
THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this Circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all of your units in Prosperity REIT, you should at once hand this Circular, together with the accompanying form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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

**CIRCULAR TO UNITHOLDERS IN RELATION TO
(1) EXTENSION OF EXISTING CONNECTED PARTY TRANSACTION WAIVER
AND PROPOSED NEW ANNUAL MONETARY LIMITS FOR
CERTAIN CONNECTED PARTY TRANSACTIONS
AND
(2) NOTICE OF EGM**

**Independent Financial Adviser to the
Independent Board Committee of the REIT Manager,
the independent Unitholders and the Trustee**



United Simsen Securities Limited

A wholly-owned subsidiary of SIMSEN INTERNATIONAL CORPORATION LIMITED

A letter from the Board is set out on pages 4 to 7 of this Circular.

A notice convening the EGM to be held on Friday, 27 May 2011 at 3:00 p.m. (or immediately after the conclusion of the AGM which is scheduled to be held on the same day at 2:30 p.m.), at Exhibition Venue A on Level 7, The Metropolis Mall, 6 Metropolis Drive, Hung Hom, Kowloon, Hong Kong is set out on pages N-1 to N-2 of this Circular. Whether or not you are able to attend and vote at the EGM in person, please complete and return the accompanying form of proxy to the Unit Registrar of Prosperity REIT, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

TABLE OF CONTENTS

	<i>Page</i>
CORPORATE INFORMATION	1
DEFINITIONS	2
LETTER FROM THE BOARD	
1. FURTHER EXTENSION	4
2. PROPOSED NEW ANNUAL MONETARY LIMITS FOR THE CONNECTED PARTY TRANSACTIONS	5
3. DISCLOSURE AND INDEPENDENT UNITHOLDERS' APPROVAL REQUIREMENTS	6
4. RESTRICTIONS ON VOTING.	6
5. OPINION OF THE BOARD	6
6. OPINION OF THE INDEPENDENT FINANCIAL ADVISER	7
7. RECOMMENDATIONS	7
8. EXTRAORDINARY GENERAL MEETING	7
9. MISCELLANEOUS	7
LETTER FROM THE INDEPENDENT BOARD COMMITTEE	8
LETTER FROM THE INDEPENDENT FINANCIAL ADVISER	9
NOTICE OF EXTRAORDINARY GENERAL MEETING	N-1

CORPORATE INFORMATION

Prosperity REIT	Prosperity Real Estate Investment Trust, a collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO subject to applicable conditions from time to time
REIT Manager	ARA Asset Management (Prosperity) Limited Units 5508–5509, 55/F, The Center 99 Queen’s Road Central, Hong Kong
Directors of the REIT Manager	<i>Non-executive Directors</i> Chiu Kwok Hung, Justin (<i>Chairman</i>) Lim Hwee Chiang Ma Lai Chee, Gerald <i>Executive Director and Acting Chief Executive Officer</i> Wong Lai Hung <i>Independent Non-executive Directors</i> Lan Hong Tsung, David Sng Sow-Mei (alias Poon Sow Mei)
Trustee	HSBC Institutional Trust Services (Asia) Limited 1 Queen’s Road Central Hong Kong
Unit Registrar	Computershare Hong Kong Investor Services Limited Shops 1712–1716 17/F, Hopewell Centre 183 Queen’s Road East, Wanchai Hong Kong
Legal Adviser to the REIT Manager	P.C. Woo & Co. 12th Floor, Prince’s Building 10 Chater Road, Central Hong Kong
Independent Financial Adviser to the Independent Board Committee, the independent Unitholders and the Trustee	United Simsen Securities Limited Suites 7001–2, 70/F., Two International Finance Centre 8 Finance Street, Central Hong Kong

DEFINITIONS

In this Circular, the following definitions apply throughout unless the context otherwise stated:

2008 Circular	The Circular dated 28 October 2008 issued by Prosperity REIT to the Unitholders.
2008 Extended Waiver	The extension of the Initial Waiver Period and an increase to the annual caps for certain connected party transactions of Prosperity REIT as more fully described in 2008 Circular.
AGM	The annual general meeting of Unitholders to be convened on Friday, 27 May 2011 at 2:30 p.m. at Exhibition Venue A on Level 7, The Metropolis Mall, 6 Metropolis Drive, Hung Hom, Kowloon, Hong Kong.
Board	The board of Directors.
Business Day	Any day (excluding Saturdays, Sundays, public holidays and days on which a tropical cyclone warning no. 8 or above or a “black” rainstorm warning signal is hoisted in Hong Kong at any time between the hours of 9:00 a.m. and 5:00 p.m. on weekdays) on which licensed banks are open for general business in Hong Kong.
Cheung Kong	Cheung Kong (Holdings) Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the SEHK (Stock Code: 001).
Cheung Kong Connected Persons Group	Cheung Kong and any person who is a connected person of Prosperity REIT as a result of its connection with Cheung Kong.
Cheung Kong Entities	Each of the subsidiaries (as defined under the SFO) of Cheung Kong.
Connected Party Transactions	The continuing connected party transactions referred to in the section headed “Proposed New Annual Monetary Limits for the Connected Party Transactions” of this Circular.
Connected Person(s)	has the meaning ascribed to this term in the REIT Code.
Directors	The directors of the REIT Manager.
EGM	The extraordinary general meeting of Unitholders convened by and referred to in the EGM Notice.
EGM Notice	The notice included in this Circular in respect of the extraordinary general meeting of Unitholders to consider and, if thought fit, approve the Further Extension and the New Annual Caps.
Further Extension	The proposed extension of the 2008 Extended Waiver (which will expire on 31 December 2011) and the setting of New Annual Caps for Connected Party Transactions as described in this Circular.
Hong Kong	The Hong Kong Special Administrative Region of the People’s Republic of China.
HWL	Hutchison Whampoa Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed on the Main Board of the SEHK (Stock Code: 013).
HWL Entities	Each of the subsidiaries (as defined under the SFO) of HWL.
Independent Board Committee	The independent committee of the Board established to advise the independent Unitholders on the Further Extension and the New Annual Caps, comprising all the independent non-executive Directors as at the Latest Practicable Date, namely, Mr. Lan Hong Tsung, David and Mrs. Sng Sow-Mei (alias Poon Sow Mei).
Independent Financial Adviser	United Simsen Securities Limited, a licensed corporation to carry out types 1 (dealing in securities), 2 (dealings in future contracts), 4 (advising on securities) and 6 (advising on corporate finance) regulated activities under the SFO.
Initial Waiver	The initial waiver granted by the SFC in respect of certain connected party transactions of Prosperity REIT, as more fully described in the Offering Circular.
Initial Waiver Period	The period commencing from the Listing Date and ending on 31 December 2008, being the initial waiver period of the Waiver from strict compliance with certain requirements under Chapter 8 of the REIT Code granted by the SFC in respect of certain continuing connected party transactions of Prosperity REIT as more fully described in the Offering Circular.
Latest Practicable Date	15 April 2011, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained in this Circular.
Listing Date	16 December 2005, being the date on which the Units were first listed on the Main Board of the SEHK.
Manager Group	The REIT Manager or any person who is a connected person of Prosperity REIT as a result of its connection with the REIT Manager.
New Annual Caps	The proposed new annual monetary limits for the Connected Party Transactions for the years ending 31 December 2012, 31 December 2013 and 31 December 2014 respectively, as set out in the section headed “Proposed New Annual Monetary Limits for the Connected Party Transactions” of this Circular.
Offering Circular	The offering circular dated 5 December 2005 issued by Prosperity REIT in connection with the initial public offering of Units by Prosperity REIT.
Ordinary Resolution	A resolution of Unitholders passed by a simple majority of the votes by way of poll of those present and entitled to vote in person or by proxy at a duly convened meeting of Unitholders.

