

# PROSPERITY REIT 泓富產業信託

HKEx Stock Code : 808



Continued  
**EXCELLENCE**

Annual Report 2010

## About Prosperity REIT

Prosperity Real Estate Investment Trust (“Prosperity REIT”) is the first private sector real estate investment trust (“REIT”) listed on The Stock Exchange of Hong Kong Limited on 16 December 2005. Prosperity REIT owns a diverse portfolio of seven high quality office, industrial/office and industrial properties in Hong Kong, with a total gross rentable area of about 1.22 million sq.ft.

Prosperity REIT is managed by ARA Asset Management (Prosperity) Limited (the “REIT Manager”).

### Caring for ■ Society



### Caring for ■ Tenants



### Caring for the ■ Environment



Prosperity REIT's motto is: *Care for others as we would wish to be treated ourselves*. We care for the society due to our active involvement with a whole host of community voluntary services and charitable fundraising activities. We care for the tenants by *giving professional service from the heart*. Lastly, we care for the environment by *Reducing, Reusing and Recycling*.

The REIT Manager is honoured to be recognized for its efforts by the Hong Kong Council of Social Service with the distinguished “Caring Company Award 2010/2011”.

## About The REIT Manager

ARA Asset Management (Prosperity) Limited is a wholly-owned subsidiary of Singapore-listed ARA Asset Management Limited ("ARA"). ARA, an affiliate of the Cheung Kong Group, is an Asian real estate fund management company focusing on the management of public listed REITs and private real estate funds.

The REIT Manager is responsible for the management and administration of Prosperity REIT, as well as the implementation of Prosperity REIT's business strategies.

## Our Mission

The REIT Manager is staffed with experienced professionals who are dedicated to managing the assets of Prosperity REIT for the benefit of the unitholders through proactive asset management and multi-dimensional growth strategies.



1. The Metropolis Tower
2. Prosperity Millennia Plaza
3. Harbourfront Landmark Property
4. Prosperity Place

5. Trendy Centre
6. Prosperity Center Property
7. New Treasure Centre Property

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# Chairman's Statement

## Dear Unitholders,

On behalf of the Board of Directors (the "Board") of ARA Asset Management (Prosperity) Limited (the "REIT Manager"), the manager of Prosperity Real Estate Investment Trust ("Prosperity REIT"), I am pleased to present Prosperity REIT's annual report for the financial year ended 31 December 2010 (the "Reporting Year").

## Results and Distribution

Prosperity REIT delivered a satisfactory performance in 2010, in spite of the lingering effects of the global financial crisis.

Total distribution per unit ("DPU") to unitholders increased by 0.3% as revenue and net property income improved by 2.5% and 2.7% respectively, year-on-year ("YoY"). Prosperity REIT's property valuation rose by 12.9% YoY to an all-time high and the net asset value per unit grew to HK\$2.70.

I am pleased to announce that our unitholders will receive a total distribution per unit of HK\$0.1101 for the Reporting Year. This represents a distribution yield of 6.3%<sup>1</sup>.

## Market Review

While the global economy continued to regain strength in 2010 following the repercussions of the financial crisis, the pace of this recovery has alternated in different parts of the world. Asian economies seemed to have recuperated faster in comparison to other Western economies, like the United States and Europe, where the unemployment rate remained relatively high.

The Mainland enjoyed growth with its gross domestic product increasing by 10.6%<sup>2</sup> for the first three quarters of the year. Meanwhile, Hong Kong's unemployment rate for the three-month period ending December 2010 was an encouraging 4.0%<sup>3</sup>. The local recovery was particularly noticeable in the trading sector, boosted by domestic demand on the Mainland. Re-exports experienced a rebound, peaking in August 2010 and rising 36%<sup>3</sup> YoY. This upswing generated positive effects for Prosperity REIT, as many of its tenants are in the trading business.

The financial sector's continued growth has driven demand for office expansion and more office space is required to accommodate the additional headcount. Given the limited supply of office space in the territory, rental rates are expected to be driven up by market forces. Office relocation to decentralized business districts is anticipated to continue, benefitting areas where Prosperity REIT's portfolio is located.

## Operations Review

Prosperity REIT recorded steady results for the Reporting Year. In 2010, total revenue reached HK\$270.1 million while net property income rose to HK\$212.5 million, an increase of 2.5% and 2.7% YoY, respectively.

Prosperity REIT's overall portfolio occupancy rate continued to improve throughout the year, climbing to a record high of 99.5% as at 31 December 2010, and the average effective unit rent was HK\$14.67 per sq. ft.

As a result of our proactive management approach and effective tenant recruitment strategies, Prosperity REIT achieved a 64.5% tenant retention rate throughout the Reporting Year, while the cost-to-revenue ratio and gearing ratio maintained healthy rates of 21.3% and 30.1%, respectively.

In line with our practice of financial prudence, we made two financial arrangements during the year. We successfully entered into new term loan and revolving credit facility agreements, totalling HK\$2,200 million. We also took a

*Prosperity REIT's portfolio occupancy rate reached a record high of 99.5% and the net asset value per unit grew to HK\$2.70.*

<sup>1</sup> Based on Prosperity REIT's closing unit price of HK\$1.76 on 31 December 2010

<sup>2</sup> Source: National Bureau of Statistics of China

<sup>3</sup> Source: Trade and Industry Department of HKSAR

prudent approach to managing the risk in fluctuation of interest rates by entering a plain vanilla swap for 80% of Prosperity REIT's term loan.

With these two arrangements in place, our finance costs will be reduced in the years to come. These actions will help to mitigate the uncertainties associated with floating interest rates and our unitholders will benefit from stable distributions.

## Prospects

Looking forward, we believe that Prosperity REIT will benefit from the recovering economy. As the local unemployment rate continues to fall and business improves overall, demand for office space is poised for steady growth. Prosperity REIT will continue with its prudent and proactive approach in optimizing returns, while endeavouring to provide tenants with the best service to uphold a strong tenant relationship and increase the tenant retention rate.

Asset enhancement measures will continue to be implemented to add value to Prosperity REIT's properties. In doing so, we are always conscientious of a greener world with our share of contribution. Further to our various "living green roof" initiatives, the REIT Manager will continue to incorporate green features at the properties in our portfolio.

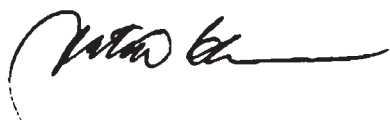
Through strengthened tenant relations, effective asset enhancements, well-planned business strategies and prudent cost controls, we are committed to delivering steady returns to unitholders in the coming years.

## Acknowledgement

I would like to express my deep gratitude to my colleagues on the Board, our management team, property managers, service providers and business partners for their invaluable contributions in generating solid results during the Reporting Year.

I would also like to take this opportunity to thank The Hong Kong Institute of Directors for including me amongst the "Directors of the Year Awards" recipients in 2010. I am honoured to receive this distinction and will continue to work in the interest of the Prosperity REIT unitholders.

Lastly, I would like to thank you, our unitholders, for your continued trust, support and confidence in Prosperity REIT.



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

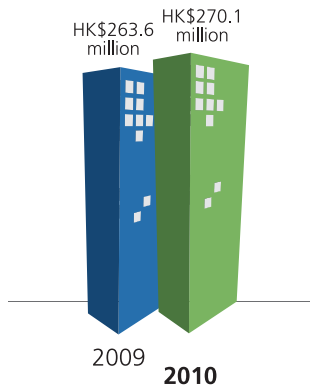
Hong Kong, 25 February 2011



Chiu Kwok Hung, Justin  
Chairman

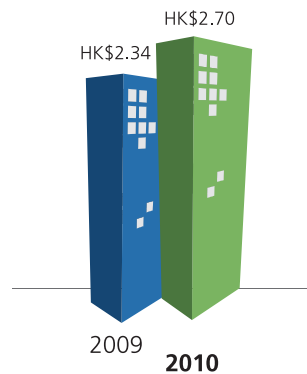
# Performance Highlights in 2010

➔ **2.5%**



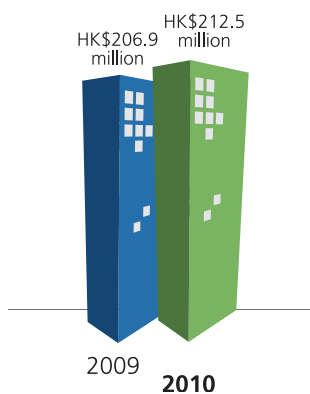
Total Revenue<sup>1</sup>

➔ **15.4%**



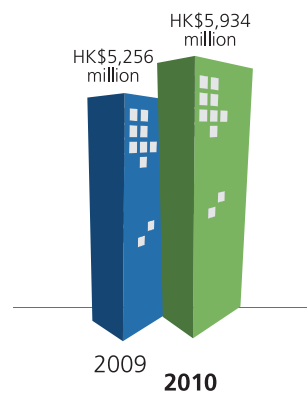
Net Asset Value<sup>3</sup>

➔ **2.7%**



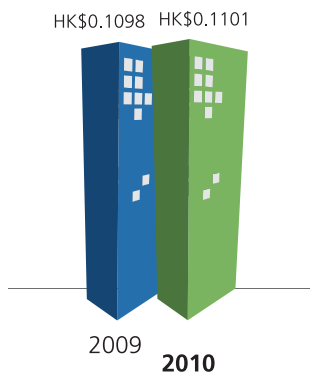
Net Property Income<sup>1</sup>

➔ **12.9%**



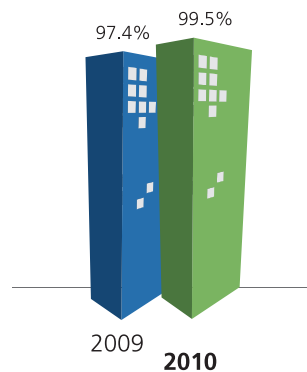
Valuation<sup>3</sup>

➔ **0.3%**



Distribution Per Unit<sup>2</sup>

➔ **2.1%**



Occupancy Rate<sup>3</sup>

Notes: <sup>1</sup> Year on year comparison <sup>2</sup> For year ended 31 December <sup>3</sup> As at 31 December

