

Trust Review

Prosperity REIT Performance (for the year ended 31 December 2006):

Revenue	HK\$217.1 million
Profit for the year, before transactions with unitholders	HK\$310.7 million
Income available for distribution	HK\$151.5 million
Earnings per unit	HK\$0.25

A Portfolio of High-Quality Property

Prosperity REIT owns a portfolio of seven high-quality commercial properties in Hong Kong. The buildings are strategically located in well-developed business areas with convenient access to mass transportation network, the cross

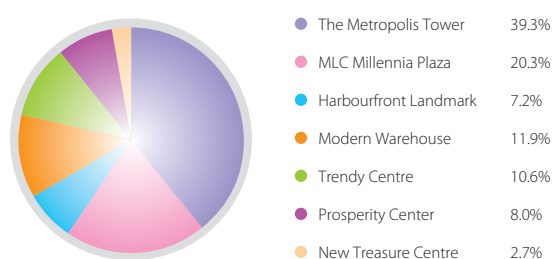
harbour tunnels or within walking distance from major commercial hubs, which enables Prosperity REIT to capitalize on the fast-expanding commercial property market of Hong Kong.

The portfolio comprises three Grade A office buildings, three industrial/office buildings, and one industrial building, with a total gross rentable area of 1,200,633 sq. ft., plus 407 parking spaces.

All seven properties are relatively young buildings, which were completed between 1995 and 2001. The appraised value of these properties as at 31 December 2006 was HK\$4,864 million, increased by 6.9% from a year ago. Of this total, Grade A office buildings constituted 66.8% of the portfolio's total property value; industrial/office buildings constituted 30.5%, and the industrial building took up 2.7%.

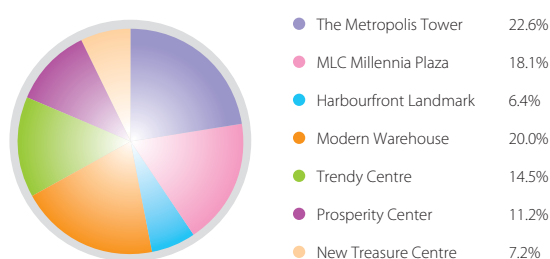
Appraised Value by Property

(As at 31 December 2006)



Gross Rentable Area by Property

(As at 31 December 2006)



	Valuation HK\$ million as at 31 Dec 2006	Valuation HK\$ million as at 31 Dec 2005	Percentage change Increase/(Decrease)
Grade A Office			
The Metropolis Tower	1,910	1,790	6.7%
MLC Millennia Plaza	990	940	5.3%
Harbourfront Landmark (portion)	350	350	–
Industrial/Office			
Modern Warehouse	577	550	4.9%
Trendy Centre	518	460	12.6%
Prosperity Center (portion)	389	350	11.1%
Industrial			
New Treasure Centre (portion)	130	108	20.4%
Total	4,864	4,548	6.9%

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Favourable Economic Conditions

In 2006, Hong Kong's economy continued to flourish, with Gross Domestic Product growing by 6.8% over 2005. Both exports and imports of goods recorded robust growth. For the whole year, the value of total exports of goods rose by 9.4% over 2005, while the value of imports of goods increased by 11.6%.*

Such strong economic growth was supported by the generally resilient global economy, as well as the ongoing economic integration with the Mainland through the implementation of Closer Economic Partnership Arrangement. More and more Mainland enterprises are coming to Hong Kong to set up business operations as well as to raise funds via the equity markets, boosting the finance, insurance, real estate, and business services sectors further.

These favourable economic conditions have resulted in a growth

in demand for both office and industrial/office spaces, and hence enabling Prosperity REIT to achieve sustainable growth through increased rents and improved occupancy.

Effective Lease Management

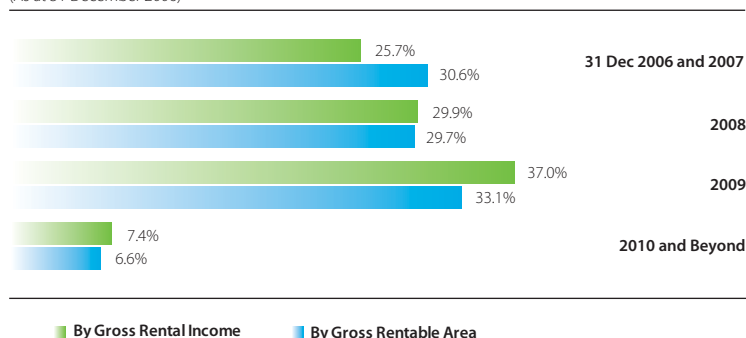
Under the Manager's proactive leasing efforts, a high tenant retention rate of 74.9% was recorded for the reporting year. New letting area of 252,561 sq. ft. plus lease renewed area of 463,380 sq. ft. have surpassed the total lease expired area by 15.7%

during 2006. Occupancy rate stood at a high 97.4% as at 31 December 2006. As a result of such prudent management, the average effective unit rent of the portfolio climbed 18.8% to HK\$11.98 per sq. ft.

