

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)



# A Step Ahead

## INTERIM REPORT 2006

Manager



Asset Management (Prosperity) Limited

## Financial Calendar

Interim Results Announcement	17 August 2006
Closure of Register of Unitholders	From 12 October 2006 to 19 October 2006 (both days inclusive)
Record Date for Interim Distribution	19 October 2006
Payment of Interim Distribution	20 October 2006

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## Distributable Income for the Period

The unaudited distributable income of Prosperity Real Estate Investment Trust (“**Prosperity REIT**”) to unitholders of Prosperity REIT (“**Unitholders**”) for the period from 1 January 2006 to 30 June 2006 (the “**Reporting Period**”) amounted to HK\$72,636,000, representing distribution per unit of HK\$0.0577. Together with the distributable income of HK\$29,039,000 (distribution per unit of HK\$0.0231) for the period from 16 December 2005 (the “**Listing Date**”) to 31 December 2005, the total distribution for the period from the Listing Date to 30 June 2006 was HK\$101,675,000, representing distribution per unit of HK\$0.0808. The distributable income for the period from 16 December 2005 to 30 June 2006 is calculated by ARA Asset Management (Prosperity) Limited, as manager of Prosperity REIT (the “**Manager**”) as representing the consolidated net profit of Prosperity REIT and the subsidiaries of Prosperity REIT for that distribution period, after provision for tax, as adjusted to eliminate the effects of certain non-cash adjustments, including finance cost of HK\$40,147,000 (equivalent to HK\$0.0319 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 for each financial year. Pursuant to the terms of a trust deed dated 29 November 2005, as amended by a first supplemental deed dated 12 December 2005 (collectively 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 distributable income for a distribution period is defined in the Trust Deed as the amount calculated by the Manager as representing the consolidated net profit of Prosperity REIT and its subsidiaries for that distribution period, after provision of tax, as adjusted to eliminate the effects of certain non-cash adjustments.

Pursuant to the terms of the Trust Deed, Prosperity REIT’s first distribution after the Listing Date will be for the period from the Listing Date to 30 June 2006. Accordingly, distribution for the Reporting Period will be paid to Unitholders together with the distribution for the period from the Listing Date to 31 December 2005.

The distribution will be distributed to Unitholders whose names appear on the register of Unitholders of Prosperity REIT on Thursday, 19 October 2006. The distribution will be paid on Friday, 20 October 2006.

## Chairman's Statement

On behalf of the Board of Directors (the "**Board**") of ARA Asset Management (Prosperity) Limited, the Manager of Prosperity REIT, I am pleased to present the first interim report of Prosperity REIT.

## Results and Distribution

In line with our key objective to provide Unitholders with stable and sustainable distribution, as well as long term growth in net asset value per unit, the distribution for the six months ended 30 June 2006 was HK\$0.0577. This represents an extra 6.7% over the forecast in the initial public offering circular of Prosperity REIT dated 5 December 2005 (the "**Offering Circular**"). Net asset value per unit in the same period rose 6.2%.

## Market Review

In the first half of 2006, the real estate investment trust ("**REIT**") market in Hong Kong experienced a mixed period of expansion and consolidation. The Asian ex-Japan REIT markets grew steadily in the first quarter. In May, due to rising global energy and commodity prices and interest rate concerns, a series of consolidation occurred. The market stabilized in the end of June and Prosperity REIT's unit price has since then regained momentum.

With the outlook on global interest rates stabilizing, we believe that the REIT market in Asia will continue to mature and grow. Real estate securitization is gaining weight in the business strategies among Asian property developers. At the same time, global institutional investors, who are seeking to prosper from the reviving and emerging Asian property markets, are moving into the REIT sector. We are confident that the relatively stable yield and high distribution payout ratio offered by REITs will continue to attract investors. Currently, after the recent market consolidation, the distribution yield of Prosperity REIT has reached such high level that is sufficient to generate interest amongst the investor community.

In Hong Kong, though the stock market had been volatile, the fundamentals of the Hong Kong economy have remained solid. The gross domestic product for Hong Kong in the first quarter of 2006 was 8.2% higher than that of 2005. Both import and export of goods and services have recorded significant growth over a year earlier. Demand continued to significantly outstrip supply in the Grade A office sector, pushing up rents and occupancy rates in both the prime and decentralized commercial districts, including Hong Kong Island East, Kowloon East and Hunghom-locations where Prosperity REIT properties are located.

## Operation Review

We are very pleased to report that a strong average rental reversion rate of 59.2% was recorded in the Prosperity REIT properties in the first half of 2006. This has been complemented by a high tenant retention rate of 76.4%. As a result of effective leasing efforts of our management team, the average unit rental rate of the portfolio increased by 12.4% to HK\$11.33 per sq. ft. and the occupancy rate rose to 96.0%. Our focused operations enhancement strategies have resulted in improved cost efficiency. Cost ratio dropped to 22.6% from our forecast of 25.0%. On the other hand, through prudent financial management we have also managed to lower the gearing ratio from 38.3% to 34.3% resulting in savings in interest cost.

## Going Forward

Looking ahead, we remain very optimistic about the office property sector in Hong Kong. The benefits from the implementation of the Closer Economic Partnership Arrangement ("CEPA") with the Mainland are expected to continue. According to the enhanced terms of CEPA, a further 37 categories of products made in Hong Kong can be exported tariff-free to the Mainland starting from July 2006. We expect to see increasing capital investment in the industrial and manufacturing sectors, fuelling the steady demand of the industrial/office and industrial property markets in the territory. On the other hand, as the financial sector is also benefited from being the Mainland's preferred cross-border capital market, and is expanding for China-related business, we expect the demand for quality office space to be further strengthened.