## Diversified Property Portfolio

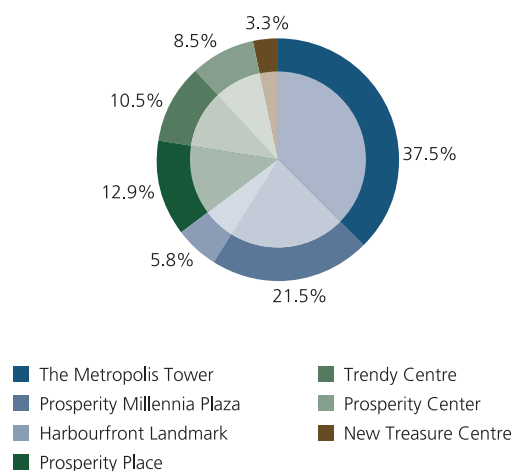
Prosperity REIT has a diversified portfolio comprising seven high quality office, industrial/office and industrial buildings in Hong Kong, with a gross rentable area of about 1.22 million sq.ft. All properties in Prosperity REIT's portfolio are well served by multiple transportation networks.

These seven properties were completed during the period from 1995 to 2001. As at 31 December 2010, the appraised value of this portfolio was HK\$5,934 million. Grade A office buildings, industrial/office buildings and industrial buildings account for 64.8%, 31.9% and 3.3% of the total appraised value respectively.

	Valuation HK\$ million as at 31 Dec 2010	Valuation HK\$ million as at 31 Dec 2009	Percentage change Increase/ (Decrease)
<b>Grade A Office</b>			
The Metropolis Tower	2,225	1,931	15.2%
Prosperity Millennia Plaza	1,276	1,118	14.1%
Harbourfront Landmark (portion)	344	318	8.2%
<b>Industrial/Office</b>			
Prosperity Place	767	670	14.5%
Trendy Centre	623	561	11.1%
Prosperity Center (portion)	504	481	4.8%
<b>Industrial</b>			
New Treasure Centre (portion)	195	177	10.2%
<b>Total</b>	<b>5,934</b>	<b>5,256</b>	<b>12.9%</b>

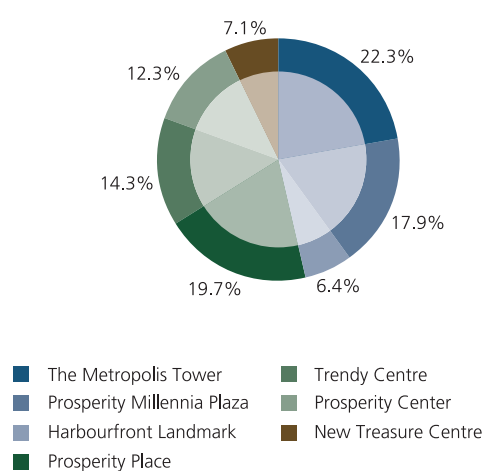
### Appraised Value by Property

(As at 31 December 2010)



### Gross Rentable Area by Property

(As at 31 December 2010)



## Effective Lease Management

As a result of proactive tenant recruitment efforts by the REIT Manager, the portfolio's occupancy rate improved to 99.5% as at 31 December 2010. The portfolio's average effective unit rent decreased by 1.7% YoY to HK\$14.67 per sq.ft., with -0.8% in the rental reversion rate for leases successfully renewed in 2010.

As at 31 December 2010, leases to be expired in 2011 accounted for 46.1% of the portfolio's gross rental income and 46.4% of its gross rentable area. Proactive leasing strategies will be continued in 2011 to deliver promising results comparable to that of 2010.

## Lease Expiry Profile by Gross Rental Income (as at 31 December 2010)

	31 Dec 2010 & 2011	2012	2013 and Beyond
The Metropolis Tower	33.1%	55.7%	11.2%
Prosperity Millennia Plaza	45.2%	45.0%	9.8%
Harbourfront Landmark (portion)	100.0%	0.0%	0.0%
Prosperity Place	44.2%	43.0%	12.8%
Trendy Centre	54.1%	35.7%	10.2%
Prosperity Center (portion)	43.9%	43.7%	12.4%
New Treasure Centre (portion)	35.2%	55.7%	9.1%
<b>Portfolio</b>	<b>46.1%</b>	<b>43.8%</b>	<b>10.1%</b>

## Well-balanced Tenant Mix

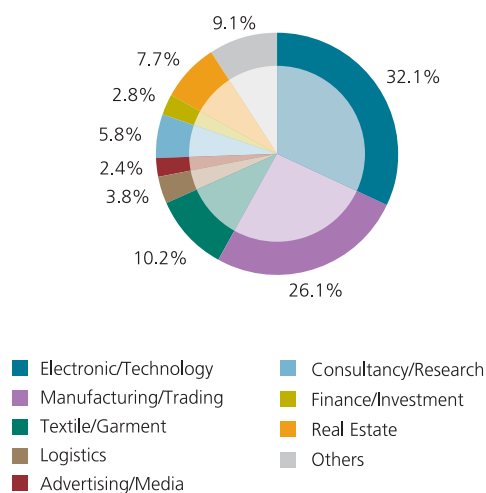
As at 31 December 2010, Prosperity REIT had a total of 550 tenants. The tenant base included a number of enterprises that have benefited from Hong Kong's resilient economy, as well as those with close trading ties with Mainland China. Most of these tenants were from such business sectors as electronics, technology, manufacturing, trading, as well as textiles and garments.

A mix of multinational firms and small-to-medium sized enterprises is optimal to the tenant base of Prosperity REIT. Overall, it is the long-term goal of the REIT Manager to maintain a well-balanced mix of tenants with credible financial standing to ensure a stable stream of rental income.



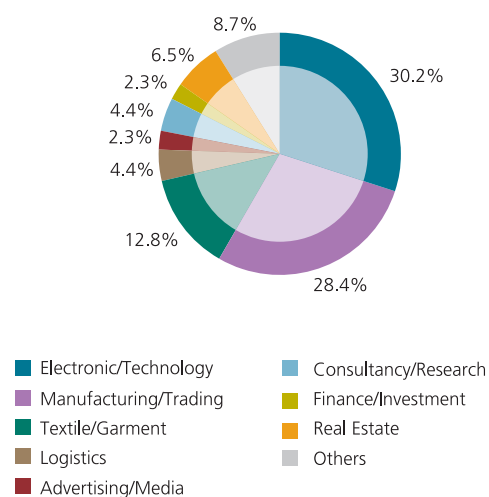
## Trade Mix by Gross Rental Income

(As at 31 December 2010)



## Trade Mix by Gross Rentable Area

(As at 31 December 2010)



### Size of tenant premises on gross rentable area (as at 31 December 2010)

### Percentage

Above 10,000 sq.ft.	22.2%
5,001 sq.ft.–10,000 sq.ft.	11.3%
2,001 sq.ft.–5,000 sq.ft.	26.3%
1,001 sq.ft.–2,000 sq.ft.	26.0%
1,000 sq.ft. and below	14.2%

### Total

100.0%

## Close-to-Zero Rent Delinquency Rate

During 2010, Prosperity REIT maintained a close-to-zero rent delinquency rate. This was attributed to its financially strong tenant base and effective lease management mechanism, which were supplemented by initiatives to phase out tenants with unfavourable track records.

# Trust Review

## Asset Enhancement

It is an established strategy of the REIT Manager to provide premium rentable space in order to achieve sustainable rental growth. To this end, large-scale asset enhancement initiatives have been planned and executed on a continuous basis. This approach is demonstrated by the extensive improvements at Prosperity Place and The Metropolis Tower in 2010. Asset enhancement initiatives will continue in 2011 across the entire portfolio, with prudently planned payback periods.

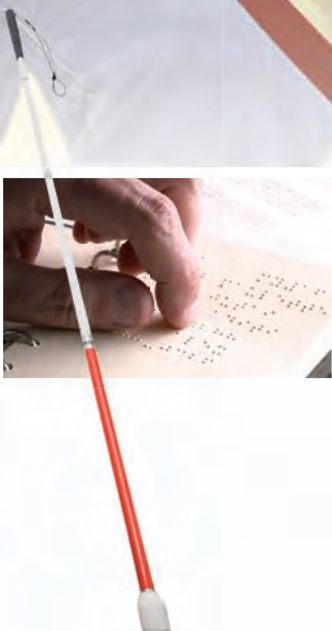
## Outlook

Since its listing on 16 December 2005 (the "Listing Date"), Prosperity REIT has achieved favourable results by managing its portfolio with professionalism. Supported by Goodwell-Prosperity Property Services Limited, which provides leasing and management services for properties under Prosperity REIT's portfolio, the REIT Manager will continue to work towards generating reasonable returns to the unitholders in 2011 through our proven expertise in professional management.



