

## Trust Review

### Prosperity REIT Performance

Table covering the Reporting Period:

	HK\$'000
Turnover	6,483
Net profit attributable to unitholders	239,690
Income available for distribution	29,039
Earnings per unit (HK\$)	0.19

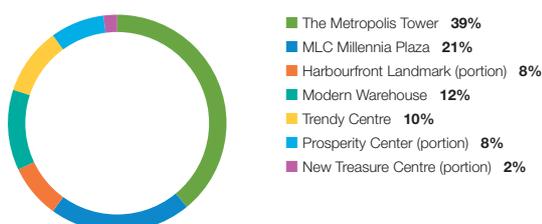
### A Portfolio of High-Quality Property

Prosperity REIT owns a portfolio of high quality commercial properties in Hong Kong. The portfolio is well-placed to capitalize on the robust economic recovery in Hong Kong and the strong rebound in the office property market. The portfolio comprises seven properties with a total of 1,200,633 sq.ft.

The appraised value of these properties as at 31 December 2005 was HK\$4,548 million. Of this total, Grade "A" office buildings made up of 67.7% of the portfolio value; industrial/office buildings made up 29.9%; industrial building made up 2.4%. Two Grade "A" office buildings – The Metropolis Tower and MLC Millennia Plaza – account for 60.0% of portfolio value and 40.8% of total rentable area.

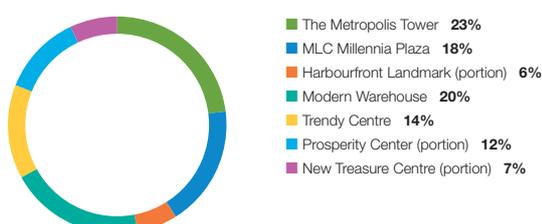
### Appraised Value by Property

(As at 31 December 2005)



### Gross Rentable Area by Property

(As at 31 December 2005)

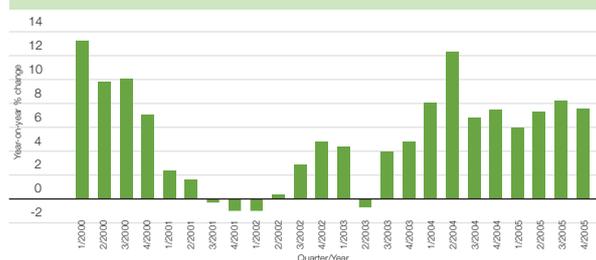


### Favourable Economic Prospects

Hong Kong's economy continued to expand rapidly in 2005 with GDP growing by 7.3% on a year-on-year basis. Exports of goods and services, and import of goods all recorded remarkable growth. Private consumption expenditure rose by 3.7%. There are positive signs of strong economic growth sustainable in the coming year.<sup>1</sup>



### Gross Domestic Products (GDP) At constant (2000) market prices



Source: Census and Statistics Department, HKSAR Government. Statistic released on 22nd February, 2006

Hong Kong has undergone considerable economic restructuring to enhance its position in the value chain. In 2005, the GDP recorded by the "services sector" increased by 8.1% overall. In particular, the "transport, storage and communications" industries recorded a surge of 13.5%. The "wholesale, retail and import and export trades, restaurants and hotels" increased by 11.2% and the "financing, insurance, real estate and business services" industries grew by 9.3%.<sup>2</sup> Such strong growth in service sectors boosted the demand for office spaces in both prime and decentralized business districts.



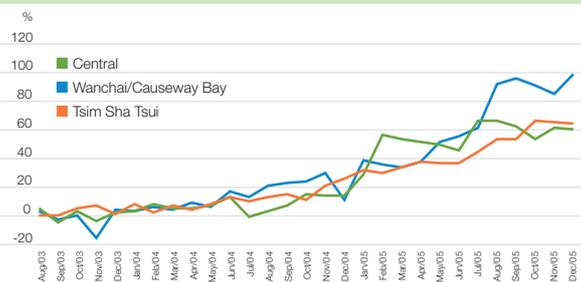
<sup>1</sup> Source: Census and Statistics Department, HKSAR Government.  
<sup>2</sup> Figures for 2005 refer to the percentage changes in the first three quarters over the same period a year earlier. Source: Hong Kong in Figures 2006 Edition, published in February 2006 by Census and Statistics Department, HKSAR Government.