## Focus Strategy

Our strategy going forward in 2006 will be dedicated to growing our portfolio's net property income. A number of asset enhancement programmes have been put into place; these include: maximizing space utilization to generate additional income; enhancing rental reversion and tenant retention rates; and improving operating cost controls. Appropriate debt and equity financing strategies will also be implemented to maintain the financial flexibility of Prosperity REIT. At the same time, we will actively pursue yield-accretive acquisitions to further strengthen our portfolio. Capitalizing on the sound economic fundamentals in Hong Kong at large and the strong demand for quality office space in particular, we are fully confident to deliver attractive distribution to Unitholders.

## Acknowledgement

On behalf of the Board, I would like to thank our Unitholders and business partners for their continued support and staff members of the Manager and the diligent employees of Goodwell-Prosperity Property Services Limited for their hard work and loyal services during the period.

### **Chiu Kwok Hung, Justin**

*Chairman*

**ARA Asset Management (Prosperity) Limited  
as Manager of Prosperity REIT**

Hong Kong, 17 August 2006

## Highlights

- **Total distribution per unit of HK\$0.0808 for the period from the date of listing to end of June 2006**
- **Annualized distribution yield of 6.97%<sup>1</sup>**
- **Occupancy rate rose to 96.0%<sup>2</sup>, up 4.1% from end of 2005**
- **Average rental reversion rate of 59.2%<sup>3</sup>**
- **Average effective unit rent per square foot of HK\$11.33<sup>3</sup> and average unit rent growth of 12.4%<sup>3</sup>**
- **Gearing ratio at 34.3%<sup>2</sup>, reduced by 10.4% from end of 2005**
- **Net asset value of HK\$2.40<sup>2</sup> per unit, up 6.2% from end of 2005**

<sup>1</sup> Based on the distribution for the six months ended 30 June 2006 and the closing market price as at 30 June 2006.

<sup>2</sup> As at 30 June 2006.

<sup>3</sup> For the six months ended 30 June 2006.

## Distribution per unit

For the period from 16 December 2005 (date of listing) to 30 June 2006

	Actual HK\$	Forecast <sup>4</sup> HK\$	% Change
Distribution per unit:			
From 16 Dec 2005 to 31 Dec 2005	0.0231	0.0041	+463.4%
For the six months ended 30 June 2006	0.0577	0.0541	+6.7%
Total distribution per unit	0.0808	0.0582	+38.8%

## Operation data

For the six months ended 30 June 2006

	Actual	Forecast <sup>4</sup>	% Change
Occupancy rate (as at 30 June 2006)	96.0%	93.8%	+2.3%
Tenant retention rate	76.4%	70.0%	+9.1%
Cost to revenue ratio	22.6%	25.0%	-9.6%

## Key financial figures

	As at 30 June 2006 HK\$ Billion	As at 31 Dec 2005 HK\$ Billion	% Change
Property valuation	4.815	4.548	+5.9%
Loan balance	1.770	1.900	-6.8%
Gearing ratio (Loan/Total assets)	34.3%	38.3%	-10.4%
Net asset value per unit (HK\$)	2.40	2.26	+6.2%

<sup>4</sup> As disclosed in the offering circular of Prosperity REIT dated 5 December 2005.



## Management Discussion And Analysis

### OPERATION REVIEW

Prosperity REIT was listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 December 2005.

Prosperity REIT owns a diverse portfolio of seven quality commercial properties in Hong Kong, comprising three Grade A office buildings, all or a portion of three industrial/office buildings and a portion of one industrial building totalling a gross rentable area of approximately 1.2 million sq. ft. as at the period end date.

Information on the properties in the portfolio as at 30 June 2006 is summarized as follows:

	Location	Gross Rentable Area Sq. ft.	No. of Carpark Spaces	Valuation HK\$ Million	Occupancy Rate
<b>Grade A Office</b>					
The Metropolis Tower	Hunghom	271,418	98	1,910	95.8%
MLC Millennia Plaza	North Point	217,955	43	990	98.3%
Harbourfront Landmark (portion)	Hunghom	77,021	–	350	100.0%
<b>Industrial/Office</b>					
Modern Warehouse	Kwun Tong	240,000	60	577	91.7%
Trendy Centre	Cheung Sha Wan	173,764	79	495	94.3%
Prosperity Center (portion)	Kwun Tong	134,307	105	372	97.6%
<b>Industrial</b>					
New Treasure Centre (portion)	San Po Kong	86,168	22	121	100.0%
		1,200,633	407	4,815	96.0%

The revenue and net property income of the properties portfolio during the Reporting Period were HK\$101,898,000 and HK\$78,872,000 respectively.

	<b>Turnover</b>	<b>Rental Related Income</b>	<b>Total Revenue</b>	<b>Net Property Income</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Grade A Office</b>				
The Metropolis Tower	25,868	7,044	32,912	25,878
MLC Millennia Plaza	14,899	4,725	19,624	14,277
Harbourfront Landmark (Portion)	6,932	1,081	8,013	7,329
<b>Industrial/Office</b>				
Modern Warehouse	13,752	207	13,959	10,831
Trendy Centre	10,046	2,570	12,616	9,954
Prosperity Center (portion)	8,887	1,187	10,074	7,169
<b>Industrial</b>				
New Treasure Centre (portion)	3,868	832	4,700	3,434
	84,252	17,646	101,898	78,872

Despite the consolidation in the REIT market under rising global interest rate in the first half of 2006, the fundamental growth of Prosperity REIT's property portfolio progressed well under the strong office property market trend and increasing tenant relocation and expansion activities in the territory as a whole. Interest rate movement had little impact on Prosperity REIT in terms of distribution to Unitholders, given interest rate expense has already been fixed until 16 December 2010 under the interest rate swap agreement entered into by the finance company of Prosperity REIT.