# Caring for Society

The REIT Manager actively participates in various corporate charity events, including food packing drives, charity walks and "Dress Special Days" to help the elderly, visually impaired, handicapped, and less fortunate in society.



# Trust Review

## Asset Enhancement

*before*



### Prosperity Place

*The renovation upgrades to the public area washrooms at Prosperity Place were well received by the tenants. Prosperity Place is one of the premium commercial landmarks in Kwun Tong district, due to the high quality enhancements to the property.*

*before*



### The Metropolis Tower

*The executive washrooms were upgraded at The Metropolis Tower to further enhance the facilities for the tenants.*

**AFTER**



**AFTER**



## Asset Enhancement

*before*



*The REIT Manager has added another living green roof garden with environmental friendly landscaped areas, energy generating wind turbines and solar panels, to the portfolio. The "Japanese themed" garden is very popular amongst the tenants especially golfing enthusiasts.*

**AFTER**



# The Metropolis Tower



## Top 5 Tenants<sup>1</sup>

Tenants	Trade	GRA* (sq.ft.)	% of GRI**	% of GRA
Canon Hongkong Company Limited	Electronic/Technology	46,151	19.6%	17.0%
The Hong Kong Polytechnic University	Others	21,298	10.4%	7.8%
NEC Hong Kong Limited	Electronic/Technology	18,161	5.1%	6.7%
Triace Limited	Manufacturing/Trading	9,200	4.2%	3.4%
Presidio Production Limited	Electronic/Technology	11,319	3.6%	4.2%

\* Gross rentable area \*\* Gross rental income

Note 1: Top 5 tenants are measured based on tenant's contribution to the total rental income of the property as at 31 December 2010.



**Location:** 10 Metropolis Drive,  
Hung Hom, Kowloon

**Year of Completion:** 2001

**Gross Rentable Area (sq.ft.):** 271,418

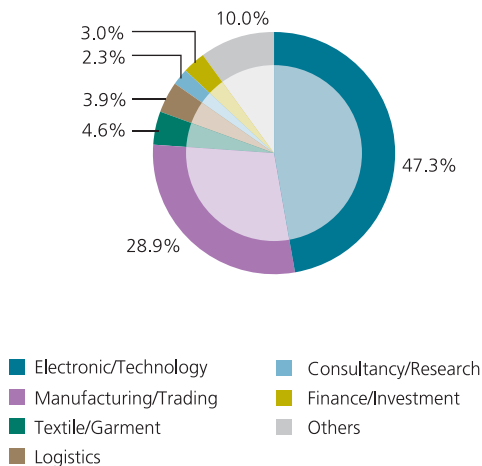
**No. of Carpark Spaces:** 98

**Appraised Value (HK\$ million):** 2,225

**Number of Tenants:** 83

### Trade Mix by Gross Rentable Area

(As at 31 December 2010)



Occupying a prime location in the commercial hub of Hung Hom and featuring spectacular sea views of Victoria Harbour, The Metropolis Tower enjoys convenient transportation access, with the Hung Hom MTR East Rail Station, several bus terminals and taxi stations nearby. It is also close to the Cross Harbour Tunnel, the busiest undersea vehicular tunnel in Hong Kong.

The Metropolis Tower is an established landmark in Hung Hom, forming part of a 1.42 million sq.ft. development comprising a Grade A office tower, popular shopping mall, hotel and serviced apartments. Surrounding public amenities include the Hong Kong Coliseum, The Hong Kong Polytechnic University and a cluster of renowned hotels and shopping malls.

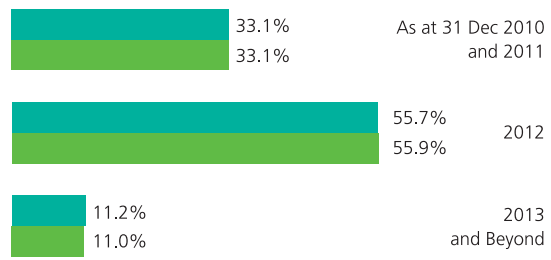
Column-free floor plates, a raised floor system, a fibre optic backbone, a back-up power supply and satellite communication are among the building's modern architectural features and facilities.

Following the successful upgrade of the common area washrooms in 2009, the executive washrooms were also renovated in 2010. Moreover, a green roof garden with environmental friendly energy generating wind turbines and solar panels as well as putting green facilities were erected in the first half of 2010. The garden is freely accessible to the tenants of The Metropolis Tower during regular business hours and available for hire for social functions, alfresco barbecues, and cocktails in the evenings and on public holidays.

As at 31 December 2010, the occupancy rate of the property was 100%.

### Lease Expiring Profile of The Metropolis Tower

(As at 31 December 2010)



# Prosperity Millennia Plaza



## Top 5 Tenants

Tenants	Trade	GRA (sq.ft.)	% of GRI	% of GRA
Computer and Technologies International Limited	Electronic/Technology	16,628	7.5%	7.7%
Oracle Added Value Limited	Consultancy/Research	14,965	6.3%	6.9%
JDB Holdings Limited	Consultancy/Research	8,867	5.9%	4.1%
Jobs DB Hong Kong Limited	Consultancy/Research	7,269	5.0%	3.4%
Hakuhodo Hong Kong Limited	Advertising/Media	8,314	4.4%	3.8%





**Location:** 663 King's Road, North Point, Hong Kong

**Year of Completion:** 1999

**Gross Rentable Area (sq.ft.):** 217,955

**No. of Carpark Spaces:** 43

**Appraised Value (HK\$ million):** 1,276

**Number of Tenants:** 75

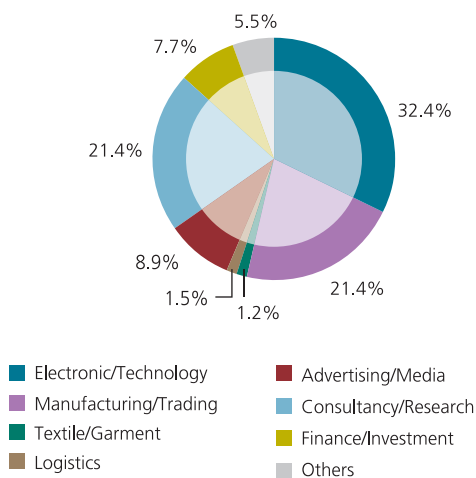
With panoramic sea views of Victoria Harbour and strategically located in the Island East office district, Prosperity Millennium Plaza stands adjacent to the Harbour Plaza North Point Hotel and across from the North Point Government Offices. Served by a convenient transportation network, the building is a mere two minutes away from the Quarry Bay MTR Station by foot and two minutes from the Eastern Harbour Crossing Tunnel by car.

Along with a large-scale urban redevelopment programme undertaken by the Government, the entire Island East district is being transformed into an upscale business district, featuring a blend of premium office properties and sophisticated retail outlets. There is an increasing number of international tenants who are now moving into this district from Central and other traditional prime office areas. Accordingly, the Island East Grade A buildings have seen their tenant bases enriched with a solid high-end tenant profile.

Enhancement works of the common area corridors and washrooms at the property commenced in 2011 to enhance the working environment for the tenants. As at 31 December 2010, the occupancy rate of the property was 99.5%.

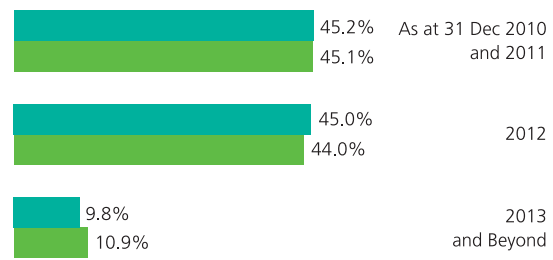
### Trade Mix by Gross Rentable Area

(As at 31 December 2010)



### Lease Expiring Profile of Prosperity Millennium Plaza

(As at 31 December 2010)



# Harbourfront Landmark Property

(portion of Harbourfront Landmark, "Harbourfront Landmark Property")



Tenants	Trade	GRA (sq.ft.)	% of GRI	% of GRA
Tremayne Investments Ltd.	Real Estate	77,021	100.0%	100.0%



*Location:* 11 Wan Hoi Street, Hung Hom, Kowloon

*Year of Completion:* 2001

*Gross Rentable Area (sq.ft.):* 77,021

*No. of Carpark Spaces:* —

*Appraised Value (HK\$ million):* 344

*Number of Tenants:* 1

Harbourfront Landmark Property is a three-storey Grade A office area on the podium level of Harbourfront Landmark, a stunning 70-storey skyscraper on the harbour front of the Kowloon peninsula, offering breathtaking sea views of Victoria Harbour. The property is adjacent to two Grade A office tower blocks and the renowned five-star Harbour Grand Kowloon Hotel.