DEFINITIONS

Prosperity REIT	Prosperity Real Estate Investment Trust, a collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO subject to applicable conditions from time to time.
Prosperity REIT Group	Prosperity REIT and the other companies or entities held or controlled by Prosperity REIT.
Record Date	27 May 2011.
REIT Code	The Code on Real Estate Investment Trusts published by the SFC as amended, supplemented or otherwise modified for the time being.
REIT Manager	ARA Asset Management (Prosperity) Limited, as manager of Prosperity REIT.
SEHK	The Stock Exchange of Hong Kong Limited.
SFC	The Securities and Futures Commission of Hong Kong.
SFO	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified for the time being.
Trust Deed	The deed of trust constituting Prosperity REIT dated 29 November 2005 entered into between the Trustee and the REIT Manager as amended by the first supplemental deed dated 12 December 2005, the second supplemental deed dated 15 May 2007, the third supplemental deed dated 14 May 2008 and the fourth supplemental deed dated 23 July 2010, as the same may be supplemented or amended from time to time.
Trustee	HSBC Institutional Trust Services (Asia) Limited, as trustee of Prosperity REIT.
Unit	One undivided unit in Prosperity REIT.
Unit Registrar	Computershare Hong Kong Investor Services Limited.
Unitholder	Any person registered as holding a Unit.
Waiver	Waiver granted by the SFC in respect of certain connected party transactions between Prosperity REIT Group and (a) the Cheung Kong Connected Persons Group and/or (b) the Manager Group.
%	Per centum or percentage.

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders. References to persons shall include corporations.

Any reference in this Circular to any enactment is a reference to that enactment for the time being amended or re-enacted.

Any reference to a time of day in this Circular shall be a reference to Hong Kong time unless otherwise stated.

LETTER FROM THE BOARD



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

Directors of the REIT Manager:

Non-executive Directors

Chiu Kwok Hung, Justin (*Chairman*)

Lim Hwee Chiang

Ma Lai Chee, Gerald

Registered Office of the REIT Manager:

Units 5508–5509

55/F The Center

99 Queen's Road Central

Hong Kong

Executive Director and Acting Chief Executive Officer

Wong Lai Hung

Independent Non-executive Directors

Lan Hong Tsung, David

Sng Sow-Mei (alias Poon Sow Mei)

21 April 2011

To: Unitholders of Prosperity REIT

Dear Sir/Madam,

**CIRCULAR TO UNITHOLDERS IN RELATION TO
(1) EXTENSION OF EXISTING CONNECTED PARTY TRANSACTION WAIVER
AND PROPOSED NEW ANNUAL MONETARY LIMITS FOR
CERTAIN CONNECTED PARTY TRANSACTIONS
AND
(2) NOTICE OF EGM**

Reference is made to the announcement dated 21 April 2011 by the REIT Manager in relation to the proposed extension of the 2008 Extended Waiver in respect of the Connected Party Transactions and the proposed New Annual Caps. The purposes of this Circular are to (a) provide you with information on the proposed Further Extension and the New Annual Caps; (b) provide you with further information as is necessary to enable you to make an informed decision on whether to vote for or against the Ordinary Resolution to be proposed at the EGM relating to the Further Extension and the New Annual Caps; (c) set out the recommendation of the Independent Board Committee relating to the Further Extension and the New Annual Caps; (d) set out the recommendation of the Independent Financial Adviser to the Independent Board Committee, the Independent Unitholders and the Trustee relating to the Further Extension and the New Annual Caps; and (e) serve notice of the EGM.

1. FURTHER EXTENSION

(i) Background of the Initial Waiver and the 2008 Extended Waiver for Certain Connected Party Transactions

As disclosed in the Offering Circular, the REIT Manager had obtained the Initial Waiver from strict compliance with the disclosure requirements and the requirements for approval of Unitholders under Chapter 8 of the REIT Code in respect of certain categories of connected party transactions between the Prosperity REIT Group and (a) the Cheung Kong Connected Persons Group and/or (b) the Manager Group, for the Initial Waiver Period. As further disclosed in the 2008 Circular, the REIT Manager had made a submission to the SFC for an extension of the Initial Waiver for three financial years ending 31 December 2011.

The REIT Manager had on 19 November 2008 obtained the 2008 Extended Waiver from the SFC from strict compliance with the disclosure requirements and the requirements for approval of Unitholders under Chapter 8 of the REIT Code in respect of certain categories of connected party transactions between the Prosperity REIT Group and (a) the Cheung Kong Connected Persons Group and/or (b) the Manager Group for a period to expire on 31 December 2011.

Details of the Connected Party Transactions and the 2008 Extended Waiver are set out in the section headed "Waivers for Certain Transactions" of the Offering Circular and the 2008 Circular. The New Annual Caps are in relation to the annual monetary limits in respect of the leasing/licensing transactions and the property management transactions referred to in 2008 Extended Waiver.

LETTER FROM THE BOARD

(ii) Expiration of 2008 Extended Waiver

The 2008 Extended Waiver will expire on 31 December 2011. In accordance with the terms of the 2008 Extended Waiver, the 2008 Extended Waiver may be extended beyond 31 December 2011, and/or the conditions of the 2008 Extended Waiver may be modified from time to time, provided that:

- (a) the approval of independent Unitholders is obtained by way of an ordinary resolution passed in a general meeting of Unitholders;
- (b) disclosure of details of the proposed extension and/or modification (as the case may be) shall be made by way of an announcement by the REIT Manager of such proposal, and a circular and notice shall be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (c) any extension of the period of the 2008 Extended Waiver shall, on each occasion of such extension, be for a period which shall expire not later than the third full financial year-end date of Prosperity REIT after the date on which the approval in (a) above is obtained.

(iii) Extension of 2008 Extended Waiver

The REIT Manager has made a submission to the SFC for the Further Extension for three financial years ending 31 December 2014. The REIT Manager confirms that, save for the proposed revisions of the annual monetary limits for the Connected Party Transactions, the waiver conditions of the 2008 Extended Waiver will continue to apply to Prosperity REIT for the three financial years ending 31 December 2014. The REIT Manager also confirms that the Connected Party Transactions with respect to which the Further Extension is sought are the same as those described in the section headed "Waiver for Certain Transactions" of the Offering Circular and those described in the 2008 Circular.

2. PROPOSED NEW ANNUAL MONETARY LIMITS FOR THE CONNECTED PARTY TRANSACTIONS

(i) New Annual Caps

It is proposed that the New Annual Caps for the years ending 31 December 2012, 31 December 2013 and 31 December 2014 respectively shall not exceed the respective annual monetary limits set out in the following table:

	For the year ending 31 December 2012	For the year ending 31 December 2013	For the year ending 31 December 2014
Categories of connected party transactions			
Leasing/licensing transactions with the Cheung Kong Connected Persons Group	HK\$51,800,000	HK\$51,800,000	HK\$51,800,000
Leasing/licensing transactions with the Manager Group	HK\$5,100,000	HK\$5,100,000	HK\$5,100,000
Property management transactions	HK\$30,800,000	HK\$32,300,000	HK\$33,900,000

(ii) Computations of the New Annual Caps

Detailed computation of the New Annual Caps for the years ending 31 December 2012, 31 December 2013 and 31 December 2014 is as follows:

(a) *Leasing/licensing transactions with the Cheung Kong Connected Persons Group*

The New Annual Caps for the years ending 31 December 2012, 2013 and 2014 is equivalent to the cap amount of HK\$51,800,000 for the year ending 31 December 2011.

