

**BEA securities**

EAST ASIA SECURITIES COMPANY LIMITED

9/F, 10 Des Voeux Road Central, Hong Kong.

Dealing: 3608 8000 Research: 3608 8098 Facsimile: 3608 6132

HONG KONG RESEARCH**5th December 2005****Main Board Listing - Research**

泓富產業信託

Prosperity Real Estate Investment Trust [Stock Code: 0808]**Joint Financial Advisers, Joint Lead
Underwriters, Joint Bookrunners, and Joint
Listing Agents**: JPMorgan
Merrill Lynch Far East Limited**Sector** : Financials**Business** : Real estate investment trust (REIT)**Total share offer:** 888,183,178 units
(71.0% of the enlarged share capital)**Public Offer:** 88,818,000 shares (10%)**Placing:** 799,365,178 shares (90%)**Greenshoe:** 87,567,356 shares**Price:** HK\$2.00-HK\$2.16 per unit**Market Cap.:** HK\$2,502 million – HK\$2,702 million**FY2006E Distribution Yield:** 5.73%-5.31%**Adjusted NTA per unit:** HK\$2.29-HK\$2.32**The Manager:** ARA Asset Management
(Prosperity) Limited**HK Public Offer period:**5th December 2005 – 8th December 2005 noon**Receiving bank:** HSBC
Standard Chartered Bank
(Hong Kong) Limited**Unit registrar:** Computershare Hong Kong
Investor Services Limited**Listing date:** 16th December 2005**Business of Prosperity REIT**

Prosperity REIT is a real estate investment trust established by the Cheung Kong Group, primarily to own and invest in a diverse, income-producing portfolio of commercial properties. Its primary investment objective will be to produce stable and sustainable distributions to Unit-holders and to achieve long-term growth in net asset value per unit via investment in office and commercial properties in Hong Kong.

The portfolio of Prosperity REIT will comprise, upon the completion of the offering, three Grade A office buildings in decentralized business districts, all or a portion of three industrial/office buildings and a portion of one industrial building.

For the eight months ended 31st August 2005, the Properties (excluding *Harbourfront Land Property*, which was occupied only from 1st May 2005) enjoyed an average occupancy rate of 94.6%, serving a diverse tenant base with 501 tenancies (including *Harbourfront Land Property*).

Meanwhile, Cheung Kong (HKEx: 0001) (CKH) and Hutchison Whampoa (HKEx: 0013) (HWL) will, in the proportions of 64.07% (CKH) and 35.93% (HWL), guarantee that the dividend per unit of Prosperity REIT for the twelve months ended 31st December 2006 will not be less than HK\$0.1145.

Major Unit-holders after Listing (Assuming the over-allotment option is not exercised)

Cheung Kong (Holdings)	18.6%
Hutchison Whampoa	10.4%
	<u>29.0%</u>

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Use of Proceeds

Total proceeds from the offer are estimated to be HK\$2,502 million (based on an issue price of HK\$2.00) and HK\$2,702 million (based on an issue price of HK\$2.16).

(Assuming the over-allotment option is not exercised.)

The total proceeds, along with the initial drawdown of a secured credit facility of HK\$1.9 billion, will be used for acquiring the interests in the target properties and related companies and paying issue and acquisition costs.

	Based on the Minimum Offer Price of HK\$2.00	Based on the Maximum Offer Price of HK\$2.16
	(HK\$ million)	
The Acquisitions	4,266	4,459
Issue costs	98	105
Acquisition costs	38	38

Financial Highlights

	Year ended 31 st December			6 months ended 30 th June 2005
	2002 HK\$ '000	2003 HK\$ '000	2004 HK\$ '000	2005 HK\$ '000
Total rental income	87,755	99,494	116,094	60,481
Car park income	13,202	14,737	14,699	6,919
Total turnover	100,957	114,231	130,793	67,400
Gross profit	75,593	77,375	116,560	60,501
Increase/(decrease) in fair value of investment properties	(183,461)	(186,400)	271,749	618,889
Profit for the period	(144,142)	(283,481)	280,171	711,939

Description of the Properties

	Location	Gross Rentable Area (sq. ft.)	Average Occupancy for Jan - Aug 2005	No of Tenancies as at 31/08/2005	No. of Car Park Spaces
Grade A Office					
The Metropolis Tower	Hunghom	271,418	98.7%	86	98
MLC Millennia Plaza	North Point	217,955	95.5%	67	43
Harbourfront Landmark Property(*)	Hunghom	77,021	-	1	-
Industrial/office					
Modern Warehouse	Kwun Tong	240,000	97.0%	125	60
Trendy Centre	Cheung Sha Wan	173,764	86.1%	120	79
Prosperity Center Property (^)	Kwun Tong	134,307	96.4%	52	105
Industrial					
New Treasure Centre Property	San Po Kong	86,168	93.8%	50	22

Remarks:

(*) all of Harbourfront Landmark Property has been leased to Tremayne Investments Limited from 1st November 2005.

(^) refers to Prosperity REIT's approximately 49% ownership interest only.

Strengths/Opportunities

- ✓ The Hong Kong economy is expected to grow a strong 7% in 2005 on robust export trade as well as improved consumer sentiments, which should help boost business confidence and demand for office spaces. According to property consultant Savills (Hong Kong) Limited, rentals for Grade A and Grade B are expected to grow 19% and 17% in 2006 and 15% and 24% in 2007, respectively.
- ✓ According to the valuation report conducted by Chesterton Petty Limited, majority of the existing tenancies of the Properties held by Prosperity REIT were signed in 2003 and 2004, early stage of the current rental up-cycle, and will expire in the next couple of years. Prosperity REIT, therefore, should benefit from expected upward rental renewal in 2006 and 2007.
- ✓ Being the first private REIT listed in Hong Kong, Prosperity REIT is to distribute 100% of its distributable income to Unit-holders as dividends for each financial year. With the guaranteed paid-out of no less than HK\$0.1145 per unit in 2006, Prosperity REIT will offer a distribution yield of 5.73% based on the minimum offer price of HK\$2.00 and 5.31% based on the top end of the indicative price range at HK\$2.16, which look attractive when compared with the forecast distribution yield of 4.9% offered by the Link REIT (HKEx: 0823).

Weaknesses/Threats

- × Prosperity REIT is expected to undertake external borrowings of HK\$1.9 billion in order to help partly finance the acquisition of the Properties. Investors should note that failure to draw down such debt facility would lead to the collapse of the offering.
- × Tenants of the Properties are well diversified in different industries like electronic/technology, manufacturing/ trading, textile/ garment and etc. However, Prosperity REIT's net property income are more concentrated in geographical terms, as more than 50% of the forecast net property income in 2006 would be contributed from *The Metropolis Tower* and *MLC Millennia Plaza*. Accordingly, negative conditions of the two premises may have a substantial impact on Prosperity REIT's overall performance and so its income flows.

Recommendation: Subscribe