Harbourfront Landmark Property is just minutes away from the Hung Hom MTR East Rail Station, a transportation hub which provides direct access to Tsim Sha Tsui, the New Territories and the Mainland. The building is also located within a five-minute drive to the Tsim Sha Tsui East district via the Hung Hom Bypass. Moreover, the nearby Cross Harbour Tunnel allows quick access to Hong Kong Island. The Hung Hom pier with regular Star Ferry services to and from the business districts of Central, Wan Chai and North Point is located within a three-minute walking distance from the building.

As at 31 December 2010, Harbourfront Landmark Property was fully leased to Tremayne Investments Limited, a property investment company and a wholly owned subsidiary of Hutchison Whampoa Properties Limited. The terms and conditions of the lease were negotiated to reflect the overall property market situation and the scale of the premises. The term of the lease is six years, ending 31 October 2011, with an option to renew for another three years.

# Prosperity Place



## Top 5 Tenants

Tenants	Trade	GRA (sq.ft.)	% of GRI	% of GRA
Evlite Electronics Co Ltd	Electronic/Technology	9,294	4.1%	3.9%
Integrated Silicon Solution Inc (HK) Ltd	Electronic/Technology	7,316	3.2%	3.1%
Alltek Technology (H.K.) Limited	Electronic/Technology	8,256	3.1%	3.5%
Delta Labelling (Far East) Limited	Manufacturing/Trading	6,355	2.7%	2.7%
Dartslive Asia Limited	Others	5,402	2.5%	2.3%



*Location:* 6 Shing Yip Street, Kwun Tong, Kowloon

*Year of Completion:* 1996

*Gross Rentable Area (sq.ft.):* 240,000

*No. of Carpark Spaces:* 60

*Appraised Value (HK\$ million):* 767

*Number of Tenants:* 125

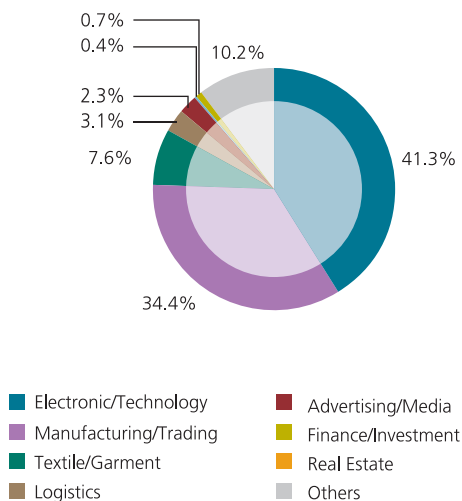
Prosperity Place is located in the Kwun Tong district of Kowloon East. The district has recently experienced tremendous growth as a new commercial hub. The building is close to the Eastern Cross Harbour Tunnel, and the Kwun Tong MTR Station is just a three-minute walk away.

With new Grade A office buildings on the increase and re-development projects being carried out, Kowloon East has seen significant urban improvements on a number of fronts, including prominent modern architecture and dynamic shopping malls, along with leisure and public spaces. Due to these attractive developments, prestigious tenants from the traditional business districts have moved into the area.

In order to cope with the intense competition from new office buildings in the district, a refurbishment project to revamp Prosperity Place began in 2008 with the renovation of the ground floor lobby, common lift lobbies, corridors on the upper floors, and lower portion of the façade as well as the erection of a green living roof garden. In 2010, the renovation upgrades to the public area washrooms were completed. All these measures have increased the building's competitiveness and helped raise Prosperity Place's image as a premium commercial landmark in Kwun Tong district. As at 31 December 2010, the occupancy rate of the property was 98.8%.

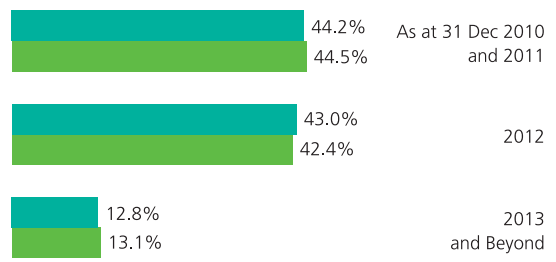
### Trade Mix by Gross Rentable Area

(As at 31 December 2010)



### Lease Expiring Profile of Prosperity Place

(As at 31 December 2010)

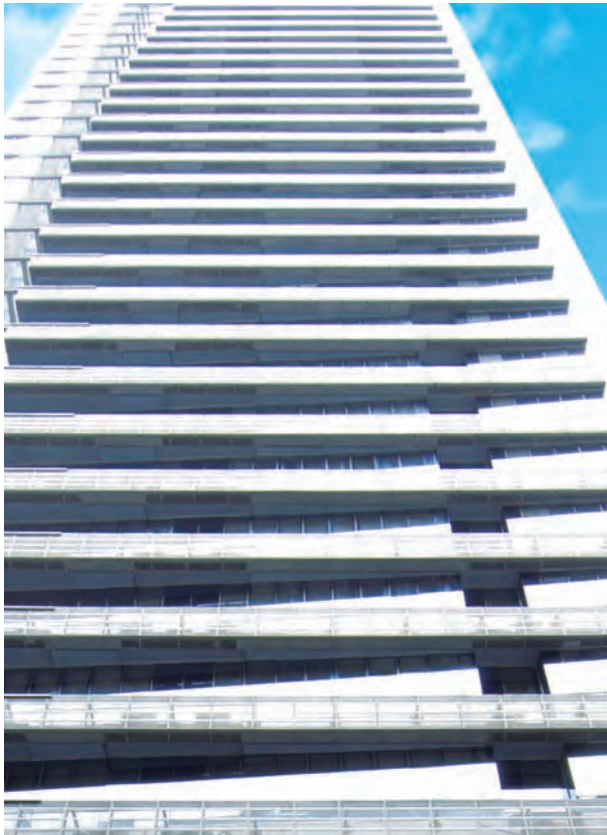


# Trendy Centre



## Top 5 Tenants

Tenants	Trade	GRA (sq.ft.)	% of GRI	% of GRA
CEH Textiles Limited	Textile/Garment	6,849	3.7%	4.0%
Madrid Cafe O/B Madrid Group Limited	Restaurant	708	2.5%	0.4%
ALN Limited	Electronics	3,268	2.2%	1.9%
Digital World International limited	Electronic/Technology	1,505	2.1%	0.9%
STI Asia Pacific Limited	Manufacturing/Trading	898	1.7%	0.5%



*Location:* 682 Castle Peak Road,  
Cheung Sha Wan, Kowloon

*Year of Completion:* 1998

*Gross Rentable Area (sq.ft.):* 173,764

*No. of Carpark Spaces:* 79

*Appraised Value (HK\$ million):* 623

*Number of Tenants:* 149

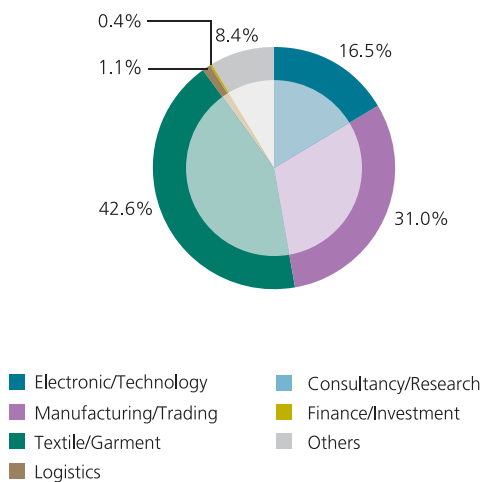
Situated on Castle Peak Road in Cheung Sha Wan, Trendy Centre is located in the heart of Kowloon's garment and fashion wholesaling district. It has close proximity to the Container Terminals of the Kwai Chung-Tsing Yi basin, which have a total handling capacity of over 19 million TEUs ("twenty-foot equivalent units") annually.

Moreover, major transportation arteries, namely the Route 3 and Route 8 expressways incorporating the Ting Kau Bridge and Tsing Ma Bridge respectively, are close-by, providing quick access to the Hong Kong International Airport, as well as the Mainland border crossings. The Lai Chi Kok MTR Station is conveniently just a five-minute stroll from Trendy Centre.

With more new buildings and revamping projects coming on stream in the Lai Chi Kok district, the REIT Manager shall proactively renovate the lower portion of the façade and the main entrance lobby of the property with a modern commercial Grade A building design in year 2011. The renovation will help Trendy Centre keep its premier image in the district. As at 31 December 2010, the occupancy rate of the property was 98.9%.