The New Annual Caps are determined after taking into account the inflation, together with an appropriate buffer for contingencies, for instance, the change in rental or other market conditions and possible additional leasing or licensing transactions with the Cheung Kong Connected Persons Group during the relevant period. The annual revenue generated from leases that will expire in 2012 ("2012 Expiring Leases") amounts to approximately HK\$118,000,000 ("2012 Expiring Income") and accounts for approximately 43.8% of the gross rental income of the portfolio of Prosperity REIT, based on the historical annual revenue of HK\$270,094,000 in 2010. Taking into account the potential vacancies of properties arising from the 2012 Expiring Leases, the New Annual Caps provide flexibility for entering into new leasing/licensing transactions with the Cheung Kong Connected Persons Group. The flexibility offered by the New Annual Caps will ensure that future business opportunities in relation to the 2012 Expiring Leases will not be diminished.

In accordance with the terms of the 2008 Extended Waiver with respect to annual monetary limits of leasing/licensing transactions, an independent valuation will be conducted for each of such leasing/licensing transactions with the Cheung Kong Connected Persons Group except where they are conducted on standard and published rates.

(b) *Leasing/licensing transactions with the Manager Group*

The Manager Group does not currently have any leases/licenses of premises comprising Prosperity REIT's portfolio. However, it is possible that such leases/licenses may be entered into at some point during the forthcoming waiver period.

The New Annual Caps for the years ending 31 December 2012, 2013 and 2014 are equivalent to the cap amount of HK\$5,100,000 for the year ending 31 December 2011.

The New Annual Caps are determined after taking into account the inflation, together with an appropriate buffer for contingencies, for instance, the change in rental or other market conditions and possible additional leasing or licensing transactions with the Manager Group during the relevant period. Although there has been no previous leasing/licensing transaction with the

LETTER FROM THE BOARD

Manager Group, the New Annual Caps in respect of the leasing/licensing transactions with the Manager Group represent approximately 1.89% of revenue of Prosperity REIT for the year ended 31 December 2010 and could be substantially utilized once transactions are entered into with the Manager Group.

In accordance with the terms of the 2008 Extended Waiver with respect to annual monetary limits of leasing/licensing transactions, an independent valuation will be conducted for each of such leasing/licensing transactions with the Manager Group except where they are conducted on standard or published rates.

(c) *Property Management Transactions*

The New Annual Cap for the year ending 31 December 2012 is determined by applying a 5% increment to the cap amount of HK\$29,300,000 for the year ending 31 December 2011. The New Annual Caps for each of the years ending 31 December 2013 and 31 December 2014 are determined by applying a 5% increment to the New Annual Cap for the immediately preceding calendar year, with some minor rounding of figures.

The 5% increment factor has been utilised as this takes into account the inflation, possible increase in costs and wages, the general economy environment of Hong Kong, together with an appropriate buffer for contingencies, for instance, possible additional property management related services and additional landlord's fitting out provisions, or building facilities maintenance and improvement works being carried out by the Cheung Kong Connected Persons Group and the Manager Group during the relevant period.

3. DISCLOSURE AND INDEPENDENT UNITHOLDERS' APPROVAL REQUIREMENTS

Pursuant to the 2008 Extended Waiver, the REIT Manager is required to issue an announcement and to issue a circular and notice to Unitholders in accordance with Chapter 10 of the REIT Code to seek independent Unitholders' approval to further extend the 2008 Extended Waiver beyond 31 December 2011 and to increase one or more of the annual monetary limits set out in the 2008 Extended Waiver. Accordingly, the REIT Manager intends to seek the independent Unitholders' approval for the Further Extension and the New Annual Caps at the EGM.

4. RESTRICTIONS ON VOTING

Under paragraph 8.11 of the REIT Code, where a Unitholder has a material interest in the transaction tabled for approval at a general meeting of Unitholders of Prosperity REIT, and that interest is different from that of all other Unitholders, such Unitholder shall abstain from voting.

Further, under Paragraph 3.2 of Schedule 1 to the Trust Deed, where a Unitholder has a material interest in the business to be conducted at a general meeting of Unitholders of Prosperity REIT, and that interest is different from the interests of other Unitholders, such Unitholder shall be prohibited from voting its own Units at, or being counted in the quorum for the general meeting.

Pursuant to the REIT Code and the Trust Deed, by virtue of Cheung Kong's material interest or deemed material interest in the transactions described in Sections (2)(ii)(a) and (c) of this Circular, Cheung Kong and the Cheung Kong Entities shall abstain from voting on the Ordinary Resolution to approve the Further Extension and the New Annual Caps. Cheung Kong has agreed that it will abstain, and will procure each of the Cheung Kong Entities, including Total Win Group Limited to abstain, from voting at the EGM on the Ordinary Resolution to approve the Further Extension and the New Annual Caps. HWL has agreed that it will abstain, and will procure each of the HWL Entities, including Wide Option Investments Limited, to abstain from voting at the EGM on the Ordinary Resolution to approve the Further Extension and the New Annual Caps.

As at the Latest Practicable Date, Cheung Kong was deemed to be interested in 275,211,688 Units (representing approximately 20.4% of the Units in issue), of which 176,328,129 Units (representing approximately 13.1% of the Units in issue) were directly held by its wholly-owned subsidiary, Total Win Group Limited and 98,883,559 Units (representing approximately 7.3% the Units in issue) were directly held by a wholly-owned subsidiary of HWL which is in turn 49.9% owned by Cheung Kong.

As at the Latest Practicable Date, HWL was deemed to be interested in 98,883,559 Units (representing approximately 7.3% of the Units in issue), which were directly held by its wholly-owned subsidiary, Wide Option Investments Limited. HWL constitutes an "associate" of Cheung Kong for the purposes of the REIT Code.

Pursuant to the REIT Code and the Trust Deed, by virtue of the REIT Manager's material interest or deemed material interest in the transactions described in Section (2)(ii)(b) of this Circular, the REIT Manager and its associates shall abstain from voting on the Ordinary Resolution to approve the Further Extension and the New Annual Caps.

As at the Latest Practicable Date, the REIT Manager held 533 Units (representing approximately 0.00004% of the Units in issue).

To the best of the REIT Manager's knowledge, information and belief, after having made reasonable enquiries, the REIT Manager takes the view that save as disclosed above, no other Unitholder is required to abstain from voting on the Ordinary Resolution to approve the Further Extension and the New Annual Caps at the EGM.