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2005 was a tremendous year for the Grade “A” office market which saw rents rising by around 70% on average, the highest year-on-year change recorded since 1992. Strong demand from the finance, business services, trading and manufacturing sectors drove up occupancy rates and pushed rents sky-high. The tight supply situation is not expected to ease in the near future as only 1.1 million sq.ft. of new Grade “A” office space is scheduled to come on stream in 2006, compared with a 10-year average supply of 2.4 million sq.ft. per annum and 10-year average take-up of 2.2 million sq.ft. per annum.<sup>3</sup> This growth phenomenon will have a positive knock-on effect on demand in the decentralized business districts.



### Hong Kong Grade A Office Cumulative Rental Increment Trend



Source: Rating and Valuation Department, HKSAR Government  
ARA Asset Management (Prosperity) Limited

- 3 Source: Savill (Hong Kong) Limited.
- 4 Source: Budget Speech by Financial Secretary on 22 February 2006.
- 5 The average monthly effective rent per leased square foot as at 31 December 2005 is calculated as the monthly effective rental income divided by the leased area of the properties within the Prosperity REIT portfolio. Effective rental income is defined as Total Rental Income, as

The implementation of CEPA has liberalized trade between Hong Kong and the Mainland China. It is estimated that 29,000 new jobs<sup>4</sup> were created after the implementation of CEPA in 2004, fuelling growth in the industrial and industrial/office properties market. Many Chinese enterprises have since set up operations in Hong Kong and have utilized the opportunity to raise funds through the equity capital market. CEPA strengthened Hong Kong's role as an international financial center for the Mainland China and the region. This position has generated increasing business activities and resulted in strong demand for prime office space.

Under such a favorable economic backdrop, Prosperity REIT has delivered satisfactory returns through increased rental rates and stable occupancy.

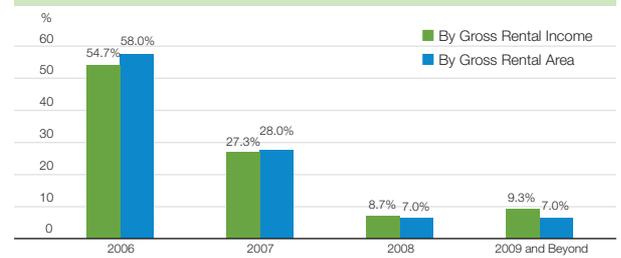
### Strong Rental Growth

Effective lease renewal management has allowed Prosperity REIT to capitalize on the growth in office rents. The average effective unit rent of the portfolio has increased to HK\$10.08 per sq.ft. per month<sup>5</sup> by the end of December 2005. Strong rental growth was further achieved through a stable occupancy of 92.2%<sup>6</sup>.

Leases expiring in 2006 accounted for 54.7% of the portfolio rental income and 58% of portfolio gross rentable area as at 31 December 2005. Given such significant proportion of leases due for renewal, Prosperity REIT will continue to benefit directly from the upward office rental trend in 2006.

### Lease Expiry Profile of the Portfolio

(As at 31 December 2005)



adjusted to amortize the effect of any rent-free period offered to tenants over the lease period. Leased area is defined as Gross Rentable Area, adjusted for the occupancy rate.

- 6 The average occupancy rate is the weighted average of the occupancy of all properties within the Prosperity REIT portfolio as at 31 December 2005.