The Manager closely monitored the market conditions and led Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT, with diligence. As a result of the effective management of Prosperity REIT, the portfolio has performed well during the Reporting Period.

Active and concerted leasing efforts have resulted in a high tenant retention rate of 76.4% over the Reporting Period. New letting area of 171,817 sq. ft. coupled with 297,573 sq. ft. of lease renewed area have way surpassed the total lease expired area over the Reporting Period. Overall occupancy rate hit a new height of 96.0% as at 30 June 2006.

Under the Manager's proactive marketing strategies, a high rental reversion rate of 59.2% was achieved for leases successfully renewed during the Reporting Period. The average effective unit rent of the portfolio for the Reporting Period increased to HK\$11.33 per sq. ft., which was 12.4 % higher than that of the period from the Listing Date to 31 December 2005.

As at the period end date, Prosperity REIT's property portfolio recorded an investment property revaluation surplus of HK\$267 million, based on independent valuation by Knight Frank Petty Limited.

During the Reporting Period, the finance cost amounted to HK\$40,909,000 due to the banking facilities used. Gearing ratio has been reduced to 34.3% due to increase in property valuation and the revolving credit facility of HK\$130 million was fully paid off as a result of the portfolio's stable rental income stream.

The distributable income for the Reporting Period was HK\$72,636,000, equivalent to distribution per unit of HK\$0.0577, which was 6.7% above the forecast disclosed in the Offering Circular. The result outperformed forecast because of sustainable high occupancy rate, additional income from maximizing utilization of space and implementation of effective operating cost control measures.

The Manager has been managing and operating Prosperity REIT in accordance with its asset management, financing and acquisition strategies set forth in the Trust Deed and the Offering Circular. The Manager will continue to manage the assets of Prosperity REIT for the benefit of Unitholders. Given the strong momentum of the Hong Kong office leasing market and the satisfactory progress of Prosperity REIT's business operation over the Reporting Period, we are confident that Prosperity REIT will continue to perform well in the remainder of 2006.

## FINANCIAL REVIEW

### *Liquidity and Financing*

As at the period end date, 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 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. The whole facility was fully drawn on the Listing Date and the revolving credit facility was fully repaid during the Reporting Period.

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.

The total borrowings of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 34.3% (31 December 2005: 38.3%) as at the end of the Reporting Period. The gross liabilities of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 41.4% as at the end of the Reporting Period (31 December 2005: 43.4%).

Prosperity REIT had HK\$49 million cash balance together with available revolving credit facility of HK\$130 million as at the end of the Reporting Period and has sufficient financial resources to satisfy its commitments and working capital requirements.

### *Charges on Assets*

As at the period end date, the seven properties of Prosperity REIT, with aggregate carrying value of HK\$4,815 million (31 December 2005: HK\$4,548 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. The whole facility was fully drawn on the Listing Date and the revolving credit facility was fully repaid during the Reporting Period. The outstanding indebtedness amount at the end of the Reporting Period was HK\$1,770 million (31 December 2005: HK\$1,900 million).

### *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 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 principally oversees the day-to-day management of the Manager's affairs and the conduct of its business. 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, 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 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 Chief Executive Officer is Mr. Lin Chung Sing, Charlie who is an Executive Director.

### *Audit Committee*

The Manager has established an audit committee (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, and Mr. Lan Hong Tsung, David is the chairman of the Audit Committee.

The Audit Committee is responsible to the Board for ensuring the quality and integrity of internal control and the management of risks and financial statements, appointment and performance of internal and independent external auditors, and the existence and working of an effective system of internal control and risk management, in respect of both the Manager and Prosperity REIT.

### *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 Non-executive Director, Mr. Lin Chung Sing, Charlie, Chief Executive Officer and an Executive Director, and Mr. Lan Hong Tsung, David, an Independent Non-executive Director, and the chairman of the Disclosures Committee is Mr. Lin Chung Sing, Charlie.

### *Review of Interim Report*

The interim report of Prosperity REIT for the six months ended 30 June 2006 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 Statements of Auditing Standards 700 "Engagements to Review Interim Financial Reports".

## 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 by the Directors or the Manager (collectively, the **"Management Persons"**) (the **"Units Dealing Code"**). The Units Dealing Code may be extended to apply to any senior executives, officers or other employees of the Manager or the special purpose vehicles (i.e. various property holding companies whose primary purpose is to, directly or indirectly, hold or own or arrange finance for the properties owned by Prosperity REIT) 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, HSBC Institutional Trust Services (Asia) Limited as the trustee of Prosperity REIT (the **"Trustee"**) and the Manager of their holdings in Prosperity REIT. 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 Thursday, 12 October 2006 to Thursday, 19 October 2006, 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, of Shops 1712-1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:00 p.m. on Wednesday, 11 October 2006.