5. OPINION OF THE BOARD

The Board (including all the independent non-executive Directors) confirms that:

- (i) in its opinion, the Further Extension and the New Annual Caps, and the basis of the New Annual Caps, are fair and reasonable having regard to the interests of Prosperity REIT and the independent Unitholders as a whole;
- (ii) in its opinion, each of the Connected Party Transactions subsisting as at the Latest Practicable Date has been entered into:
 - (a) in the ordinary and usual course of business of Prosperity REIT; and
 - (b) on terms which are normal commercial terms at arm's length and are fair and reasonable so far as the independent Unitholders are concerned and in the interests of Prosperity REIT and its independent Unitholders as a whole.
- (iii) in its opinion, each of the Connected Party Transactions to be entered into for the years ending 31 December 2012, 31 December 2013 and 31 December 2014, shall be entered into:
 - (a) in the ordinary and usual course of business of Prosperity REIT; and

LETTER FROM THE BOARD

- (b) on terms which are normal commercial terms at arm's length and are fair and reasonable so far as the independent Unitholders are concerned and in the interests of Prosperity REIT and its independent Unitholders as a whole.

6. OPINION OF THE INDEPENDENT FINANCIAL ADVISER

United Simsen Securities Limited has been appointed as the Independent Financial Adviser by the REIT Manager to advise the Independent Board Committee, the independent Unitholders and the Trustee as to whether the Further Extension and New Annual Caps are fair and reasonable.

The Independent Financial Adviser confirms that it is of the view that: (1) the Further Extension and the New Annual Caps, and the basis for the New Annual Caps, are fair and reasonable having regard to the interests of Prosperity REIT and the independent Unitholders as a whole; and (2) each of the Connected Party Transactions is entered into: (a) in the ordinary and usual course of business of Prosperity REIT; and (b) on terms which are normal commercial terms at arm's length and are fair and reasonable and in the interests of Prosperity REIT and the independent Unitholders as a whole. Details of the Independent Financial Adviser's opinion, together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion, are set out in the "Letter from the Independent Financial Adviser" in this Circular.

7. RECOMMENDATION

An Independent Board Committee has been established by the Board to advise the independent Unitholders on the Further Extension and the New Annual Caps and their advice is set out in the "Letter from the Independent Board Committee" in this Circular.

Your attention is drawn to the "Letter from the Independent Board Committee" set out in this Circular, which contains the Independent Board Committee's recommendation to the independent Unitholders in respect of the Further Extension and the New Annual Caps, and the "Letter from the Independent Financial Adviser" set out in this Circular, which contains the Independent Financial Adviser's advice to the Independent Board Committee, the independent Unitholders and the Trustee on the Further Extension and the New Annual Caps.

Having regard to the reasons for, terms of, factors and other information taken into consideration in relation to the Further Extension and the New Annual Caps as described in this Circular, the Directors (including the independent non-executive Directors) consider that the Connected Party Transactions are entered into at arm's length and on normal commercial terms and in the ordinary and usual course of business of Prosperity REIT, and that the Further Extension and the New Annual Caps are fair and reasonable and in the interests of Prosperity REIT and the independent Unitholders as a whole. The Independent Board Committee recommends that the independent Unitholders vote at the EGM in favour of the Ordinary Resolution to approve the Further Extension and the New Annual Caps.

Based and in sole reliance on: (1) the information and assurances provided by the REIT Manager; (2) the opinion of the Independent Financial Adviser; and (3) the Letter from the Independent Board Committee, the Trustee, having taken into account its duties set out in the Trust Deed and the REIT Code, is of the view that the Further Extension and New Annual Caps are fair and reasonable so far as the independent Unitholders are concerned and in the interests of Prosperity REIT and its independent Unitholders as a whole. This view is being furnished for the sole purpose of complying with Clause 10.10(o) of the REIT Code, and is not to be taken as a recommendation or representation by the Trustee of the merits of the Further Extension and New Annual Caps or of any statements or information made or disclosed in this Circular.

The Trustee has not made any assessment of the merits or impact of the Further Extension and New Annual Caps other than for the purposes of fulfilling its fiduciary duties set out in the Trust Deed and the REIT Code. Accordingly, the Trustee urges Unitholders who are in any doubt as to the merits or impact of the Further Extension and New Annual Caps to seek their own financial or other professional advice.

8. EXTRAORDINARY GENERAL MEETING

The EGM will be held on Friday, 27 May 2011 at 3:00 p.m. (or immediately after the conclusion of the AGM which is scheduled to be held on the same day at 2:30 p.m.) at Exhibition Venue A on Level 7, The Metropolis Mall, 6 Metropolis Drive, Hung Hom, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing with or without modifications, the Ordinary Resolution set out in the EGM Notice, which is set out on pages N-1 to N-2 of this Circular.

The Register of Unitholders of Prosperity REIT will be closed from Monday, 23 May 2011 to Friday, 27 May 2011, both days inclusive, to determine which Unitholders will qualify to attend and vote at the EGM, during which period no transfer of Units will be effected. In order to qualify for attending and voting at the EGM, all Unit certificates with completed transfer forms must be lodged with Prosperity REIT's Unit Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 20 May 2011.

You can vote at the EGM if you are a Unitholder on Friday, 27 May 2011, which is referred to in this Circular as the Record Date. You will find enclosed with this Circular the EGM Notice (see pages N-1 to N-2 of this Circular) and a form of proxy for use for the EGM.

Your vote is very important. Accordingly, please complete, sign and date the enclosed form of proxy, whether or not you are able to attend the EGM in person, in accordance with the instructions printed on the form of proxy, and return it to Prosperity REIT's Unit Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The form of proxy should be completed and returned as soon as possible but in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish.

9. MISCELLANEOUS

The REIT Manager and the Directors, collectively and individually, accept full responsibility for the accuracy of the information given in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this Circular misleading.

Yours faithfully,
By Order of the Board
ARA ASSET MANAGEMENT (PROSPERITY) LIMITED
(as manager of Prosperity Real Estate Investment Trust)
Wong Lai Hung
Executive Director and Acting Chief Executive Officer

LETTER FROM THE INDEPENDENT BOARD COMMITTEE



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

21 April 2011

To: The independent Unitholders

Dear Sirs/Madam,

EXTENSION OF EXISTING CONNECTED PARTY TRANSACTION WAIVER AND PROPOSED NEW ANNUAL MONETARY LIMITS FOR CERTAIN CONNECTED PARTY TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise you in connection with the Further Extension and the New Annual Cap, details of which are set out in the "Letter from the Board" in the circular dated 21 April 2011 (the "Circular") from the REIT Manager to the Unitholders, of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

United Simsen Securities Limited has been appointed by the REIT Manager to advise us, the independent Unitholders and the Trustee as to whether the Further Extension and the New Annual Caps are fair and reasonable. Details of their opinion, together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion, are set out in the "Letter from the Independent Financial Adviser", the text of which is contained in the Circular.

Having taken into account the opinion of United Simsen Securities Limited and the principal factors and reasons considered by them, we consider that the Connected Party Transactions are entered into at arm's length and on normal commercial terms and in the ordinary and usual course of business of Prosperity REIT, and that the Further Extension and the New Annual Caps are fair and reasonable so far as the independent Unitholders are concerned and in the interests of Prosperity REIT and the independent Unitholders as a whole.

Accordingly, we recommend that the independent Unitholders vote in favour of the Ordinary Resolution which will be proposed at the EGM to approve the Further Extension and the New Annual Caps.

Yours faithfully,
For and on behalf of the Independent Board Committee of
ARA Asset Management (Prosperity) Limited
Lan Hong Tsung, David
Chairman of the Committee

Members of the Independent Board Committee:

Lan Hong Tsung, David
Independent Non-executive Director

Sng Sow-Mei (alias Poon Sow Mei)
Independent Non-executive Director

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of a letter of advice from United Simsen Securities Limited, which has been prepared for the purpose of incorporation into this circular, setting out its advice to the Independent Board Committee, independent Unitholders and the Trustee in connection with the Further Extension and the New Annual Caps.