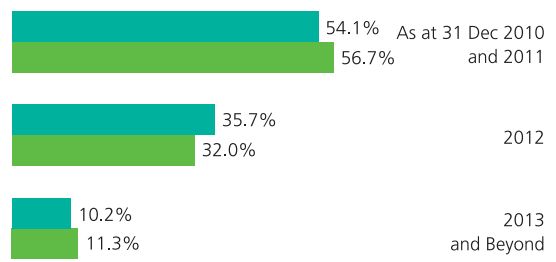
### Trade Mix by Gross Rentable Area

(As at 31 December 2010)



### Lease Expiring Profile of Trendy Centre

(As at 31 December 2010)



# Prosperity Center Property

(portion of Prosperity Center, "Prosperity Center Property")



## Top 5 Tenants

Tenants	Trade	GRA (sq.ft.)	% of GRI	% of GRA
Cosme De Net Co. Ltd	Manufacturing/Trading	21,056	17.7%	14.1%
Oasis Stores Limited	Textile/Garment	10,528	9.5%	7.1%
Metatech Limited	Electronic/Technology	5,545	4.4%	3.7%
YCH Logistics (Hong Kong) Limited	Logistics	8,311	4.2%	5.6%
Watch Logistic International Limited	Logistics	4,415	3.2%	3.0%





*Location:* 25 Chong Yip Street,  
Kwun Tong, Kowloon

*Year of Completion:* 1999

*Gross Rentable Area (sq.ft.):* 149,253

*No. of Carpark Spaces:* 105

*Appraised Value (HK\$ million):* 504

*Number of Tenants:* 66

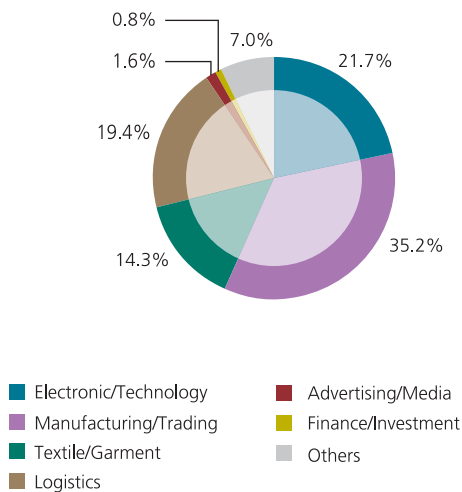
Prosperity Center Property is strategically located in the Kowloon East business district and is less than a three-minute walk from the Ngau Tau Kok MTR Station.

The Kowloon East area has evolved into a modern commercial hub. Prosperity Center Property has capitalized on the trend and gained many new quality tenants. The industrial/office building features a modern curtain wall, 5 to 7.5 kPa floor loading, individually controlled split-type air conditioning systems for all units, high ceilings, subdivisible floor plates, cargo lifts, high-grade passenger lifts, ample loading/unloading bays, and related facilities.

The ground floor lobby and the typical floor lift lobbies of the building are scheduled to be renovated in 2011 to bring an overall fresh and modern design in line with the trend of enhancement projects in the vicinity. Upon completion, the works can increase the competitiveness of the building in this new commercial hub. As at 31 December 2010, the occupancy rate of the property was 100%.

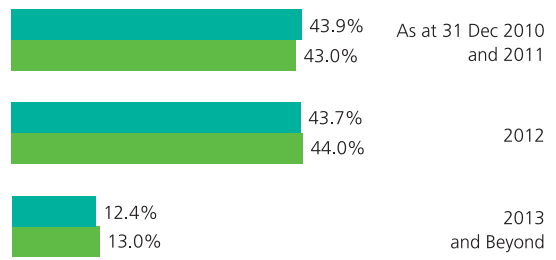
### Trade Mix by Gross Rentable Area

(As at 31 December 2010)



### Lease Expiring Profile of Prosperity Center Property

(As at 31 December 2010)



# New Treasure Centre Property

(portion of New Treasure Center, "New Treasure Centre Property")



## Top 5 Tenants

Tenants	Trade	GRA (sq.ft.)	% of GRI	% of GRA
Goodwell Property Management Ltd*	Others	13,671	12.8%	15.9%
Megahope Limited	Manufacturing/Trading	2,496	3.6%	2.9%
Supermax Merchandising (HK) Ltd	Manufacturing/Trading	2,496	3.4%	2.9%
Mince Company Limited	Textile/Garment	2,386	3.1%	2.8%
Rich Plan International Limited	Manufacturing/Trading	2,496	3.1%	2.9%

\* Goodwell Property Management Ltd is a connected person of Prosperity REIT within the meaning of the REIT Code.



*Location: 10 Ng Fong Street,  
San Po Kong, Kowloon*

*Year of Completion: 1995*

*Gross Rentable Area (sq.ft.): 86,168*

*No. of Carpark Spaces: 22*

*Appraised Value (HK\$ million): 195*

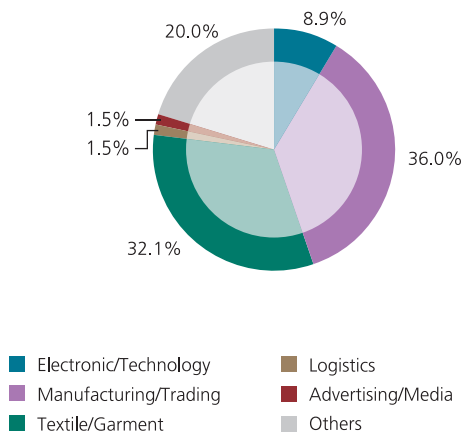
*Number of Tenants: 51*

New Treasure Centre Property is located in San Po Kong, Kowloon, an established industrial area well served by extensive transportation links, the north — south Route 2 & west — east Route 7 expressways, MTR, buses and public light buses. The building is conveniently located within five minutes walking distance to the Diamond Hill MTR Station.

The prestigious design of the ground floor main lobby coupled with the eminent concierge service counter distinguishes New Treasure Centre Property from the other older industrial buildings in the vicinity. The building has solid industrial building features including 7.5 kPa floor loading, individually controlled split-type air conditioning systems for every unit, sub-divisible floor plates, cargo lifts, high-grade passenger lifts, ample loading/unloading bays, and related facilities. The multi-level lorry and car parking area is fastidiously maintained, with generous illumination. As at 31 December 2010, the occupancy rate of the property was 100%.

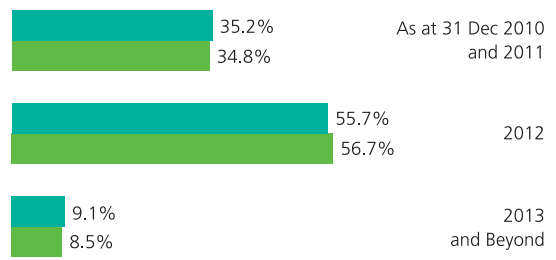
### Trade Mix by Gross Rentable Area

(As at 31 December 2010)



### Lease Expiring Profile of New Treasure Centre Property

(As at 31 December 2010)





# Caring for Tenants

The courteous and professional property management staff of Goodwell-Prosperity Property Services Limited create a friendly and caring atmosphere for the tenants, thereby strengthening our tenant relationships.



# Management Discussion and Analysis

Below is a summary of Prosperity REIT's performance for the Reporting Year:

## Performance Highlights

	<b>Year ended 31 Dec 2010</b>	Year ended 31 Dec 2009	Percentage change Increase/(Decrease)
Distribution per unit	<b>HK\$0.1101</b>	HK\$0.1098	0.3%

	<b>Year ended 31 Dec 2010</b>	Year ended 31 Dec 2009	Percentage change Increase/(Decrease)
Operation data			
Revenue	<b>HK\$270.1 million</b>	HK\$263.6 million	2.5%
Net property income	<b>HK\$212.5 million</b>	HK\$206.9 million	2.7%
Cost-to-revenue ratio	<b>21.3%</b>	21.5%	(0.2%) <sup>1</sup>
Occupancy rate (as at 31/12)	<b>99.5%</b>	97.4%	2.1% <sup>1</sup>
Tenant retention rate	<b>64.5%</b>	61.8%	2.7% <sup>1</sup>
Average effective unit rent	<b>HK\$14.67 per sq.ft.</b>	HK\$ 14.92 per sq.ft.	(1.7%)

	<b>As at 31 Dec 2010</b>	As at 31 Dec 2009	Percentage change Increase/(Decrease)
Key financial figures			
Net asset value per unit	<b>HK\$2.70</b>	HK\$2.34	15.4%
Property valuation	<b>HK\$5,934 million</b>	HK\$5,256 million	12.9%
Gearing ratio**	<b>30.1%</b>	33.3%	(3.2%) <sup>1</sup>

\*\* This excludes the origination fees and is calculated based on total borrowings

<sup>1</sup> Absolute change

# Management Discussion and Analysis

## Operation Review

Prosperity REIT owns a geographically diverse portfolio of seven commercial properties in the decentralized business districts of Hong Kong, comprising all, or a portion of, three Grade A office buildings, three industrial/office buildings, and one industrial building. The total gross rentable area is 1,215,579 sq.ft., with a total of 407 car park spaces.

Information on the portfolio of properties as at 31 December 2010 is as follows:

	Location	Gross rentable area Sq.ft.	No. of car park spaces	Valuation HK\$ Million	Occupancy rate
<b>Grade A Office</b>					
The Metropolis Tower	Hung Hom	271,418	98	2,225	100.0%
Prosperity Millennia Plaza	North Point	217,955	43	1,276	99.5%
Harbourfront Landmark (portion)	Hung Hom	77,021	—	344	100.0%
<b>Industrial/Office</b>					
Prosperity Place	Kwun Tong	240,000	60	767	98.8%
Trendy Centre	Cheung Sha Wan	173,764	79	623	98.9%
Prosperity Center (portion)	Kwun Tong	149,253	105	504	100.0%
<b>Industrial</b>					
New Treasure Centre (portion)	San Po Kong	86,168	22	195	100.0%
<b>Total</b>		<b>1,215,579</b>	<b>407</b>	<b>5,934</b>	<b>99.5%</b>

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain organic growth in the Reporting Year. A high occupancy rate of 99.5% was recorded as at 31 December 2010, reflecting the effectiveness of those progressive and effective leasing strategies employed. As a result of increased revenue, coupled with efficient streamlining of operations, the cost-to-revenue ratio maintained at a relatively low level of 21.3%.