As at year end, leases expiring in 2007 accounted for 30.6% of the portfolio's gross rentable area, or 25.7% of the portfolio's gross rental income. We will continue to adopt effective leasing strategies to attain satisfactory results.

Lease Expiry Profile of the Portfolio

(As at 31 December 2006)



* Source: Census and Statistics Department, HKSAR Government.

Lease Expiry Profile by Gross Rental Income (as at 31 December 2006)

	31 Dec 2006 and 2007	2008	2009	2010 and Beyond
The Metropolis Tower	14.4%	33.6%	52.0%	–
MLC Millennia Plaza	36.3%	24.9%	38.8%	–
Harbourfront Landmark (portion)	–	–	–	100.0%
Modern Warehouse	26.7%	43.0%	30.3%	–
Trendy Centre	47.8%	27.3%	24.9%	–
Prosperity Center (portion)	26.0%	29.8%	44.2%	–
New Treasure Centre (portion)	59.5%	30.6%	9.9%	–
Portfolio	25.7%	29.9%	37.0%	7.4%

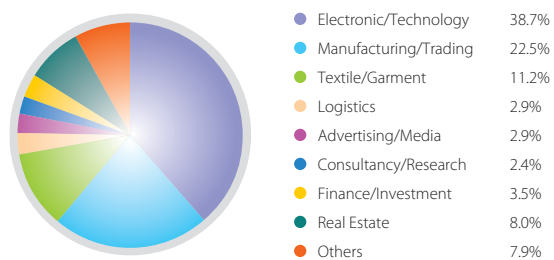
Well-balanced Tenant Base

As at 31 December 2006, Prosperity REIT had 510 tenants in total. The tenant base was characterized by the key beneficiaries of the territory's strong economic recovery – electronic/technology, manufacturing/trading, and textile/garment industries. Attributed to the Closer Economic Partnership Arrangement effect, we saw an increase in the manufacturing/trading portion by gross rentable area.



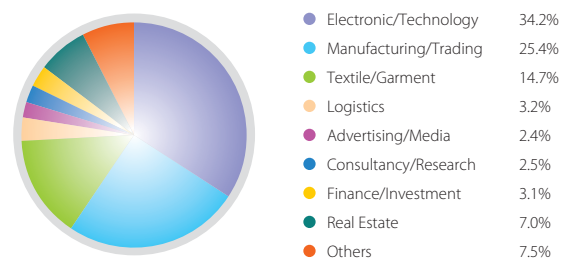
Trade Mix by Gross Rental Income

(As at 31 Dec 2006)



Trade Mix by Gross Rentable Area

(As at 31 Dec 2006)



The portfolio comprises a balanced mix of multinational corporations and small-to-medium sized enterprises. It is the Manager's aim to build a well-balanced tenant base with good credibility in a bid to generate stable rental income.

Size of tenant premises on gross rentable area (as at 31 Dec 2006)	Percentage
Above 10,000 sq. ft.	24.5%
5,001 sq. ft. – 10,000 sq. ft.	12.0%
2,001 sq. ft. – 5,000 sq. ft.	25.9%
1,001 sq. ft. – 2,000 sq. ft.	24.6%
1,000 sq. ft. and below	13.0%
Total	100.0%

Close-to-Zero Delinquency Rate

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

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Asset Enhancement

In order to achieve sustainable rental growth, the Manager has been doing upgrades to our portfolio of properties, which is in line with our asset management strategies of property enhancement opportunities.

To lift Prosperity REIT's professional image, as well as to continue attracting tenants and creating new source of income within our portfolio, plans were formulated to improve the quality of our properties.

Last year, a series of asset enhancement plans were implemented to maximize the space utilization of Trendy Centre and to generate additional income. We have also completed the main lobby upgrade at Trendy Centre in early 2007, successfully lifting the building's image.

This year, we plan to complete the installation of the Octopus system in the car parks at six of our properties. Other than providing car park users with more convenience, both manpower and operating expenses can also be saved.

It has been the Manager's aim to provide our tenants with earnest and quality services. Well-planned details like landlord provision work, improvements in the common areas, upgrading of customer services, and energy conservation measures have all been carried out to create additional values.

Trendy Centre



Outlook

Going forward, with local economy continuing to grow, both the office and industrial/office markets shall perform well in the coming year. Given the Manager's professional expertise and the hard work of Goodwell-Prosperity Property Services Limited, we are confident that Prosperity REIT will continue to deliver attractive returns to our unitholders.



Office FLOORS