United Simsen Securities Limited

A wholly-owned subsidiary of SIMSEN INTERNATIONAL CORPORATION LIMITED

Suites 7001-02, 70/F.
Two International Finance Centre
No. 8 Finance Street
Central
Hong Kong

21 April 2011

To: The Independent Board Committee, the independent Unitholders and the Trustee

Dear Sirs/Madam,

EXTENSION OF EXISTING CONNECTED PARTY TRANSACTION WAIVER AND PROPOSED NEW ANNUAL MONETARY LIMITS FOR CERTAIN CONNECTED PARTY TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee, the independent Unitholders and the Trustee on the Further Extension and the New Annual Caps for the years ending 31 December 2012, 31 December 2013 and 31 December 2014. Details of the Further Extension are set out in the letter from the Board contained in the circular to the Unitholders dated 21 April 2011 (the “**Circular**”), of which this letter forms a part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

We declare that we are independent of Prosperity REIT, the trustee of Prosperity REIT, the management company of Prosperity REIT, each of the significant holders of the REIT and each of the relevant connected person(s) with respect to the Connected Party Transactions.

As disclosed in the Offering Circular and the 2008 Circular, the REIT Manager had obtained the Waiver from strict compliance with the disclosure requirements and the requirements for approval of Unitholders under Chapter 8 of the REIT Code, in respect of certain categories of connected party transactions between the Prosperity REIT Group and (i) the Cheung Kong Connected Persons Group and/or (ii) the Manager Group for the Initial Waiver Period and the 2008 Extended Waiver for the period up to 31 December 2011 (the “**Second Waiver Period**”).

In accordance with the terms of the 2008 Extended Waiver, the 2008 Extended Waiver may be extended beyond 31 December 2011 and/or the conditions of the waiver may be modified from time to time provided that:

- (a) the approval of independent Unitholders is obtained by way of an ordinary resolution passed in a general meeting of Unitholders;
- (b) disclosure of details of the proposed extension and/or modification (as the case may be) shall be made by way of an announcement by the REIT Manager of such proposal, and a circular and notice shall be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (c) any extension of the period of the 2008 Extended Waiver shall, on each occasion of such extension, be for a period which shall expire not later than the third full financial year-end date of Prosperity REIT after the date on which the approval referred to in (a) above is obtained.

As the REIT Manager expects that the Connected Party Transactions will continue after the Second Waiver Period, the REIT Manager will seek approval from the independent Unitholders for the extension of Second Waiver Period and the New Annual Caps for the years ending 31 December 2012, 31 December 2013 and 31 December 2014.

The REIT Manager has made a submission to the SFC for the Further Extension for three financial years ending 31 December 2014. Save for the annual monetary limits set out in the section headed “Waivers for Certain Transactions” of the Offering Circular and those described in the 2008 Circular, the REIT Manager confirms that the waiver conditions of the 2008 Extended Waiver will continue to apply to Prosperity REIT for the three financial years ending 31 December 2014.

Pursuant to the REIT Code and the Trust Deed, by virtue of Cheung Kong’s material interest or deemed material interest in the transactions described in Sections (2)(ii)(a) and (c) of “Letter from the Board” in the Circular, Cheung Kong and the Cheung Kong Entities shall abstain from voting on the Ordinary Resolution to approve the Further Extension and the New Annual Caps. Cheung Kong has agreed that it will abstain and will procure each of the Cheung Kong Entities, including Total Win Group Limited, to abstain from voting on the Ordinary Resolution to approve the Further Extension and the New Annual Caps at the EGM. HWL has agreed that it will abstain and will procure each of the HWL Entities, including Wide Option Investments Limited, to abstain from voting on the Ordinary Resolution to approve the Further Extension and the New Annual Caps at the EGM.

Pursuant to the REIT Code and the Trust Deed, by virtue of the REIT Manager’s material interest or deemed material interest in the transactions described in Section (2)(ii)(b) of “Letter from the Board” in the Circular, the REIT Manager and its associates shall abstain from voting on the Ordinary Resolution to approve the Further Extension and the New Annual Caps at the EGM.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

INDEPENDENT BOARD COMMITTEE

The Directors as at the date of this letter are Mr. Chiu Kwok Hung, Justin (Chairman), Mr. Lim Hwee Chiang and Mr. Ma Lai Chee, Gerald as non-executive Directors; Ms. Wong Lai Hung as executive Director; Mr. Lan Hong Tsung, David and Mrs. Sng Sow-Mei (alias Poon Sow Mei) as independent non-executive Directors. The Independent Board Committee comprising all independent non-executive Directors has been formed to advise the independent Unitholders as to the Further Extension and the New Annual Caps.

BASIS OF OUR OPINION

In forming our opinion as to whether the Further Extension and the New Annual Caps are fair and reasonable so far as the independent Unitholders are concerned and in the interests of Prosperity REIT and the independent Unitholders as a whole, we have relied on the information and representations contained in the Circular and have assumed that all information and representations made or referred to in the Circular were true, accurate and complete at the time when they were made and continued to be true, accurate and complete as at the date of the Circular.

We have also assumed that all statements of belief, opinion and intention made by the Board contained in the Circular were reasonably made by them after their due enquiry and careful consideration and that there are no other facts the omission of which would make any statement in the Circular misleading in any material respect.

Our review and analyses were based upon the discussion and understanding from with the REIT Manager in relation to the reasons of the Connected Party Transactions and the basis of determining the New Annual Caps (details of which are set out in the section "3. Reasons for the Connected Party Transactions" and "4. Basis of determination of the New Annual Caps" below) and the information provided by the REIT Manager which include, among others, the Property Management Agreement (to be defined below), the Waiver application submitted to the SFC dated 23 November 2005, the SFC approval letter dated 30 November 2005 granting the Waiver, the application submitted to the SFC in 2007 relating to the revision of previously approved annual caps, the SFC approval letter in 2007 granting the revision of previously approved annual caps, the application of the 2008 Extended Waiver submitted to the SFC dated 22 October 2008, the SFC approval letter dated 19 November 2008, the circular dated 13 April 2007 issued by Prosperity REIT in relation to the revised annual caps, the circular dated 28 October 2008 in relation to the Extended Waiver and proposed new annual cap, the lease and license agreements entered into by Prosperity REIT with the Cheung Kong Connected Persons Group and with the Manager Group (if any) of significant amount as well as those to independent third parties for similar transactions, the Offering Circular and the audited financial statements of Prosperity REIT for the years ended 31 December 2008, 31 December 2009 and 31 December 2010.

We consider that we have reviewed sufficient information to reach a reasonably informed view to justify our reliance on the accuracy of the information contained in the Circular as aforesaid and to provide reasonable grounds for our advice.

Furthermore, we have no reason to doubt the truth, accuracy and/or completeness of the information and representations as provided to us by the REIT Manager. We have not conducted any independent in-depth investigation into nor have we carried out any independent verification of the information supplied.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the Further Extension and the New Annual Caps, we have considered the following principal factors and reasons:

1. Background of the Connected Party Transactions

The Connected Party Transactions include (i) leasing and licensing transactions with the Cheung Kong Connected Persons Group, and with the Manager Group; and (ii) the property management transactions with the Cheung Kong Connected Persons Group and the Manager Group.