## Investment Review

The REIT Manager will implement its acquisition strategy prudently and will only assess potential targets which will be beneficial to Prosperity REIT and unitholders as a whole. In May 2008, Prosperity REIT obtained unitholders' approval to expand its scope of acquisition coverage to invest in office, commercial and retail properties, with no geographical restrictions. The REIT Manager is now enjoying the flexibility in taking advantage of emerging investment opportunities to facilitate growth when appropriate opportunities arise.

## Financial Review

The revenue and net property income of each property in the portfolio for the Reporting Year are summarized as follows:

	Turnover HK\$'000	Rental related income HK\$'000	Revenue HK\$'000	Net property income HK\$'000
<b>Grade A Office</b>				
The Metropolis Tower	69,665	18,028	87,693	70,336
Prosperity Millennia Plaza	44,903	12,317	57,220	45,598
Harbourfront Landmark (portion)	16,637	2,161	18,798	16,508
<b>Industrial/Office</b>				
Prosperity Place	37,002	332	37,334	28,001
Trendy Centre	27,179	5,925	33,104	25,153
Prosperity Center (portion)	22,541	2,829	25,370	19,313
<b>Industrial</b>				
New Treasure Centre (portion)	8,962	1,613	10,575	7,622
<b>Total</b>	<b>226,889</b>	<b>43,205</b>	<b>270,094</b>	<b>212,531</b>

## Revenue

During the Reporting Year, revenue was HK\$270.1 million which comprised HK\$226.9 million worth of rental and car park income, plus HK\$43.2 million of rental related income. Rental and car park income was HK\$2.0 million, or 4.9% above that of 2009.

# Management Discussion and Analysis

## Net Property Income

The net property income was HK\$212.5 million and the cost-to-revenue ratio was 21.3%. The REIT Manager continues to implement effective cost control measures.

## Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$147.8 million. The annual distributable income for the Reporting Year is calculated by the REIT Manager as representing the consolidated net profit of Prosperity REIT and its subsidiaries for that distribution period, after provision for tax and as adjusted to eliminate the effects of adjustments (as defined in the deed of trust constituting Prosperity REIT made on 29 November 2005, 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 (collectively, the "Trust Deed")) including the finance cost of HK\$13.8 million (equivalent to HK\$0.01 per unit) due to the interest rate swap, all of which have been recorded in the consolidated statement of comprehensive income.

## Distribution

It is the policy of the REIT Manager to distribute to unitholders of Prosperity REIT an amount equal to 100% of Prosperity REIT's annual distributable income for the financial year ended 31 December 2010. Pursuant to the Trust Deed, Prosperity REIT is required to ensure that the total amount distributed to unitholders shall be no less than 90% of Prosperity REIT's annual distributable income for each financial year.

The distributable income for the half year from 1 July 2010 to 31 December 2010 is HK\$73.5 million, equivalent to a DPU of HK\$0.0546. The interim DPU from 1 January 2010 to 30 June 2010 was HK\$0.0555, and the total DPU for the Reporting Year is HK\$0.1101, which represents a distribution yield of 6.3%<sup>1</sup>. The DPU increased 0.3% YoY mainly due to the additional net property income earned in the Reporting Year, as a result of the increased revenue.

The distribution for the half year from 1 July 2010 to 31 December 2010 will be paid on Thursday, 28 April 2011.

<sup>1</sup> Based on Prosperity REIT's closing unit price of HK\$1.76 on 31 December 2010



## Liquidity and Financing

As at 31 December 2010, Prosperity REIT had facilities in aggregate of HK\$2,200 million, comprising a HK\$1,770 million term loan facility and a HK\$430 million revolving credit facility, each for a term of five years expiring on 16 August 2015. The whole term loan facility was fully drawn on 16 December 2010 and revolving credit facility of HK\$26,000,000 was drawn as at 31 December 2010. The term loan is repayable in five years from 16 August 2010 and will mature and become payable on 16 August 2015. The revolving facility will be repaid on each maturity date and can be redrawn upon maturity.

The term loan facility and the revolving credit facility bear interest at a variable rate. In order to hedge against interest rate fluctuations under the term loan, Prosperity REIT through its wholly owned finance company entered into a plain vanilla interest rate swap agreement to fix the interest rate for 80% of the term loan, being HK\$1,416 million, for a period from 16 December 2010 to 16 June 2015 at the swap rate of 1.335%, excluding the spread of 0.81%.

The total borrowings of Prosperity REIT, excluding the origination fees, as a percentage of Prosperity REIT's gross assets was 30.1% as at 31 December 2010, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 39.8%.

Taking into account the fair value of investment properties, presently available banking facilities and internal financial resources of Prosperity REIT, Prosperity REIT has sufficient financial resources to satisfy its commitments and working capital requirements.

## Investment Properties and Property Valuation

For the Reporting Year, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$670.2 million, based on a professional valuation performed by an independent valuer, Savills Valuation and Professional Services Limited. The movements of fair values are tabulated below:

	<b>31 Dec 2010</b>	31 Dec 2009
	<b>HK\$'000</b>	HK\$'000
Fair value at beginning of the financial year	<b>5,256,000</b>	4,839,000
Additional expenditure	<b>7,793</b>	11,840
Increase in fair value during the year	<b>670,207</b>	405,160
<b>Fair value at the end of year</b>	<b>5,934,000</b>	<b>5,256,000</b>

# Management Discussion and Analysis

## **Charges on Assets**

As at 31 December 2010, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$5,887.6 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\$2,200 million, comprising a HK\$1,770 million term loan facility and a HK\$430 million revolving credit facility.

## **Employees**

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

## **Closure of Register of Unitholders**

The register of unitholders will be closed from Friday, 15 April 2011 to Wednesday, 20 April 2011, 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 at Shops 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 14 April 2011. The payment date of the final distribution will be on Thursday, 28 April 2011.

## Major Real Estate Agents and Contractors

The commission paid to the top five real estate agents during the Reporting Year was HK\$820,000 and the total value of service contracts of the top five contractors engaged by Prosperity REIT was HK\$39,987,000.

### Top Five Real Estate Agents

Respective commissions to the top five real estate agents to secure new and existing tenants are summarized as follows:

Real Estate Agents	Nature of Services	Commission Paid HK\$'000	Percentage
Centaline Property Agency Limited	Leasing	279	16.1%
Midland Realty	Leasing	155	9.0%
Hong Yip Properties Agency Limited	Leasing	141	8.2%
Universal Alliance Property Consultants Limited	Leasing	130	7.5%
Sino Bless Property Consultant Limited	Leasing	115	6.6%
		820	47.4%

### Top Five Contractors

The top five contractors and their respective value of service are as follows:

Contractors	Nature of Services	Value of Contract HK\$'000	Percentage
Citybase Property Management Limited	Building management	16,086	37.6%
Goodwell Property Management Limited	Building management	14,901	34.9%
Goodwell-Prosperity Property Services Limited	Property management	6,263	14.7%
Harbourfront Landmark Premium Services Limited	Building management	1,358	3.2%
E-park Parking Management Limited	Carpark operation	1,379	3.2%
		39,987	93.6%

# The Property Manager

Pursuant to the property management agreement dated 29 November 2005 between the Manager and Goowell-Prosperity Property Services Limited (the “Property Manager”), as amended, supplemented and/or otherwise modified or extended from time to time, the Manager has appointed the Property Manager to operate, maintain, manage and market all the properties of Prosperity REIT, subject to the overall management and supervision of the Manager.

The Property Manager is an indirect wholly-owned subsidiary of Cheung Kong. It was formed to exclusively manage the properties of Prosperity REIT on a dedicated basis.



# Caring for the Environment

The REIT Manager continues with its efforts to create a greener urban environment and to lower its carbon footprint by prudently lowering its energy usage, whilst upholding the high standard of the properties in the portfolio.



# Directors and Senior Management Biographical Information



**CHIU Kwok Hung, Justin**

*Chairman and  
Non-executive Director*

**LIM Hwee Chiang**

*Non-executive Director*

**Stephen Henry CHU**

*Chief Executive Officer and  
Executive Director*

## Directors

### **CHIU Kwok Hung, Justin**

#### ***Chairman and Non-executive Director***

**CHIU Kwok Hung, Justin**, Chairman of the REIT Manager, aged 60, is also the Chairman and Non-executive Director of ARA Asset Management Limited ("ARA"), the holding company of the REIT Manager, the Chairman and Non-executive Director of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT) and the Chairman of ARA Trust Management (Suntec) Limited (the manager of Suntec REIT). ARA and Suntec REIT are listed on Singapore Exchange Securities Trading Limited ("SGX-ST") while Fortune REIT is listed on the Main Board of The Stock Exchange of Hong Kong Limited ("SEHK") and SGX-ST. Mr. Chiu is also a Director of ARA Fund Management (Asia Dragon) Limited as the manager of the ARA Asia Dragon Fund. Mr. Chiu is a member of the 11th Shanghai Committee of the Chinese People's Political Consultative Conference of the People's Republic of China, a Fellow of The Hong Kong Institute of Directors, a Fellow of Hong Kong Institute of Real Estate Administrators and a member of the Board of Governors of Hong Kong Baptist University Foundation.