## 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 Trusts (the “**REIT Code**”):

### Connected Transaction Income

The following table sets forth information on all the connected party transactions from which Prosperity REIT derived its income during the Reporting Period of the six months ended 30 June 2006:

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Transaction	Rental and charge out collection (excluding rental deposit, if applicable) for the six months ended	Rental deposit received as at
			30 June 2006 HK\$	30 June 2006 HK\$
AMTD Financial Planning Limited	Associate of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>3</sup>	911,789	485,043
e-Smart System Inc.	Subsidiary of a significant holder <sup>1</sup>	Tenancy of properties of Prosperity REIT <sup>4</sup>	1,695,271	191,259
Goodwell Property Management Limited	Subsidiary of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>5</sup>	426,336	223,968
Fusion System Limited	Subsidiary of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>6</sup>	86,580	44,778
Tremayne Investments Limited	Subsidiary of an associate of a significant holder <sup>2</sup>	Tenancy of property of Prosperity REIT <sup>7</sup>	8,012,394	see note 9
E-Park Parking Management Limited	Subsidiary of a significant holder <sup>1</sup>	Tenancy of properties of Prosperity REIT <sup>8</sup>	91,950	99,753 <sup>10</sup>
<b>Total:</b>			<b>11,224,320</b>	<b>1,044,801</b>



- <sup>1</sup> Significant holder being Cheung Kong (Holdings) Limited (“**Cheung Kong**”).
- <sup>2</sup> 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.
- <sup>3</sup> For Units 2501-3 & Units 2505-11, MLC Millennia Plaza.
- <sup>4</sup> For 18/F, Prosperity Center (surrendered during the Reporting Period) and Unit 2903, Modern Warehouse.
- <sup>5</sup> For 2/F & Units 306-7, New Treasure Centre.
- <sup>6</sup> For Unit 2905, Modern Warehouse.
- <sup>7</sup> For 3/F, 5/F & 6/F, Harbourfront Landmark.
- <sup>8</sup> For Unit 807, Prosperity Center (surrendered during the Reporting Period) and Unit 306, Modern Warehouse.
- <sup>9</sup> By a bank guarantee of HK\$4,850,346 given by HWL.
- <sup>10</sup> Being the sum of the deposits of two tenancies, one of which has been surrendered. The deposit amount for the surrendered lease is HK\$48,732 and it is returned to the tenant.

## Connected Transaction-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 <sup>1</sup>	Relationship with Prosperity REIT	Nature of the Connected Transaction	Payment received for the six months ended 30 June 2006
			HK\$
Goodwell Property Management Limited	Subsidiary of a significant holder <sup>2</sup>	Remuneration of DMC Manager <sup>3</sup>	88,723
Goodwell Property Management Limited	Subsidiary of a significant holder <sup>2</sup>	Remuneration of Carpark Manager	3,549
Citybase Property Management Limited	Subsidiary of a significant holder <sup>2</sup>	Remuneration of DMC Manager <sup>3</sup>	118,017
Citybase Property Management Limited	Subsidiary of a significant holder <sup>2</sup>	Remuneration of Carpark Manager	36,604
Harbourfront Landmark Premium Services Limited	Subsidiary of an associate of a significant holder <sup>4</sup>	Remuneration of DMC Manager <sup>3</sup>	13,189
<b>Total:</b>			<b>260,082</b>

<sup>1</sup> The connected parties are managers under the deeds of mutual covenant of the properties of Prosperity REIT (the "**DMC Manager**"). They are also 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.

<sup>2</sup> Significant holder being Cheung Kong.

<sup>3</sup> The amounts paid to Goodwell Property Management Limited, Citybase Property Management Limited and Harbourfront Landmark Premium Services Limited for the Reporting Period were HK\$828,084, HK\$1,298,183 and HK\$403,384 respectively, out of which HK\$88,723, HK\$118,017 and HK\$13,189 were DMC Manager's remuneration, the remaining amounts were held under the building accounts of the properties for building management expenses and utilities charges.

<sup>4</sup> The connected party is an indirect wholly-owned subsidiary of HWL.

## Connected Party Transaction-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:

<b>Name of Connected Party</b>	<b>Relationship with Prosperity REIT</b>	<b>Nature of the Connected Transaction</b>	<b>Expenses for the six months ended 30 June 2006</b> HK\$
Goodwell Property Management Limited	Subsidiary of a significant holder <sup>1</sup>	Car park lease agency fee	12,970
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder <sup>1</sup>	Property management and lease management fee	2,343,563
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder <sup>1</sup>	Marketing service fee	1,787,403
E-Park Parking Management Limited	Subsidiary of a significant holder <sup>1</sup>	Car park lease agency fee	661,543
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee fee	683,176
ARA Asset Management (Prosperity) Limited	Manager	Base fee and variable fee	11,682,926
<b>Total:</b>			<b>17,171,581</b>

<sup>1</sup> Significant holder being Cheung Kong.

## 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.

\* 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-Lease transactions under which the annual rent exceed HK\$1 million

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Transaction	Annual Income <sup>3</sup> HK\$
Tremayne Investments Limited	Subsidiary of an associate of significant holder <sup>1</sup>	Tenancy agreement for 3/F, 5/F & 6/F, Harbourfront Landmark	13,863,780
AMTD Financial Planning Limited	Associate of a significant holder <sup>2</sup>	Tenancy agreement for Units 2505-11, MLC Millennia Plaza	1,107,180
e-Smart System Inc.	Subsidiary of a significant holder <sup>2</sup>	Tenancy agreement for 18/F, Prosperity Center <sup>4</sup>	1,516,032
<b>Total:</b>			<b>16,486,992</b>

<sup>1</sup> The connected party is an indirect wholly-owned subsidiary of HWL, an associate of a significant holder of Prosperity REIT, namely Cheung Kong.

<sup>2</sup> Significant holder being Cheung Kong.

<sup>3</sup> The annual income stated herein refers to the rental income that would have received for a 12-month period according to the relevant tenancy agreements.

<sup>4</sup> The lease was surrendered during the Reporting Period.