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### Lease Expiry Profile by Gross Rental Income, as at 31 December 2005

	2006	2007	2008	2009 and Beyond
	(%)	(%)	(%)	(%)
The Metropolis Tower	67.5	19.3	13.2	–
MLC Millennia Plaza	61.3	27.0	11.7	–
Harbourfront Landmark (portion)	–	–	–	100
Modern Warehouse	66.5	28.7	4.8	–
Trendy Centre	48.9	50.7	0.4	–
Prosperity Center (portion)	45.5	38.1	16.4	–
New Treasure Centre (portion)	37.8	59.1	3.1	–
<b>Portfolio</b>	<b>54.7</b>	<b>27.3</b>	<b>8.7</b>	<b>9.3</b>

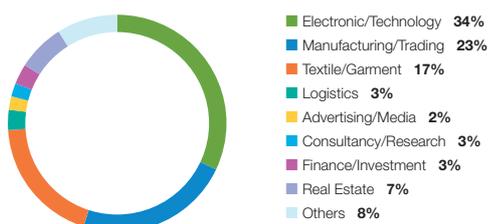
### Well-balanced Tenant Base

As at 31 December 2005, Prosperity REIT has 503 tenancies in total. The tenant base was characterized by key beneficiaries of the territory's strong economic recovery, such as those in electronic/technology, manufacturing/trading, and textile/garment industries.

The portfolio comprises a balanced mix of international corporations and small-to-medium sized enterprises. Tenants occupying premises over 5,000 sq.ft. take up 39% of the total rentable area of the portfolio. Our aim is to build a well-balanced tenant base with good credibility to generate stable rental income.

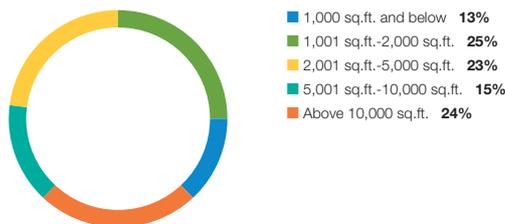
### Portfolio Trade Mix by Gross Rentable Area

(As at 31 December 2005)



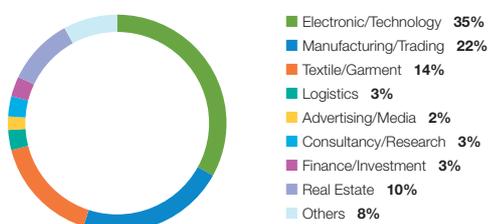
### Size of Tenant Premises on Gross Rental Area

(As at 31 December 2005)



### Portfolio Trade Mix by Gross Rentable Income

(As at 31 December 2005)



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### Close-to-Zero Delinquency Rate

During the Reporting Period, the delinquency rate<sup>7</sup> was close to zero. This was achieved by effective lease management and diligent selection of tenants with good credit by a team of highly experienced asset management professionals.

### Close Attention to Detail

Within the sixteen-day period from 16 December 2005 (the "Listing Date") to 31 December 2005, landlord provision works, improvements in the common areas, upgrading of customer services and signages, and energy conservation measures have been commenced. These activities have contributed to Prosperity REIT's strong brand image and more importantly, better marketing position to fully capture the strong rental reversion potential.

We believe in paying close attention to details. The services offered to tenants and building maintenance were enhanced to further strengthen the positioning of each property under Prosperity REIT.



### Strategic Locations, Sustainable Growth

All seven properties within the Prosperity REIT portfolio are well positioned in strategic locations with convenient access to mass transportation network, such as the MTR, KCRC and the cross harbour tunnels or within walking distance from major commercial hubs. The buildings are characterized by their high-quality design and finishes. As the economy continues to grow, the properties of Prosperity REIT are well positioned to capture the rental uptrend in the years to come.



<sup>7</sup> Delinquency refers to rental receivable that remain unpaid for 90 days or more after their due dates.

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Property	Location	Year of Completion	Gross Rentable Area (sq.ft.)	No. of Building Storey	No. of Carpark Spaces	Government Grant Expiration
The Metropolis Tower	Hunghom	2001	271,418	15	98	30 June 2047
MLC Millennia Plaza	North Point	1999	217,955	32	43	30 June 2047
Harbourfront Landmark (portion)	Hunghom	2001	77,021	3	-	30 June 2047
Modern Warehouse	Kwun Tong	1996	240,000	27	60	30 June 2047
Trendy Centre	Cheung Sha Wan	1998	173,764	30	79	30 June 2047
Prosperity Center (portion)	Kwun Tong	1999	134,307	26	105	30 June 2047
New Treasure Centre (portion)	San Po Kong	1995	86,168	30	22	30 June 2047
<b>Portfolio</b>			<b>1,200,633</b>		<b>407</b>	