

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)

Managed by



ARA Asset Management (Prosperity) Limited

RESULTS ANNOUNCEMENT FOR 2005

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 (collectively the "Trust Deed") and made between ARA Asset Management (Prosperity) Limited, as the manager of Prosperity REIT (the "Manager"), and HSBC Institutional Trust Services (Asia) Limited, as the trustee of Prosperity REIT. Prosperity REIT was the first private sector REIT to list on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 16 December 2005. Prosperity REIT owns a portfolio of seven high-quality commercial properties in Hong Kong.

DISTRIBUTABLE INCOME FOR THE PERIOD

The audited consolidated distributable income of Prosperity REIT to unitholders for the period from 16 December 2005 to 31 December 2005 (the "Reporting Period") amounted to HK\$29,039,000.

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 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 amount available for distribution to unitholders for the period from 16 December 2005 (being Prosperity REIT's listing date) (the "Listing Date") to 31 December 2005 amounted to HK\$29,039,000. However, 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 distributed together with the distribution for the first half year of 2006 and will be paid to persons who are unitholders of Prosperity REIT as at the record date for the interim distributions for the period from 1 January 2006 to 30 June 2006. As a result, unitholders of Prosperity REIT who are not recorded as holders of units on such record date will not be entitled to receive any distribution for the Reporting Period.

PROSPECTS

"Prosperity REIT is committed to providing unitholders with stable distribution in 2006 as well as long term growth in net asset value per unit."

2005 was a prosperous year for Hong Kong as sustainable economic growth was reported. It was also an exceptional year for the office property market as strong demand from the finance, business services, trading and manufacturing sectors impacted positively on office rents throughout the territory. It was under such favorable conditions that Prosperity REIT was listed on the Stock Exchange as the first private sector REIT in Hong Kong to a warm market reception.

Within the sixteen-day reporting period, from the listing date on 16 December 2005 to 31 December 2005, we have already demonstrated our capabilities in maximizing returns for our unitholders. Through effective lease renewal management and effort to upgrade the tenant base, rental growth of 14.5% on the portfolio average unit rent was recorded for the period from June to December 2005 and a high occupancy rate of 92.2% was posted as at the end of 2005. For the Reporting Period, I am pleased to report to you that the distributable income to unitholders amounts to a total of HK\$29,039,000.

Hong Kong's Gross Domestic Product in 2005 surpassed its 1997 peak to reach new heights. Hong Kong has fully emerged from the Asian financial crisis and has regained its strength and vitality. Looking forward, the Mainland economy will continue to deliver strong growth on a firmer footing after macroeconomic adjustments. The implementation of Closer Economic Partnership Arrangement is poised to liberalize trade between Hong Kong and the Mainland. As a result, Hong Kong's position as a regional financial and banking centre will be further strengthened.

We have great confidence in the prospects of the Hong Kong economy. Riding on the positive commercial property market outlook, we are committed to driving the organic growth of the Prosperity REIT portfolio. We will continue to enhance our tenant base to generate attractive returns for unitholders in the next fiscal term and beyond.

The REIT market is expected to take off in Hong Kong and competition will intensify as we progress in 2006. We remain unwavering in our investment mandate. We will continue to pursue property acquisition opportunities to generate incremental returns to unitholders. Prosperity REIT is committed to providing unitholders with stable distribution as well as long term growth in net asset value per unit.

Finally, I would like to take this opportunity to thank all the unitholders for their confidence and support. Likewise, I would like to extend my gratitude to my fellow Board members and the management team for their tremendous contribution during this period.

Chiu Kwok Hung, Justin
Chairman
ARA Asset Management (Prosperity) Limited
as Manager of Prosperity REIT

Hong Kong, 16 March 2006

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

Prosperity REIT was listed on the Main Board of the Stock Exchange on 16 December 2005. The results of Prosperity REIT for the Reporting Period cover the period from 16 December 2005 to 31 December 2005.

Upon listing, Prosperity REIT completed the acquisition of interests in seven properties, as well as a finance company for a total purchase price of HK\$4,459 million.