## Repurchase, Sale or Redemption of Units

Under the Trust Deed, the Manager is not permitted to repurchase or redeem any of the units in Prosperity REIT until permitted to do so by the relevant codes and guidelines issued by the Securities and Futures Commission from time to time. During the Reporting Period, other than the issuance of 360,501 units and 2,557,755 units to the Manager on 27 January 2006 and 28 April 2006 respectively as payment of the Manager's management fee, there was no repurchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or subsidiaries of Prosperity REIT.

## Holding of Connected Persons in the Units of Prosperity REIT

As at 30 June 2006, the following persons, being connected persons (as defined under the REIT Code) of Prosperity REIT, holds units of Prosperity REIT:–

Name	Number of Units	Percentage of Unit Holdings
Total Win Group Limited	176,328,129 (Note 1)	14.1%
Wide Option Investments Limited	98,883,559 (Note 2)	7.9%
HKSCC Nominees Limited	932,347,343 (Note 3)	74.4%
ARA Asset Management (Prosperity) Limited	2,918,256 (Note 4)	0.2%

Notes:

- (1) Total Win Group Limited was a connected person of Prosperity REIT as it was a significant holder (as defined under the REIT Code) of Prosperity REIT as at such date.
- (2) Wide Option Investments Limited was a connected person of Prosperity REIT as it was an associated company (as defined under the REIT Code) of Total Win Group Limited as at such date.
- (3) HKSCC Nominees Limited was a connected person of Prosperity REIT as at 30 June 2006 as it was 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 held such units as a nominee.
- (4) ARA Asset Management (Prosperity) Limited was a connected person of Prosperity REIT as at 30 June 2006 as it was the management company (as defined under the REIT Code) of Prosperity REIT as at such date.

As at 30 June 2006, 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 2,918,256 units as at 30 June 2006 by virtue of his 70% shareholding in ARA Asset Management (Holdings) Limited, which in turns holds 100% shareholding interest in the Manager. The Manager holds 2,918,256 units of Prosperity REIT as at 30 June 2006.

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 2006.

So far as the Manager is aware:

- (a) Total Win Group Limited was beneficially interested in 176,328,129 units as at 30 June 2006 and 31 December 2005.
- (b) Wide Option Investments Limited was beneficially interested in 98,883,559 units as at 30 June 2006 and 31 December 2005.
- (c) The Trustee had no beneficial interest in any units as at 30 June 2006 (As at 31 December 2005: had no beneficial interest in any units) and the controlling entities, holding company, subsidiaries and associated companies (within the meaning of the REIT Code) of the Trustee were beneficially interested in 2,594 units as at 30 June 2006. (As at 31 December 2005: had beneficial interest in 28,594 units)
- (d) The Manager had no beneficial interest in any units as at 31 December 2005. With the issuance of 360,501 units and 2,557,755 units to the Manager on 27 January 2006 and 28 April 2006 respectively as the Manager's management fee, the Manager was beneficially interested in 2,918,256 units as at 30 June 2006.

## Independent Review Report



### TO THE BOARD OF DIRECTORS OF ARA ASSET MANAGEMENT (PROSPERITY) LIMITED

#### Introduction

We have been instructed by ARA Asset Management (Prosperity) Limited (the “**Manager**”) to review the interim financial report of Prosperity Real Estate Investment Trust and its subsidiaries (the “**Group**”) set out on pages 21 to 36.

#### Respective Responsibilities of the Manager and Auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the Manager.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report 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.

#### Review work performed

We conducted our review in accordance with Statements of Auditing Standards 700 “Engagements to Review Interim Financial Reports” issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of the management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

#### Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2006.

## Consolidated Income Statement

For the six months ended 30 June 2006

	Note	(Unaudited) HK\$'000
Turnover	4	84,252
Rental related income		17,646
<b>Total revenue</b>		<b>101,898</b>
Property management fees		(2,344)
Other property operating expenses	5	(20,682)
<b>Total property operating expenses</b>		<b>(23,026)</b>
<b>Net property income</b>		<b>78,872</b>
Interest income		1,424
Manager's fee		(11,683)
Trust and other expenses	6	(3,275)
Increase in fair value of investment properties		267,000
Finance costs	7	(40,909)
<b>Profit before taxation</b>		<b>291,429</b>
Taxation	8	(42,162)
<b>Profit for the period</b>		<b>249,267</b>
<b>Income available for distribution for the period</b>		<b>72,636</b>
Earnings per unit (HK\$)	9	0.20

## Consolidated Balance Sheet

As at 30 June 2006

	Note	(Unaudited) 30/6/2006 HK\$'000	(Audited) 31/12/2005 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties		4,815,000	4,548,000
Derivative financial instruments		291,766	283,799
Total non-current assets		5,106,766	4,831,799
<b>Current assets</b>			
Trade and other receivables	10	7,555	32,822
Amount due from related companies		–	11,458
Bank balances and cash		48,921	88,889
Total current assets		56,476	133,169
<b>Total assets</b>		<b>5,163,242</b>	<b>4,964,968</b>
<b>Non-current liabilities</b>			
Secured term loan		1,770,000	1,770,000
Origination fees		(18,050)	(18,050)
Less: amortisation		1,509	–
		1,753,459	1,751,950
Deferred tax liabilities		181,005	138,843
Total non-current liabilities		1,934,464	1,890,793
<b>Current liabilities</b>			
Trade and other payables	11	83,145	104,200
Secured revolving loan	12	–	130,000
Tax liabilities		681	681
Distribution payable		101,675	29,039
Total current liabilities		185,501	263,920
<b>Total liabilities</b>		<b>2,119,965</b>	<b>2,154,713</b>
<b>Net assets</b>		<b>3,043,277</b>	<b>2,810,255</b>
<b>UNITHOLDERS' FUNDS</b>			
<b>Equity and reserves</b>			
Issued equity	13	2,708,571	2,702,078
Equity issue reserve		6,062	–
Unit issue costs		(91,278)	(91,278)
Hedging reserve		32,640	(11,196)
Retained profits		387,282	210,651
Total unitholders' funds		3,043,277	2,810,255
Units in issue ('000)	13	1,253,880	1,250,962
Net asset value per unit (HK\$)	14	2.40	2.26