Mr. Chiu has more than 30 years of international experience in real estate in Hong Kong and various countries and is one of the most respected professionals in the property industry in Asia. Mr. Chiu is an Executive Director of Cheung Kong (Holdings) Limited ("Cheung Kong"), a company listed on the Main Board of SEHK. He joined Cheung Kong in 1997 and has been an Executive Director since 2000, heading the real estate sales, marketing and property management teams. Prior to joining Cheung Kong, Mr. Chiu was with Sino Land Company Limited from 1994 to 1997 and Hang Lung Development Company, Limited (now known as Hang Lung Group Limited) from 1979 to 1994 responsible for the leasing and property management in both companies. Both Sino Land Company Limited and Hang Lung Group Limited are listed on the Main Board of SEHK.

Mr. Chiu holds Bachelor degrees in Sociology and Economics from Trent University in Ontario, Canada.

### **LIM Hwee Chiang**

#### ***Non-executive Director***

**LIM Hwee Chiang**, a Non-executive Director of the REIT Manager, aged 54, is also the Group Chief Executive Officer and an Executive Director of ARA. He has been a Director of ARA since its

establishment in 2002. He is also a Director of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT), ARA Trust Management (Suntec) Limited (the manager of Suntec REIT), ARA-CWT Trust Management (Cache) Limited (the manager of Cache Logistics Trust which is listed on the Main Board of SGX-ST) and Am ARA REIT Managers Sdn Bhd (the manager of AmFIRST REIT which is listed on the Main Board of Bursa Malaysia). In addition, Mr Lim is the Chairman of APM Property Management Pte. Ltd., Suntec Singapore International Convention & Exhibition Services Pte. Ltd. and the Management Council of Management Corporation Strata Title Plan No. 2197 (Suntec City). Mr. Lim is also an Independent Director and a member of the Audit Committee of Teckwah Industrial Corporation Limited, which is listed on the Main Board of the SGX-ST. He is also the Vice President of the Hong Kong-Singapore Business Association, the Senior Vice President of the Asian Public Real Estate Association, a council member of the Singapore Chinese Chamber of Commerce & Industry and a member of the Valuation Review Board of the Ministry of Finance of Singapore.

Mr Lim has close to 30 years of experience in real estate. Prior to the founding of ARA, from 1997 to 2002, he was an Executive Director of GRA (Singapore) Pte. Ltd., a wholly-owned subsidiary of Prudential (US) Real Estate Investors. From 1996 to 1997, he founded and was the Managing Director of The Land Managers (S) Pte. Ltd., a Singapore-based property and consulting firm specializing in feasibility studies, marketing and leasing management in Singapore, Hong Kong and China. He was the General Manager of the Singapore Labour Foundation Management Services Pte. Ltd. from 1991 to 1995, and was with DBS Land Limited (now part of CapitalLand Limited) from 1981 to 1990.

Mr Lim holds a Bachelor of Engineering (First Class Honours) in Mechanical Engineering, a Master of Science in Industrial Engineering, as well as a Diploma in Business Administration, each from the National University of Singapore.

### **Stephen Henry CHU**

#### ***Chief Executive Officer and Executive Director***

**Stephen Henry CHU**, Executive Director, Chief Executive Officer and a Responsible Officer of the REIT Manager, aged 50, who is also the Chairman of the Disclosures Committee and a member of the Designated (Finance) Committee of the REIT Manager. Mr. Chu was previously the Chief Executive Officer of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT),



**MA Lai Chee, Gerald**

*Non-executive Director*



**LAN Hong Tsung, David**

*Independent Non-executive Director*



**SNG Sow-Mei  
(alias POON Sow Mei)**

*Independent Non-executive Director*



**Robert Douglas POPE**

*Independent Non-executive Director*

where he was responsible for the successful performance and direction of the REIT. Mr. Chu originally joined the ARA Group in 2007 as a Director (non-board) of Fortune REIT. Before that, he held senior posts with various international companies.

Mr. Chu has more than 20 years of international property experience in the fields of leasing, sales, facility and property management and marketing work covering retail, residential, hotel, and commercial sectors of the real estate market.

Mr. Chu holds a Bachelor of Arts (Honours) degree and a Master of Business Administration degree.

**MA Lai Chee, Gerald**  
***Non-executive Director***

**MA Lai Chee, Gerald**, a Non-executive Director and a member of the Designated (Finance) Committee of the REIT Manager, aged 43, is currently Director, Corporate Strategy Unit and Chief Manager, Corporate Business Development at Cheung Kong. Mr. Ma is an Alternate Director to Mr. Ip Tak Chuen, Edmond, in respect of certain of his directorships, namely, ARA Asset Management (Fortune) Limited (the manager of Fortune REIT) and ARA Trust Management (Suntec) Limited (the manager of Suntec REIT). He is also an Alternate Director to Mr. Lai Kai Ming, Dominic, Non-executive Director of Hutchison Telecommunications Hong Kong Holdings Limited ("HTHKH").

Mr. Ma has over 21 years of experience in banking, investment and portfolio management, real estate development and marketing, as well as managing IT related ventures and services. He is a member of the Hospitality Services Committee of Caritas Hong Kong and a member of the Finance Committee for The Scout Association of Hong Kong. He is also a member of the President's Circle of the University of British Columbia, Canada ("UBC") and a member of the Dean's Advisory Board for the Faculty of Arts of UBC. He holds a Bachelor of Commerce degree in Finance and a Master of Arts degree in Global Business Management.

**LAN Hong Tsung, David**  
***Independent Non-executive Director***

**LAN Hong Tsung, David**, an Independent Non-executive Director, the Chairman of the Audit Committee and a member of the Designated (Finance) Committee of the REIT Manager, aged 70, is also an Independent Non-executive Director and a member of the Audit Committees of Cheung Kong Infrastructure Holdings Limited (a

company listed on the Main Board of SEHK) ("CK Infrastructure") and ARA Asset Management (Fortune) Limited (the manager of Fortune REIT). He is also an Independent Non-executive Director, a member of each of the Audit Committee and Remuneration Committee of HTHKH, an Independent Non-executive Director of Hutchison Harbour Ring Limited and SJM Holdings Ltd. He is currently the Chairman of David H T Lan Consultants Ltd., and holds directorship at Nanyang Commercial Bank Ltd. as well as being Senior Advisor of Mitsui & Co. (H.K.) Ltd.

Mr. Lan was the Secretary for Home Affairs of the Government of the Hong Kong Special Administrative Region until his retirement in July 2000. He had served as civil servant in various capacities for 39 years. He was awarded the Gold Bauhinia Star Medal (GBS) on 1 July 2000. In January 2003, he was appointed as National Committee Member of the Chinese People's Political Consultative Conference of the People's Republic of China. Mr. Lan is a Chartered Secretary and a Fellow Member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.

Mr. Lan received his Bachelor of Arts degree from the University of London and completed the Advanced Management Program (AMP) of the Harvard Business School, Boston. He was also awarded Fellow, Queen Elizabeth House (Oxford).

**SNG Sow-Mei (alias POON Sow Mei)**  
***Independent Non-executive Director***

**SNG Sow-Mei (alias POON Sow Mei)**, an Independent Non-executive Director and member of the Audit Committee of the REIT Manager, aged 69, is also an Independent Non-executive Director and a member of the Audit Committees of CK Infrastructure and ARA Asset Management (Fortune) Limited (the manager of Fortune REIT). She is also an Independent Director and a member of the Audit Committee of ARA Trust Management (Suntec) Limited (the manager of Suntec REIT).

Since 2001, Mrs Sng has been the Senior Consultant (International Business) of Singapore Technologies Electronics Ltd. Concurrently she is the Advisor of InfoWave Pte Ltd and Director of Infa Systems Ltd. Prior to her appointment with Singapore Technologies Pte Ltd, where she was Director, Special Projects for North East Asia in 2000 and a Consultant in 2001, Mrs. Sng was the Managing Director of CapitaLand Hong Kong Ltd. for investment in Hong Kong and the region including Japan and Taiwan. In Hong Kong from 1983 to

# Directors and Senior Management Biographical Information

1997, Mrs. Sng was the Centre Director and then Regional Director of the Singapore Economic Development Board and Trade Development Board respectively. She was Singapore's Trade Commissioner in Hong Kong from 1990 to 1997.

Mrs. Sng, with a Bachelor of Arts degree from the Nanyang University of Singapore, has wide experience in various fields of industrial investment, business development, strategic and financial management, especially in property investment and management. In 1996, Mrs. Sng was conferred the title of PPA (P) — Pingat Pentadbiran Awam (Perak), the Singapore Public Administration Medal (Silver).

## **Robert Douglas POPE** *Independent Non-executive Director*

**Robert Douglas POPE**, an Independent Non-executive Director and a member of the Audit Committee of the REIT Manager, aged 64, was the Director of the Lands Department under the Hong Kong Government and the Government of the Hong Kong Special Administrative Region for 9 years beginning in August 1993 until he retired in May 2002. During his retirement, he has carried out a small property consultancy business advising several Hong Kong clients.