(i) *Leasing and licensing transactions*

The leasing and licensing transactions include transactions that are to be entered into in the ordinary course of the leasing business of Prosperity REIT and transacted on normal arm's length commercial terms with the Cheung Kong Connected Persons Group, and with the Manager Group.

(ii) *Property management transactions*

The property management transactions (the "**Property Management Transactions**") include any transactions that are in the nature of property management and operational arrangements in respect of the properties owned by Prosperity REIT and subsequent properties to be acquired by Prosperity REIT and that are to be entered into with the Cheung Kong Connected Persons Group and the Manager Group, including, *inter alia*:

- a. *Property management in respect of Prosperity REIT's assets*: The REIT Manager will delegate the property management functions in respect of Prosperity REIT's real estate assets to the property manager of Prosperity REIT (the "Property Manager"); and
- b. *Third party services*: Under the terms of the property management agreement (the "**Property Management Agreement**"), the Property Manager, as agent for the relevant Property Companies (to be defined in the following paragraph), will enter into contracts with third party service providers for the provision of, among other things, cleaning, maintenance, security, car park management and other ancillary services for the relevant property and some of these third party service providers will be members of the Cheung Kong Connected Persons Group.
- c. *Deeds of mutual covenant*: Each of the property companies (the "**Property Companies**"), being the respective direct owners of the properties, including (i) Wisdom Champion Companies, in relation to The Metropolis Tower, (ii) Conestoga Limited, in relation to Prosperity Millennium Plaza, (iii) Bandick Limited, in relation to Prosperity Place, (iv) Haskins Investments Limited, in relation to New Treasure Centre Property, (v) Winrise Champion Limited and Prodes Company Limited, in relation to Prosperity Center Property, (vi) Harbour Champ Limited, in relation to Harbourfront Landmark Property, and (vii) Top Easy Profits Limited, in relation to Trendy Centre will, where applicable, be bound by the terms of the deed of mutual covenant applicable to the property owned by it. The deed of mutual covenant binds the manager under the deed of mutual covenant (the "**DMC Manager**") and all the owners of a development and their successors-in-title, irrespective of whether they are original parties to the deed of mutual covenant. Some of the DMC Managers in respect of properties to be held by Prosperity

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

REIT are members of the Cheung Kong Connected Persons Group. Further, there are also situations arising where one or more members of the Cheung Kong Connected Persons Group own other parts of the development of which the property owned by Prosperity REIT forms a part, and therefore technically the deed of mutual covenant constitutes a contract between them; and

- d. *Back-office support services:* Members of the Cheung Kong Connected Persons Group may provide back-office support services to the REIT Manager. Such support takes the form of full-time or part-time secondment of staff or is in other forms such as service-level arrangements for back-office support services such as accounting, corporate secretarial services and other support services with charge-back arrangements on arm's-length normal commercial terms.

The REIT Code contains rules governing transactions between Prosperity REIT Group and certain defined categories of "connected persons" within the meaning given in the REIT Code. Such transactions will constitute "connected party transactions" for the purposes of the REIT Code.

The REIT Manager has established an internal control system to ensure that connected party transactions between Prosperity REIT Group and its "connected persons" are monitored and that they are undertaken on terms in compliance with the REIT Code. As required by the REIT Code, all connected party transactions must be carried out at arm's length terms and in the best interests of Unitholders. Further analysis is set out in the section "5. Compliance with the Waiver and measures to safeguard the interests of the Unitholders" below.

2. Terms of the Connected Party Transactions

(i) *Leasing and licensing transactions*

In respect of leasing and licensing transactions, an independent valuation will be conducted for each of such leasing and licensing transactions in so far as it is practicable except where they are conducted on standard or published rates.

(ii) *Property Management Transactions*

In respect of the Property Management Transactions, the Property Management Agreement was entered into on 29 November 2005 by the REIT Manager and the Property Manager, the terms of which were amended, supplemented and/or modified by the Supplemental Property Management Agreement dated 8 November 2010 and the extension letter dated 1 December 2010.

The REIT Manager confirmed that the Connected Party Transactions with respect to which the Further Extension is sought are the same as those described in the section headed "Waiver for Certain Transactions" of the Offering Circular and those described in the 2008 Circular. The Directors also confirmed that all Connected Party Transactions were and will be carried out in the ordinary and usual course of business of Prosperity REIT based on normal commercial terms and in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of Prosperity REIT and the independent Unitholders as a whole. In addition, we have randomly selected samples of the agreement or quotation in respect of the leasing and licensing transactions as well as the Property Management Transactions between Prosperity REIT and the Cheung Kong Connected Persons Group, the Manager Group (if any) and other independent parties respectively and compared the terms thereof. We have also reviewed the valuation results on the rentals of certain leasing properties which were issued by independent valuers. Based on the sample agreements and quotations reviewed as well as the opinion of the independent valuer, we are of the view that the past transactions were conducted in accordance with the 2008 Extended Waiver. In addition, the terms were no less favorable than those available to or from independent parties for similar transactions. No irregularities have been identified from our review. Accordingly, we are of the view that the terms of the Connected Party Transactions are on normal commercial terms and are fair and reasonable so far as the independent Unitholders are concerned and the Further Extension is in the interests of Prosperity REIT and its independent Unitholders as a whole.

3. Reasons for the Connected Party Transactions

Prosperity REIT is a real estate investment trust formed primarily to own and invest in a diverse and income-producing portfolio of office, commercial and retail properties. The properties comprising the initial portfolio of Prosperity REIT and any subsequent properties located in or outside of Hong Kong whether directly or indirectly acquired or wholly or partly owned by Prosperity REIT will be managed by the Property Manager pursuant to the Property Management Agreement.

The leasing/licensing of the properties is in the ordinary course of business of Prosperity REIT and is its major source of income. The leasing/licensing of the properties of Prosperity REIT to the Cheung Kong Connected Persons Group and the Manager Group will contribute a stable and reliable income to Prosperity REIT.

The Directors confirm that the rental and the service fees receivable or payable under the Connected Party Transactions were and will be determined after arm's length negotiation and having taken into account of the prevailing market rate. The Directors therefore consider that the Connected Party Transactions are in the ordinary and usual course of business of Prosperity REIT and they would be in the interest of Prosperity REIT Group to continue such arrangements. We concur with the Directors' view.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. Basis of determination of the New Annual Caps

Set out below are the values of the Connected Party Transactions for each of the two years ended 31 December 2009 and 2010 and the two months ended 28 February 2011, the previously approved annual caps, and the New Annual Caps:

(i) *Leasing/licensing transactions with the Cheung Kong Connected Persons Group*

	For the year ended 31 December		For the two months
	2009	2010	ended 28 February 2011 (Note 1)
Transaction value	HK\$20,270,030	HK\$20,425,217	HK\$3,388,686
	For the year ended/ending 31 December		
	2009	2010	2011
Previously approved annual caps	HK\$39,100,000	HK\$45,000,000	HK\$51,800,000
% of cap utilization	51.8%	45.4%	40.5% (Note 2)
	For the year ending 31 December		
	2012	2013	2014
Proposed New Annual Cap	HK\$51,800,000	HK\$51,800,000	HK\$51,800,000
% of increase	0%	0%	0%

Note 1: As at the Latest Practicable Date, only figures up to 28 February 2011 are available.

Note 2: Calculated based on the expected annualized transaction value of approximately HK\$20,963,905

The proposed New Annual Cap for the year ending 31 December 2012, 2013 and 2014 are equivalent to the cap amount of HK\$51,800,000 for the year ending 31 December 2011.