## Consolidated Statement of Movements in Capital Account

For the six months ended 30 June 2006

(Unaudited)

	Issued equity HK\$'000	Equity issue reserve HK\$'000	Unit issue costs HK\$'000	Hedging reserve HK\$'000	Retained Profits HK\$'000	Total HK\$'000
Net assets as at 1 January 2006	2,702,078	-	(91,278)	(11,196)	210,651	2,810,255
<b>OPERATIONS</b>						
Profit for the period	-	-	-	-	249,267	249,267
Net adjustment to cashflow hedging reserve	-	-	-	43,836	-	43,836
Increase in net assets resulting from operations	-	-	-	43,836	249,267	293,103
<b>UNITHOLDERS' TRANSACTIONS</b>						
Equity issued to Manager	6,493	-	-	-	-	6,493
Distribution payable	-	-	-	-	(72,636)	(72,636)
Manager's fee payable in new units	-	6,062	-	-	-	6,062
Increase (Decrease) in net assets resulting from Unitholders' transactions	6,493	6,062	-	-	(72,636)	(60,081)
Net assets as at 30 June 2006	2,708,571	6,062	(91,278)	32,640	387,282	3,043,277

## Consolidated Statement of Movements in Capital Account (continued)

For the period from 16 December 2005 (date of listing) to 31 December 2005

	Issued equity HK\$'000	Equity issue reserve HK\$'000	Unit issue costs HK\$'000	Hedging reserve HK\$'000	Retained Profits HK\$'000	Total HK\$'000
<b>OPERATIONS</b>						
Profit for the period before property appreciation	-	-	-	-	175,880	175,880
Increase in fair value of two investment properties acquired upon listing	-	-	-	-	53,810	53,810
Increase in fair value of investment properties at period end	-	-	-	-	10,000	10,000
Profit for the period	-	-	-	-	239,690	239,690
Net adjustment in cashflow hedging reserve	-	-	-	(11,196)	-	(11,196)
Increase in net assets resulting from operations	-	-	-	(11,196)	239,690	228,494
<b>UNITHOLDERS' TRANSACTIONS</b>						
Equity raised upon listing	2,702,078	-	-	-	-	2,702,078
Unit issue costs	-	-	(91,278)	-	-	(91,278)
Distribution payable	-	-	-	-	(29,039)	(29,039)
Increase (Decrease) in net assets resulting from Unitholders' transactions	2,702,078	-	(91,278)	-	(29,039)	2,581,761
Net assets as at 31 December 2005	2,702,078	-	(91,278)	(11,196)	210,651	2,810,255

## Condensed Consolidated Cash Flow Statement

*For the six months ended 30 June 2006*

	(Unaudited) HK'000
Net cash from operating activities	115,830
Net cash from investing activities	1,442
Net cash used in financing activities	<u>(157,240)</u>
Net decrease in cash and cash equivalents	(39,968)
Cash and cash equivalents at beginning of the period	<u>88,889</u>
Cash and cash equivalents at end of period, represented by bank balances and cash	<u>48,921</u>

## Notes to the Financial Statements

*For the six months ended 30 June 2006*

### 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 (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 interim financial statements are presented in Hong Kong dollars, which is the functional currency of the Prosperity REIT.

The interim 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, with Hong Kong Accounting Standard 34 “Interim Financial Reporting” and with the REIT Code.

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

The interim financial statements are the first interim financial statements of Prosperity REIT, therefore no comparative figures for the consolidated income statements and the condensed consolidated cash flow statement are presented.

## 2 BASIS OF PREPARATION *(continued)*

In the current interim period, the Group has applied, for the first time, a number of new standards, amendments and interpretations (“**new HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants that are effective for accounting periods beginning on or after 1 December 2005 or 1 January 2006. The adoption of the new HKFRSs has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior year adjustment has been recognised.

The Group has not early applied the new HKFRSs that have been issued but are not yet effective. The Manager anticipates that the application of the new HKFRSs will have no material impact on the financial statements of the Group.

## 3 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies used in the preparation of the interim financial statements are consistent with those used in the financial statements for the period from 16 December 2005 (date of listing) to 31 December 2005.

## 4 TURNOVER

	HK'000
Turnover represents gross rental from investment properties	
Rental income	77,535
Car park income	6,717
	<hr/>
	84,252

## 5 OTHER PROPERTY OPERATING EXPENSES

	HK'000
Building management fees	10,331
Utilities	2,543
Government rent and rates	532
Car park operating expenses	2,028
Landlord provision	360
Repair and maintenance	412
Marketing service fee	1,787
Lease commission	1,059
Valuation fees (paid to principal valuer)	65
Audit fee	319
Tax fees	66
Legal and professional fees	900
Others	280
	20,682

## 6 TRUST AND OTHER EXPENSES

	HK'000
Audit fee	225
Trustee's fee	683
Professional fees and other charges	2,367
	3,275

## 7 FINANCE COSTS

	HK'000
Interest expense on:	
– Secured term loan	43,516
Equalisation of interest expense through cashflow hedges	(4,359)
	39,157
– Secured revolving loan	1,752
	40,909

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

## 8 TAXATION

	HK'000
Current tax	–
Deferred tax	42,162
	42,162

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 based on the Group's net profit for the period of HK\$249,267,000 and the weighted average of 1,252,175,338 units in issue during the period.

