



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

INTERIM RESULTS ANNOUNCEMENT FOR 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%¹**
- **Occupancy rate rose to 96.0%², up 4.1% from end of 2005**
- **Average rental reversion rate of 59.2%³**
- **Average effective unit rent per square foot of HK\$11.33³ and average unit rent growth of 12.4%³**
- **Gearing ratio at 34.3%², reduced by 10.4% from end of 2005**
- **Net asset value of HK\$2.40² per unit, up 6.2% from end of 2005**

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

² As at 30 June 2006.

³ 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 ⁴ 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 ⁴	% 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%

⁴ As disclosed in the offering circular of Prosperity REIT dated 5 December 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 real estate investment trust (“**REIT**”) to list on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 16 December 2005 (the “**Listing Date**”). Prosperity REIT owns a portfolio of seven high-quality commercial properties in Hong Kong.

DISTRIBUTABLE INCOME FOR THE PERIOD

For the six-month period from 1 January 2006 to 30 June 2006 (the “**Reporting Period**”), the unaudited distributable income to unitholders of Prosperity REIT (“**Unitholders**”) was 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) carried forward from 2005, the total distributable income for the period from the Listing Date on 16 December 2005 to 30 June 2006 amounted to HK\$101,675,000, while the aggregate distribution per unit was HK\$0.0808. The distributable income for the period from 16 December 2005 to 30 June 2006 is calculated by 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 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.

PROSPECTS

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 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's properties are located.

Operation Review

We are very pleased to report that a strong average rental reversion rate of 59.2% was recorded in Prosperity REIT's 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

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATION REVIEW

Prosperity REIT was listed on the Main Board of 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
Grade A Office					
	The Metropolis Tower	271,418	98	1,910	95.8%
	MLC Millennia Plaza	217,955	43	990	98.3%
	Harbourfront Landmark (portion)	77,021	–	350	100.0%
Industrial/Office					
	Modern Warehouse	240,000	60	577	91.7%
	Trendy Centre	173,764	79	495	94.3%
	Prosperity Center (portion)	134,307	105	372	97.6%
Industrial					
	New Treasure Centre (portion)	86,168	22	121	100.0%
		<u>1,200,633</u>	<u>407</u>	<u>4,815</u>	<u>96.0%</u>

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.

	Turnover HK\$'000	Rental Related Income HK\$'000	Total Revenue HK\$'000	Net Property Income HK\$'000
Grade A Office				
	25,868	7,044	32,912	25,878
	14,899	4,725	19,624	14,277
	6,932	1,081	8,013	7,329
Industrial/Office				
	13,752	207	13,959	10,831
	10,046	2,570	12,616	9,954
	8,887	1,187	10,074	7,169
Industrial				
	3,868	832	4,700	3,434
	<u>84,252</u>	<u>17,646</u>	<u>101,898</u>	<u>78,872</u>

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 the 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 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.

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

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.

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.

REVIEW OF INTERIM RESULTS

The interim results of Prosperity REIT for the six months ended 30 June 2006 have been reviewed by the Disclosures Committee and Audit Committee of the Manager and by the auditors in accordance with Statement of Auditing Standards No. 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants.

ISSUANCE OF 2006 INTERIM REPORT

The interim report of Prosperity REIT for the Reporting Period will be sent to Unitholders on or before 31 August 2006.

CONSOLIDATED INCOME STATEMENT*For the six months ended 30 June 2006*

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

DISTRIBUTION STATEMENT*For the six months ended 30 June 2006*

		HK\$'000
Profit for the period		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
Distributable income for the six months ended 30 June 2006		72,636
Distributable income for the period from 16 December 2005 (date of listing) to 31 December 2005		29,039
Total distributable income for the period from 16 December 2005 to 30 June 2006		101,675
Distribution per unit	<i>5</i>	HK\$
For the period from 16 December 2005 (date of listing) to 31 December 2005		0.0231
For the six months ended 30 June 2006		0.0577
Total for the period from date of listing to 30 June 2006		0.0808

CONSOLIDATED BALANCE SHEET

As at 30 June 2006

	Notes	(Unaudited) 30/6/2006 HK\$'000	(Audited) 31/12/2005 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		4,815,000	4,548,000
Derivative financial instruments		291,766	283,799
Total non-current assets		<u>5,106,766</u>	<u>4,831,799</u>
Current assets			
Trade and other receivables	6	7,555	32,822
Amount due from related companies		–	11,458
Bank balances and cash		48,921	88,889
Total current assets		<u>56,476</u>	<u>133,169</u>
Total assets		<u>5,163,242</u>	<u>4,964,968</u>
Non-current liabilities			
Secured term loan		1,770,000	1,770,000
Origination fees		(18,050)	(18,050)
Less: amortization		1,509	–
		<u>1,753,459</u>	<u>1,751,950</u>
Deferred tax liabilities		181,005	138,843
Total non-current liabilities		<u>1,934,464</u>	<u>1,890,793</u>
Current liabilities			
Trade and other payables	6	83,145	104,200
Secured revolving loan		–	130,000
Tax liabilities		681	681
Distribution payable		101,675	29,039
Total current liabilities		<u>185,501</u>	<u>263,920</u>
Total liabilities		<u>2,119,965</u>	<u>2,154,713</u>
Net assets		<u>3,043,277</u>	<u>2,810,255</u>
UNITHOLDERS' FUNDS			
Equity and reserves			
Issued equity	7	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		<u>3,043,277</u>	<u>2,810,255</u>
Net asset value per unit (HK\$)	8	<u>2.40</u>	<u>2.26</u>

Notes:

(1) Turnover of Prosperity REIT is as follows:

	HK\$'000
Rental income	77,535
Car park income	6,717
	<u>84,252</u>

(2) Finance costs:	HK\$'000
Interest expense on	
– Secured term loan	43,516
– Equalisation of interest expense through cash flow hedges	(4,359)
	<u>39,157</u>
– Secured revolving loan	1,752
	<u>40,909</u>

- (3) No provision for Hong Kong profits tax is required as Prosperity REIT and its subsidiaries (the “Group”) did not have any assessable profits for the period. Deferred tax is provided on temporary differences using the current applicable rates.

	HK\$'000
Current tax	–
Deferred tax	42,162
	<u>42,162</u>

- (4) The calculation of earnings per unit is based on net profit attributable to Unitholders and on the weighted average number of 1,252,175,338 units in issue during the period.

- (5) 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, income available for distribution for the Reporting Period will be paid to the Unitholders of Prosperity REIT together with the income available for distribution for the period from the Listing date to 31 December 2005.

- (6) 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
	<u>460</u>	<u>607</u>

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

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

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

- (7) 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 Reporting Period	2,918,256	6,493
Balance at 30 June 2006	<u>1,253,880,478</u>	<u>2,708,571</u>

- (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 1,253,880,478.

- (9) At the balance sheet date, the Group’s net current liabilities, defined as current assets less current liabilities, amounted to HK\$129,025,000 (31/12/2005: HK\$130,751,000) and the Group’s total assets less current liabilities amounted to HK\$4,977,741,000 (31/12/2005: HK\$4,701,048,000).

- (10) The interim financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. 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.

- (11) The interim financial statements are unaudited, but have been reviewed by the Disclosures Committee and Audit Committee of the Manager and by the auditors in accordance with Statement of Auditing Standards No. 700 “Engagements to Review Interim Financial Reports” issued by the Hong Kong Institute of Certified Public Accountants.

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 as Executive Director; Mr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Robert Douglas Pope as Independent Non-executive Directors.

Please also refer to the published version of this announcement in The Standard.