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 totaling 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 the period end date can be summarized as follows:

	Location	Gross Rentable Area Sq. ft.	No. of car parks	Valuation HK\$ Million	Occupancy rate
Grade A Office					
	The Metropolis Tower	271,418	98	1,790	98.2%
	MLC Millennium Plaza	217,955	43	940	94.4%
	Harbourfront Landmark (portion)	77,021	–	350	100.0%
Industrial/Office					
	Modern Warehouse	240,000	60	550	88.2%
	Trendy Centre	173,764	79	460	88.8%
	Prosperity Center (portion)	134,307	105	350	79.6%
Industrial					
	New Treasure Centre (portion)	86,168	22	108	98.5%
		<u>1,200,633</u>	<u>407</u>	<u>4,548</u>	<u>92.2%</u>

The revenue and net property income (before landlord provision) of the properties portfolio during the Reporting Period were HK\$8,202,000 and HK\$5,468,000 respectively.

	Turnover HK\$'000	Rental related income HK\$'000	Total Revenue HK\$'000	Net property income (before landlord provision*) HK\$'000
Grade A Office				
	The Metropolis Tower	1,971	704	2,675
	MLC Millennium Plaza	1,154	414	1,568
	Harbourfront Landmark (portion)	559	112	671
Industrial/Office				
	Modern Warehouse	1,187	53	1,240
	Trendy Centre	784	244	1,028
	Prosperity Center (portion)	525	107	632
Industrial				
	New Treasure Centre (portion)	303	85	388
		<u>6,483</u>	<u>1,719</u>	<u>8,202</u>
				<u>5,468</u>

* The Manager has proactively commenced landlord provision work in the amount of HK\$4,654,000 in order to enhance the competitive edge of the properties. Through early commencement of some tenant improvement, the downtime period between tenancies will be shortened.

2005 was a tremendous year for the Grade A office market which saw rents rising by around 70% on average due to strong demand from the finance, business services, trading and manufacturing sectors. Given the lack of new office space expected to come on stream in 2006, the imbalance between supply and demand is not expected to ease anytime in the near future, fuelling further growth in rental levels in the office sector. With a substantial proportion of Prosperity REIT's leases, which account for 54.7% of total rental income, becoming due for renewal in 2006, it is expected that rental income for Prosperity REIT will significantly improve. Prosperity REIT is well positioned to benefit directly from the continued economic growth of Hong Kong in 2006 and beyond.

As at the period end date, Prosperity REIT's property portfolio recorded an investment property revaluation surplus of HK\$10 million, based on a professional valuation performed by an independent valuer, Chesterton Petty Limited.

During the Reporting Period, interest income in the amount of HK\$29,920,000 was earned, mainly due to the over-subscription of units during Prosperity REIT's initial public offering. The finance cost of HK\$4,114,000 was accrued due to the banking facilities used.

FINANCIAL REVIEW

Liquidity and Financing

Upon listing, a total number of 1,250,962,222 units were issued. The issue price per unit was HK\$2.16. The total proceeds of approximately HK\$2,702 million were received through the issue of units.

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 whole facility was fully drawn on the Listing Date. 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 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%.

The total borrowings of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 38.3% as at the period end date. The gross liabilities of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 43.4% as at the period end date.

Prosperity REIT had HK\$89 million cash balance as at the period end date 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\$4,548 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 outstanding amount at the end of the Reporting Period was the same as the drawn down amount.

Employees

Prosperity REIT is managed by the Manager. Prosperity REIT does not employ any staff itself.

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, there was no purchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or subsidiaries of Prosperity REIT.

CORPORATE GOVERNANCE

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, sound internal control, and transparency and accountability to all unitholders. The Manager has adopted its compliance manual (the "Compliance Manual") for use 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 regulations and legislation. A summary of the key components of the corporate governance policies adopted by the Manager will be contained in the annual report of Prosperity REIT for the Reporting Period.

During the Reporting Period, both the Manager and Prosperity REIT have complied with the provisions of its Compliance Manual.

REVIEW OF FINAL RESULTS

The final results of Prosperity REIT for the period from 16 December 2005 to 31 December 2005 have been reviewed by the Disclosures Committee and Audit Committee of the Manager.

ISSUANCE OF 2005 ANNUAL REPORT

The annual report of Prosperity REIT for the Reporting Period will be sent to the unitholders on or before 29 April 2006.