## 10 TRADE AND OTHER RECEIVABLES

	30/6/2006 HK\$'000	31/12/2005 HK\$'000
Trade receivables	460	607
Deposits and prepayments	7,047	6,094
Other receivables	48	26,121
	7,555	32,822

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

	30/6/2006 HK\$'000	31/12/2005 HK\$'000
Current – 1 month	347	431
2 – 3 months	113	176
	460	607

The Group maintains a defined credit policy. Collection is closely monitored to minimise any credit risk associated with these receivables. The carrying amounts of the trade and other receivables approximate their fair values.

## 11 TRADE AND OTHER PAYABLES

	<b>30/6/2006</b>	31/12/2005
	<b>HK\$'000</b>	HK\$'000
Trade payables	9,841	2,496
Tenants' deposits		
– Outside parties	52,170	46,719
– Related parties	1,045	994
Rental received in advance		
– Outside parties	1,086	1,692
Other payables	19,003	52,299
	<b>83,145</b>	<b>104,200</b>

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

	<b>30/6/2006</b>	31/12/2005
	<b>HK\$'000</b>	HK\$'000
Current-1 month	9,541	1,833
2 – 3 months	158	663
Over 3 months	142	–
	<b>9,841</b>	<b>2,496</b>

The carrying amounts of trade and other payables approximate their fair values.

## 12 SECURED REVOLVING LOAN

During the period, the Group fully repaid the secured revolving loan in the amount of HK\$130 million.



### 13 ISSUED EQUITY

	Number of units	HK\$'000
Balance at 31 December 2005	1,250,962,222	2,702,078
Payment of Manager's base fee and variable fee through issuance of new units during the period	2,918,256	6,493
Balance at 30 June 2006	1,253,880,478	2,708,571

360,501 units at HK\$2.4154 per unit and 2,557,755 units at HK\$2.1978 per unit were issued in settlement of the Manager's management fees on 27 January 2006 and 28 April 2006 respectively.

### 14 NET ASSET VALUE PER UNIT

The net asset value per unit is calculated based on the net assets of the Group excluding hedging reserve and the total number of 1,253,880,478 units in issue at 30 June 2006 (31 December 2005: 1,250,962,222).

### 15 MAJOR NON-CASH TRANSACTION

During the period, the Manager earned a fee of HK\$11,683,000. The amount for the first quarter ended 31 March 2006 of HK\$5,621,000 had been settled through issuance of units to the Manager on 28 April 2006 and the amount of HK\$6,062,000 will also be settled in units subsequent to the period end.

### 16 NET CURRENT LIABILITIES

At the balance sheet date, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$129,025,000 (31 December 2005: HK\$130,751,000). Under the banking facility agreement entered into by the Group, the Group has HK\$130,000,000 revolving credit facility to meet its liabilities as they fall due.

### 17 TOTAL ASSETS LESS CURRENT LIABILITIES

At the balance sheet date, the Group's total assets less current liabilities amounted to HK\$4,977,741,000 (31 December 2005: HK\$4,701,048,000).

## 18 SEGMENTAL REPORTING

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

## 19 CONNECTED AND RELATED PARTY TRANSACTIONS

During the period, the Group entered into the following transactions with subsidiaries/ associates of Cheung Kong (Holdings) Limited and Hutchison Whampoa Limited, significant holders of Prosperity REIT, the Trustee and the Manager of Prosperity REIT. They are connected and related parties under the Hong Kong Accounting Standard 24 "Related Party Disclosures" and/or the REIT Code:

	HK'000
Rent and rental related income from	
Associate of Cheung Kong (Holdings) Limited	912
Subsidiaries of Cheung Kong (Holdings) Limited	2,308
Subsidiary of Hutchison Whampoa Limited	8,012
Carpark lease agency fee for the operations of the Group's carpark to	
Subsidiaries of Cheung Kong (Holdings) Limited	675
Property management fee to	
Subsidiary of Cheung Kong (Holdings) Limited	2,344
Marketing service fee to	
Subsidiary of Cheung Kong (Holdings) Limited	1,787
Trustee's fee	683
Manager's fee	11,683

## 19 CONNECTED AND RELATED PARTY TRANSACTIONS *(continued)*

Balances with related parties are as follows:

	<b>As at 30 June 2006 HK\$'000</b>	As at 31 December 2005 HK\$'000
Amount due from		
Subsidiaries of Cheung Kong (Holdings) Limited	–	11,458
Deposits placed with the Group for the lease of the Group's properties		
Associate of Cheung Kong (Holdings) Limited	485	485
Subsidiaries of Cheung Kong (Holdings) Limited	560	509

Under the REIT Code, deed of mutual covenant which binds the Manager and all the owners of a development and their successors-in-title which include members comprising the group of Cheung Kong (Holdings) Limited ("**Cheung Kong**") technically constitutes a contract between the Group and Cheung Kong group. Remuneration to the building managers, which are the wholly-owned subsidiaries of Cheung Kong, 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\$260,000.

