behalf of the Board, 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, 14 March 2007