We noted that around half of the previously approved annual caps for the leasing/licensing transactions with the Cheung Kong Connected Persons Group have been used for the year ended 31 December 2009, the year ended 31 December 2010 and the year ending 31 December 2011. We also noted that the annualized cap utilization rate is decreasing from 51.8% to 45.4% and to 40.5% in these periods. The reason for decrementing utilization rate is the result of ascending annual caps over the year ended 31 December 2009, the year ended 31 December 2010 and the year ending 31 December 2011 while the annualized transaction values of the corresponding periods remained steady.

As discussed with the management of the REIT Manager, we understand that, taking into account the steady previous transaction values, the REIT Manager proposed that the New Annual Caps will remain unchanged. Although the annualized cap utilization rate for the year ending 31 December 2011 is 40.5%, we concur with the management's view that when determining the New Annual Caps, it is necessary to take into account the inflation together with an appropriate buffer for contingencies, for instance, the change in rental or other market conditions and possible additional leasing or licensing transactions with the Cheung Kong Connected Persons Group during the relevant period. The steady New Annual Caps reflect the management's prudence approach in the projection of the Connected Party Transactions. The annual revenue generated from leases that will expire in 2012 ("2012 Expiring Leases") amounts to approximately HK\$118,000,000 ("2012 Expiring Income") and accounts for approximately 43.8% of the gross rental income of the portfolio of the Prosperity REIT, based on the historical annual revenue of HK\$270,094,000 in 2010. Taking into account the potential vacancies of properties arising from the 2012 Expiring Leases, the New Annual Caps provide flexibility for entering into new leasing/licensing transactions with the Cheung Kong Connected Persons Group. The flexibility offered by the New Annual Caps will ensure that future business opportunities in relation to the 2012 Expiring Leases will not be diminished. We concur with the REIT Manager that the New Annual Caps can provide flexibility to capture the potential business opportunity with the Cheung Kong Connected Persons Group. Further taking into account the measures which safeguard the interest of the Unitholders as set out below, we are of the view that the New Annual Caps in respect of leasing/licensing transactions with the Cheung Kong Connected Persons Group are fair and reasonable and in the interests of the independent Unitholders as a whole.

(ii) *Leasing/licensing transactions with the Manager Group*

	For the year ended 31 December		For the two months
	2009	2010	ended 28 February 2011 (Note 1)
Transaction value	HK\$0	HK\$0	HK\$0
	For the year ended/ending 31 December		
	2009	2010	2011
Previously approved annual caps	HK\$3,800,000	HK\$4,400,000	HK\$5,100,000
% of cap utilization	0%	0%	0% (Note 2)
	For the year ending 31 December		
	2012	2013	2014
Proposed New Annual Cap	HK\$5,100,000	HK\$5,100,000	HK\$5,100,000
% of increase	0%	0%	0%

Note 1: As at the Latest Practicable Date, only figures up to 28 February 2011 are available.

Note 2: Calculated based on the expected annualized transaction value of approximately HK\$0

The proposed New Annual Cap for the year ending 31 December 2012, 2013 and 2014 are equivalent to the cap amount of HK\$5,100,000 for the year ending 31 December 2011.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We noted that the previously approved annual caps for the leasing/licensing transactions with the Manager Group have not yet been utilized. As discussed with the management of the REIT Manager, we understand that the Manager Group has not yet entered into any leasing/licensing transaction with Prosperity REIT because the existing leases of the Manager Group with third parties have not expired. However, it is expected that the approval on the Connected Party Transactions for the leasing/licensing transactions with the Manager Group and the relevant proposed New Annual Caps are required in order to provide the flexibility and an appropriate buffer for contingencies when such transactions are entered into in the coming three years.

We also note that the New Annual Caps in respect of the leasing/licensing transactions with the Manager Group is HK\$5,100,000 for each of the year ending 2012, 2013 and 2014, representing approximately 1.89% of the revenue of Prosperity REIT (i.e. HK\$270,094,000), 0.78% of the profit for the year, before transactions with unitholders, of Prosperity REIT (i.e. HK\$652,557,000) for the year ended 31 December 2010 and 0.14% of the net asset value of Prosperity REIT (i.e. HK\$3,594,123,000) as at 31 December 2010. We are of the view that the proposed Connected Party Transactions and the New Annual Caps in respect of the leasing/licensing transactions with the Manager Group accounts for a relatively small portion of the business of Prosperity REIT and adoption of such amount of annual caps is a prudent approach by the REIT Manager when considering the future possible Connected Party Transactions for the leasing/licensing transactions with the Manager Group. The New Annual Caps can be substantially utilized once transactions are entered into with the Manager Group. Further taking into account the measures which safeguard the interest of the Unitholders as set out below, we are of the view that the New Annual Caps in respect of leasing/licensing transactions with the Manager Group are fair and reasonable and in the interests of the independent Unitholders as a whole.

(iii) *Property Management Transactions*

	For the year ended 31 December		For the two months
	2009	2010	ended 28 February 2011 (Note 1)
Transaction value	HK\$15,398,287	HK\$14,894,313	HK\$3,207,941
	For the year ended/ending 31 December		
	2009	2010	2011
Previously approved annual caps	HK\$22,200,000	HK\$25,500,000	HK\$29,300,000
% of cap utilization	69.4%	58.4%	67.7% (Note 2)
	For the year ending 31 December		
	2012	2013	2014
Proposed New Annual Cap	HK\$30,800,000	HK\$32,300,000	HK\$33,900,000
% of increase	5%	5%	5%

Note 1: As at the Latest Practicable Date, only figures up to 28 February 2011 are available.

Note 2: Calculated based on the expected annualized transaction value of approximately HK\$19,845,737

The proposed New Annual Cap for the year ending 31 December 2012 is determined by applying a 5% increment to the cap amount of HK\$29,300,000 for the year ending 31 December 2011. The proposed New Annual Cap for each of the year ending 31 December 2013 and 31 December 2014 are determined by applying a 5% increment to the proposed New Annual Cap for the immediately preceding calendar year, with some minor rounding of figures.

According to the REIT Manager, the 5% increment factor has been utilized as this takes into account the inflation together with an appropriate buffer for contingencies, for instance, possible additional property management related services, additional landlord's fitting out provisions, or building facilities maintenance and improvement works being carried out by the Cheung Kong Connected Persons Group and the Manager Group during the relevant period.

We noted that around 60% of the previously approved annual caps for the Property Management Transactions have been used for the years ended 31 December 2009 and 2010 and is expected to continue in the coming three years. As discussed with the management of the REIT Manager, the value of Property Management Transactions, which is provision of services, will be greatly affected by the general economy of Hong Kong. According to the Census and Statistic Department of Hong Kong, the composite consumer price index for 2010 increased by 2.4% and the nominal gross domestic product for 2010 increased by 7.8%. It is expected that the growth will continue in the coming three years, taking into account the expected global economy recovery and the rise in the general wage level in Hong Kong. After considering such general growth in the Hong Kong economy and the appropriate buffer for contingencies, we consider that the 5% increment factor for the proposed New Annual Caps in respect of the Property Management Transactions is reasonable. Further taking into account the measures which safeguard the interest of the Unitholders as set out below, we are of the view that the New Annual Caps in respect of the Property Management Transactions are fair and reasonable and in the interests of the independent Unitholders as a whole.