## 20 DISTRIBUTION STATEMENT

	<b>(Unaudited) HK'000</b>
Profit for the six months ended 30 June 2006	249,267
Adjustments:	
Manager's fee	11,683
Increase in fair value of investment properties	(267,000)
Finance costs	36,524
Deferred tax	42,162
Income available for distribution for the period	72,636

## 20 DISTRIBUTION STATEMENT *(continued)*

	HK\$'000
<hr/>	
<i>Income available for distribution</i>	
For the period from 16 December 2005 (date of listing) to 31 December 2005	29,039
For the six months ended 30 June 2006	<u>72,636</u>
Total for the period from 16 December 2005 (date of listing) to 30 June 2006	<u>101,675</u>

	HK\$
<hr/>	
<i>Distribution per unit</i>	
For the period from 16 December 2005 (date of listing) to 31 December 2005	0.0231
For the six months ended 30 June 2006	<u>0.0577</u>
Total for the period from 16 December 2005 (date of listing) to 30 June 2006	<u>0.0808</u>

Pursuant to the terms of the Trust Deed, Prosperity REIT's first distribution after 16 December 2005 (the "**Listing Date**") will be for the period from the Listing Date to 30 June 2006. Accordingly, distribution for the Reporting Period will be distributed together with the distribution for the period from the Listing Date to 31 December 2005 and will be paid to Unitholders of Prosperity REIT whose names appear on the register of Unitholders of Prosperity REIT on Thursday, 19 October 2006. The distribution will be paid on Friday, 20 October 2006. The distribution per unit is calculated based on the Group's income available for distribution for the period from 16 December 2005 (date of listing) to 30 June 2006 of HK\$101,675,000 and the 1,257,494,730 units, entitled to the distribution as at 31 July 2006, being the day immediately after issuance of units for payment of management fees to the Manager for the second quarter of 2006.

## 21 PERFORMANCE TABLE

### Results Analysis

	<b>(Unaudited)</b>	(Audited)
	<b>For the</b>	From
	<b>six months</b>	16 December
	<b>ended</b>	2005 to
	<b>30 June</b>	31 December
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Turnover	84,252	6,483
Net property income	78,872	5,468 <sup>1</sup>
Profit for the period	249,267	239,690
Income available for distribution	72,636	29,039
Earnings per unit (HK\$)	0.20	0.19
Distribution per unit (HK\$)		N/A <sup>2</sup>
From 16 December 2005 (date of listing) to 31 December 2005	0.0231	
For the six months ended 30 June 2006	0.0577	
From 16 December 2005 to 30 June 2006	0.0808	

### Major assets and liabilities

	<b>(Unaudited)</b>	(Audited)
	<b>As at</b>	As at
	<b>30 June</b>	31 December
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Investment properties	4,815,000	4,548,000
Secured bank loans	1,770,000	1,900,000
Net asset value	3,043,277	2,810,255
Net asset value per unit (HK\$) (Note 14)	2.40	2.26

## 21 PERFORMANCE TABLE (continued)

### Other information

	(Unaudited) As at 30 June 2006 HK\$'000	(Audited) As at 31 December 2005 HK\$'000
Market price per unit at the end of period (HK\$)	1.67	2.45
The highest traded price during the period (HK\$)	2.475	2.90
The highest premium of the traded price to net asset value	3.1 %	28.3%
The lowest traded price during the period (HK\$)	1.59	2.325
The (highest discount)/lowest premium of the traded price to net asset value	(33.8) %	2.9%
The net yield per unit based on market price at the end of period	6.97 % <sup>3</sup>	N/A <sup>2</sup>

<sup>1</sup> Before landlord provision of HK\$4,654,000, which the Manager has proactively commenced in order to enhance the competitive edge of the properties.

<sup>2</sup> Pursuant to the terms of the Trust Deed, Prosperity REIT's first distribution after the Listing Date will be for the period from 16 December 2005 (date of listing) to 30 June 2006. Accordingly, distribution for the six months ended 30 June 2006 will be distributed together with the distribution for the period from the Listing Date to 31 December 2005 and will be paid to Unitholders of Prosperity REIT whose names appear on the register of Unitholders of Prosperity REIT on Thursday, 19 October 2006. The distribution will be paid on Friday, 20 October 2006.

<sup>3</sup> Annualized yield based on the distribution per unit of HK\$0.0577 for the six months ended 30 June 2006.

## Investment Properties Portfolio

As at 30 June 2006

Property	Type	Lease term	Lease expiry date	Location	Valuation 30 June 2006 HK\$ Million
The Metropolis Tower	O	Medium-term lease	30 June 2047	No. 10 Metropolis Drive Hungohm Kowloon Hong Kong	1,910
MLC Millennia Plaza	O	Medium-term lease	30 June 2047	No. 663 King's Road North Point Hong Kong	990
Harbourfront Landmark (portion)	O	Medium-term lease	30 June 2047	No. 11 Wan Hoi Street Hungohm Kowloon Hong Kong	350
Modern Warehouse	I/O	Medium-term lease	30 June 2047	No. 6 Shing Yip Street Kwun Tong Kowloon Hong Kong	577
Trendy Centre	I/O	Medium-term lease	30 June 2047	No.682 Castle Peak Road Cheung Sha Wan Kowloon Hong Kong	495
Prosperity Center (portion)	I/O	Medium-term lease	30 June 2047	No. 25 Chong Yip Street Kwun Tong Kowloon Hong Kong	372
New Treasure Centre (portion)	I	Medium-term lease	30 June 2047	No. 10 Ng Fong Street San Po Kong Kowloon Hong Kong	121
<b>Total</b>					<b>4,815</b>

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

## Corporate Information

### Board of Directors of the Manager

Chiu Kwok Hung, Justin  
*Chairman and Non-executive Director*

Lim Hwee Chiang  
*Non-executive Director*

Ma Lai Chee, Gerald  
*Non-executive Director*

Lin Chung Sing, Charlie  
*Executive Director and 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

### Banker

The Hongkong and Shanghai Banking  
Corporation Limited

### Solicitors

Baker & McKenzie

### Registered Office

Units 5508-5509, 55th Floor,  
The Center,  
99 Queen's Road Central,  
Hong Kong.

### Unit Registrar and Transfer Office

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