CONSOLIDATED INCOME STATEMENT

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

	Notes	HK\$'000
Turnover	1	6,483
Rental related income		1,719
		8,202
Property management fees		(177)
Other property operating expenses		(2,557)
Total property operating expenses		(2,734)
Net property income (before landlord provision)		5,468
Landlord provision		(4,654)
Net property income		814
Interest income		29,920
Manager's fee		(871)
Listing expenses		(19,862)
Trust and other expenses		(1,819)
Excess of fair value of identifiable assets and liabilities acquired over the cost of acquisition of subsidiaries		171,308
Increase in fair value of two investment properties acquired upon listing		53,810
Increase in fair value of investment properties at period end		10,000
Finance costs	2	(4,114)
Profit before taxation		239,186
Taxation	3	504
Net profit for the period		239,690
Earnings per unit (HK\$)	4	0.19
Distributable income:		HK\$'000
Net profit for the period		239,690
Adjustments:		
Manager's fee		871
Listing expenses		19,862
Excess of fair value of identifiable assets and liabilities acquired over the cost of acquisition of subsidiaries		(171,308)
Increase in fair value of two investment properties acquired upon listing		(53,810)
Increase in fair value of investment properties at period end		(10,000)
Finance costs		3,623
Deferred tax		111
Net income available for distribution		29,039
Distribution per unit (HK\$)	5	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2005

	Notes	HK\$'000
ASSETS AND LIABILITIES		
Non-current assets		
Investment properties		4,548,000
Derivative financial instruments		283,799
Total non-current assets		4,831,799
Current assets		
Trade and other receivables	6	32,822
Amount due from related companies		11,458
Bank balances and cash		88,889
Total current assets		133,169
Total assets		4,964,968
Non-current liabilities		
Secured term loan		1,770,000
Origination fees		(18,050)
Deferred tax liabilities		138,843
Total non-current liabilities		1,890,793
Current liabilities		
Trade and other payables	6	104,200
Secured revolving loan		130,000
Tax liabilities		681
Distribution payable		29,039
Total current liabilities		263,920
Total liabilities		2,154,713
Net assets		2,810,255
UNITHOLDERS' FUNDS		
Equity and reserves		
Issued equity	7	2,702,078
Unit issue costs		(91,278)
Hedging reserve		(11,196)
Retained profits		210,651
Total Unitholders' funds		2,810,255
Net asset value per unit (HK\$)	8	2.26

Notes:

(1) Turnover of Prosperity REIT is as follows:

	HK\$'000
Rental income	5,900
Car park income	583
	6,483

(2) Finance costs:

	HK\$'000
Interest expense on	
– Secured term loan	3,855
– Secured revolving loan	259
	4,114

(3) Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the period. Deferred tax is provided on temporary differences using the current applicable rates.

	HK\$'000
Current tax credit	(615)
Deferred tax	111
	(504)

(4) The calculation of earnings per unit is based on net profit attributable to unitholders and on 1,250,962,222 units in issue during the period.

(5) 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 distributed together with the distribution for the first half year of 2006 and will be paid to persons who are unitholders of Prosperity REIT as at the record date for the interim distributions for the period from 1 January 2006 to 30 June 2006. As a result, unitholders of Prosperity REIT who are not recorded as holders of units on such record date will not be entitled to receive any distribution for the Reporting Period.

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

	HK\$'000
Current – 1 month	431
2 – 3 months	176
	607

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

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

	HK\$'000
Current – 1 month	1,833
2 – 3 months	663
	2,496

(7) Issued equity

	Number of units	HK\$'000
Creation and issue of units on 16 December 2005 at HK\$2.16 per unit	1,250,962,222	2,702,078

(8) The net asset value per unit is calculated based on the net assets of the Group excluding hedging reserve and the total number of units used for computing the net asset value per unit is 1,250,962,222.

(9) At the balance sheet date, Prosperity REIT's net current liabilities, defined as current assets less current liabilities, amounted to HK\$130,751,000 and Prosperity REIT's total assets less current liabilities amounted to HK\$4,701,048,000.

(10) 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.

(11) The results have been reviewed by the Disclosures Committee and Audit Committee.

The directors of the 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. Lin Chung Sing, Charlie and Ms. Soon Yan Seen as Executive Directors; Mr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (Phoon Sui Moy alias Poon Sow Mei) and Mr. Robert Douglas Pope as Independent Non-executive Directors.