5. Compliance with the Waiver and measures to safeguard the interests of the Unitholders

The Connected Party Transactions are subject to the following annual review requirements:

- a. The independent non-executive Directors must review the Connected Party Transactions annually and confirm in the annual report of each of the relevant financial period that such transactions have been entered into:
 - (1) in the ordinary and usual course of business of Prosperity REIT;
 - (2) on normal commercial terms (to the extent that there are comparable transactions) or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to Prosperity REIT than terms available to or from (as appropriate) independent third parties; and
 - (3) in accordance with the relevant agreement governing them (if any) on terms that are fair and reasonable and in the interests of the Unitholders as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- b. In respect of each financial period, the REIT Manager will engage and agree with the auditors of Prosperity REIT to perform certain review procedures on the Connected Party Transactions and the auditors shall then report to the REIT Manager on the factual findings based on the work performed by them (and a copy of such report shall be provided to the SFC), confirming that the Connected Party Transactions:
- (1) have received the approval of the Board (including the independent non-executive Directors);
 - (2) are in accordance with the pricing policies of Prosperity REIT;
 - (3) have been entered into in accordance with the terms of the agreements governing the Connected Party Transactions; and
 - (4) the total value in respect of which have not exceeded the relevant annual caps.
- c. The REIT Manager shall allow, and shall procure the counterparty to the Connected Party Transactions to allow, the auditors sufficient access to their records for the purpose of reporting on such transactions.
- d. Prosperity REIT shall promptly notify the SFC and publish an announcement if it knows or has reason to believe that the independent non-executive Directors and/or the auditors will not be able to confirm the matters set out in (a) and/or (b) above respectively.
- e. Details of the relevant Connected Party Transactions will be disclosed in Prosperity REIT's semi-annual and annual reports, as required under paragraph 8.14 of the REIT Code.

Subsequent increase in cap amount of the Connected Party Transactions shall be permitted, provided that:

- a. The approval of independent Unitholders is obtained by way of an ordinary resolution passed in a general meeting of Unitholders;
- b. Disclosure of details of the proposal to increase the cap amount shall be made by way of an announcement by the REIT Manager, and a circular and notice shall be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- c. The requirements referred to as above shall continue to apply, save that the increased annual caps amount shall apply.

We are of the view that the aforesaid requirements can provide appropriate measures to govern the REIT Manager in carrying out the Connected Party Transactions and safeguard the interests of the independent Unitholders thereunder.

RECOMMENDATION

Having considered the above principal factors and reasons, we are of the view that the Connected Party Transactions are entered into at arm's length and on normal commercial terms and in the ordinary and usual course of business of Prosperity REIT, and that the Further Extension and the New Annual Caps are fair and reasonable and in the interests of Prosperity REIT and the independent Unitholders as a whole. Accordingly, we have advised the Independent Board Committee to recommend and we ourselves also recommend that the independent Unitholders vote in favour of the Ordinary Resolution to approve the Further Extension and the New Annual Caps at the EGM.

For and on behalf of
United Simsen Securities Limited
Chiu Ka Him
Responsible Officer

NOTICE OF EXTRAORDINARY GENERAL MEETING



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

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an **EXTRAORDINARY GENERAL MEETING** of the unitholders (the "**Unitholders**") of Prosperity Real Estate Investment Trust ("**Prosperity REIT**") will be held on Friday, 27 May 2011 at 3:00 p.m. (or immediately after the conclusion of an annual general meeting of the Unitholders which is scheduled to be held on the same day at 2:30 p.m.) at Exhibition Venue A on Level 7, The Metropolis Mall, 6 Metropolis Drive, Hung Hom, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing, with or without modifications, the following resolution:

ORDINARY RESOLUTION

"That:

- (a) the further extension of the waiver in respect of certain connected party transactions (the "**Transactions**"), as more particularly described in the section headed "Further Extension" in the circular to Unitholders dated 21 April 2011 for three financial years ending 31 December 2014, together with the proposed new annual monetary limits for the years ending 31 December 2012, 31 December 2013 and 31 December 2014 respectively in relation to the Transactions, as more particularly described in the section headed "Proposed New Annual Monetary Limits for the Connected Party Transactions" in the circular to Unitholders dated 21 April 2011, be and are hereby approved; and
- (b) ARA Asset Management (Prosperity) Limited, as the manager of Prosperity REIT (the "**REIT Manager**"), and any director of the REIT Manager each be and is hereby severally authorised to complete and do or cause to be done all such acts and things as the REIT Manager or any director of the REIT Manager, as the case may be, may consider expedient or necessary or in the interests of Prosperity REIT to give effect to the above approval."

By Order of the Board
ARA ASSET MANAGEMENT (PROSPERITY) LIMITED
(as manager of Prosperity Real Estate Investment Trust)
Wong Lai Hung
Executive Director and Acting Chief Executive Officer

Hong Kong, 21 April 2011

Registered Office of the REIT Manager:
Units 5508–5509, 55/F, The Center
99 Queen's Road Central
Hong Kong

NOTICE OF EXTRAORDINARY GENERAL MEETING

Notes:

- (a) Any Unitholder entitled to attend at the Extraordinary General Meeting is entitled to appoint a proxy to attend, act and vote in his/her stead.
- (b) In order to be valid, an instrument of proxy, together with the power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney or authority, if any, must be deposited at Prosperity REIT's Unit Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjournment thereof. Completion and return of the instrument of proxy will not preclude you from attending and voting in person should you so wish. In the event that you attend the meeting or adjourned meeting (as the case may be) after having lodged an instrument of proxy, the instrument of proxy will be deemed to have been revoked.
- (c) Where there are joint registered Unitholders of a Unit, any one of such Unitholders may vote at the meeting either personally or by proxy in respect of such Unit as if he/she were solely entitled thereto, but if more than one of such Unitholders is present at the meeting personally or by proxy, that one of such Unitholders so present whose name stands first on the Register of Unitholders in respect of such Unit shall alone be entitled to vote in respect thereof.
- (d) The Register of Unitholders will be closed from Monday, 23 May 2011 to Friday, 27 May 2011, both days inclusive, to determine which Unitholders will qualify to attend and vote at the EGM, during which period no transfer of Units will be effected. In order to qualify for attending and voting at the Extraordinary General Meeting, all Unit certificates with completed transfer forms must be lodged with Prosperity REIT's Unit Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 20 May 2011.

The directors of ARA Asset Management (Prosperity) Limited as at the date of this notice are Mr. Chiu Kwok Hung, Justin (Chairman), Mr. Lim Hwee Chiang and Mr. Ma Lai Chee, Gerald as Non-executive Directors; Ms. Wong Lai Hung as Executive Director; Mr. Lan Hong Tsung, David and Mrs. Sng Sow-Mei (alias Poon Sow Mei) as Independent Non-executive Directors.

This circular (in bilingual version) (the "Circular") has been posted on Prosperity REIT's website at www.prosperityreit.com and the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk. Unitholders who have chosen to rely on copies of Prosperity REIT's Corporate Communications (including but not limited to annual report, interim report, notice of meeting, listing documents, circular and proxy form) posted on Prosperity REIT's website in lieu of the printed copies thereof or who for any reason have difficulty in receiving or gaining access to the Circular posted on Prosperity REIT's website may request for a printed copy of the Circular.

Unitholders may at any time change their choice of language and/or means of receipt (i.e. in printed form or by electronic means through Prosperity REIT's website) of Prosperity REIT's Corporate Communications by giving notice in writing to Prosperity REIT's Unit Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.