Mr. Pope joined the Government in February 1970 and was in the Lands Department for 32 years during which time he served in various posts and for several years he was a member of the Sino British Land Commission. He was also a member of the Town Planning Board, the Housing Authority, the Managing Board of the Land Development Corporation and the Supervisory Board of the Hong Kong Housing Society. Mr. Pope was awarded the Order of the British Empire (OBE) in July 1997, and the Silver Bauhinia Star Medal (SBS) in July 2002 for his meritorious and dedicated service to the Government particularly in the evolution of land policy.

Mr. Pope was a Fellow of the Royal Institution of Chartered Surveyors and was the Chairman of the Hong Kong branch. He was also a Fellow of the Hong Kong Institute of Surveyors of which he was a founding member.

## **Executive Officers**

**Stephen Henry CHU** is the Chief Executive Officer of the REIT Manager. Details of his working experience are set out in the sub-section "Directors".

The Chief Executive Officer of the REIT Manager is responsible for working with the Board to determine the strategy for Prosperity REIT. The Chief Executive Officer works with the other members of the REIT Manager's management team to ensure that Prosperity REIT is operated in accordance with the REIT Manager's stated investment strategy. Additionally the Chief Executive Officer is responsible for planning the strategic development of Prosperity REIT and the day-to-day operations of the REIT Manager. He supervises the REIT Manager's management team to ensure that Prosperity REIT operates in accordance with the stated strategy, policies and regulations.

**WONG Lai Hung, Mavis** is the Director, Investment and Asset Management, of the REIT Manager. Miss Wong is responsible for formulating the business plans of Prosperity REIT's properties with short, medium and long-term objectives, and with a view of maximizing the rental income of Prosperity REIT via active asset management. She is also responsible for identifying and evaluating potential acquisitions or investments consistent with Prosperity REIT's investment strategy.

Miss Wong has 16 years of experience in the industry. Prior to joining the REIT Manager, she was the Deputy Manager (Leasing) for New World Development Company Limited responsible for the marketing of office and industrial buildings and overseeing the landlord profit and loss account.

Prior to that, Miss Wong worked in the Leasing Department of Cheung Kong from 1997 to 2004 and was the Assistant Leasing Manager from 2003 to 2004. Her duties with Cheung Kong included marketing of commercial projects. Among the projects handled by Miss Wong were the marketing of Prosperity Place (formerly known as Modern Warehouse), Prosperity Center and Trendy Centre.

Miss Wong began her career with Yaohan Department Store (HK) Limited as an Assistant Executive Officer in the Development Department where she was involved in handling the lease negotiation for new stores and tenancy renewals for existing stores. From 1995 to 1997, she was an Administrative Officer with Goodwill Management Limited (a wholly-owned subsidiary of Henderson Land Development Co. Ltd). Miss Wong had also worked in Jardine Matheson & Co Limited as an Assistant Property Manager before moving on to work with Cheung Kong.

Miss Wong holds a Bachelor of Arts degree from the Chinese University of Hong Kong, a Postgraduate Certification in HK Law from City University of Hong Kong and a Diploma in Property Development from SPACE, University of Hong Kong.

**CHEUNG Kin Wah, Samuel** is the Finance Manager of the REIT Manager. He is responsible for the financial management of Prosperity REIT. He has over 17 years of experience in audit and finance areas.

From 2000 to 2006, Mr. Cheung was the Chief Financial Controller and Company Secretary of Joynn Holdings Limited ("Joynn") (currently named as Chinasing Investment Holdings Limited), a company listed on the Main Board of SGX-ST. He was in charge of the accounting and finance functions of the group. He also performed company secretarial duties to ensure compliance with all legal and listing requirements and helped to ensure proper corporate governance. Mr. Cheung also helped to manage Joynn's Initial Public Offering in Singapore and was responsible for helping with the spinning-off of one associate company on the Hong Kong Stock Exchange's Growth Enterprise Market.

Prior to joining Joynn, Mr. Cheung served as an auditor with Messrs. Ernst & Young (Hong Kong) from 1995 to 2000 and also with



Messrs. Kwan, Wong, Tan & Fong (which has merged with Deloitte Touche Tohmatsu) from 1993 to 1994.

Mr. Cheung is a Certified Public Accountant in Hong Kong and a fellow of the Association of Chartered Certified Accountants. He is also an associate of the Hong Kong Institute of Certified Public Accountants, and of the Taxation Institute of Hong Kong. He graduated from Lingnan University with an Honours Diploma in Accountancy in 1993.

**CHIN Wai Yan, Ally** is the Internal Auditor of the REIT Manager. She is responsible for reviewing Prosperity REIT's implementation of corporate governance practices and internal control systems and measures. She formulates risk-based internal audit plan and independently assesses the effectiveness of the REIT Manager's internal control procedures, operational functions and key processes.

Prior to joining the REIT Manager, Miss Chin was the Senior Internal Auditor of Lotus International Limited responsible for formulating and executing internal audit plan, performing risk-based internal audit reviews on operations and internal control systems for various business units.

Prior to that, Miss Chin joined Ernst & Young's Assurance & Advisory Business Services Department after obtaining a Bachelor of Accounting & Finance degree from the University of Hong Kong. She is a Certified Public Accountant, a member of the Hong Kong Institute of Certified Public Accountants and a Certified Internal Auditor with The Institute of Internal Auditors.

**AU Ka Yee, Irene** is the Legal & Compliance Manager of the REIT Manager. She is responsible for ensuring that Prosperity REIT and the REIT Manager comply with the Trust Deed, the REIT Code, the applicable Listing Rules, the Securities and Futures Ordinance, and other applicable laws, rules and regulation. She is also responsible for overseeing all legal issues arising from the operation of the REIT Manager.

Miss Au is also the Hong Kong-based Compliance Manager of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT). Prior to joining the REIT Manager, Miss Au was a solicitor in private practice for over 8 years. She holds a Bachelor of Laws degree and Postgraduate Certificate in Laws. Apart from being a solicitor of the Hong Kong Special Administrative Region, she is also an associate of the Chartered Institute of Arbitrators, East Asia.

**CHAN Kei Kin, Ken** is the Asset Manager of the REIT Manager. He is responsible for formulating the business plans of Prosperity REIT's properties with short, medium and long-term objectives, and with a view of maximizing the rental income of Prosperity REIT's properties via active asset management. Mr. Chan has about 14 years of experience in the real estate industry.

Prior to joining the REIT Manager, he was the Assistant Marketing Manager for The Great Eagle Estate Agents Limited, responsible for the marketing and leasing of commercial buildings in Central and Wanchai districts.

Prior to that, Mr. Chan was the Senior Marketing Officer of Hutchison Whampoa Properties Limited from 2001 to 2005 and his duty was marketing and leasing of commercial buildings in Central and Hung Hom districts. Mr. Chan began his career with Savills (Hong Kong) Limited as a Valuer from 1996 to 2001.

Mr. Chan holds a Master of Science degree in Finance from The Chinese University of Hong Kong and a Bachelor of Science degree in Surveying from The University of Hong Kong. He is a member of Hong Kong Institute of Surveyors and Royal Institution of Chartered Surveyors, and also a Registered Professional Surveyor (General Practice).

**WONG Wai Kwan, Jan** is the Investor Relations Manager of the REIT Manager. She is primarily responsible for communicating and liaising with the investors and unitholders of Prosperity REIT.

Prior to joining the REIT Manager, Ms. Wong worked with iOne (Regional) Financial Press Limited and Equity Financial Press Limited for over 4 years where she gained extensive experience in sales and marketing. During the period, she had developed excellent relationships with the media and her clients which included major investment banks, law firms and listed companies. She also assisted in the preparation of annual reports, listing documents and circulars for companies listed in Hong Kong and overseas. Ms. Wong holds a Bachelor of Arts (honours) degree in Business Economics and a Master of Science degree in Business Analysis and Finance.

**MAK Chun Im, Abel** is the Property Analyst of the REIT Manager. He is primarily responsible for the analysis of the real estate industry, the REIT sector and the capital market dynamics. Mr. Mak is also responsible for evaluating the impact of potential acquisitions and financing decisions on Prosperity REIT's financial performance.

Mr. Mak holds a Bachelor of Arts (Honours) degree in Economics.

## Responsible Officers

**Stephen Henry CHU** is the Responsible Officer of the REIT Manager. Details of his working experience are set out in the sub-section "Directors".

**WONG Lai Hung, Mavis** is the Responsible Officer of the REIT Manager. Details of her working experience are set out in the sub-section "Executive Officers".

**CHAN Kei Kin, Ken** is the Responsible Officer of the REIT Manager. Details of his working experience are set out in the sub-section "Executive Officers".

# Our Awards

商界展關懷

caringcompany<sup>2010/11</sup>

Awarded by The Hong Kong Council of Social Service  
香港社會服務聯合會頒發



We are honoured by the numerous international awards that Prosperity REIT and or ARA Asset Management (Prosperity) Limited have received in 2010. Going forward, the team will endeavour to deliver *Continued Excellence*.

# Corporate Governance

The REIT Manager was established for the purpose of managing Prosperity REIT. The REIT Manager is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the REIT Manager emphasize a quality board of directors, sound internal control, transparency and accountability to all unitholders. The REIT Manager has adopted its compliance manual (the "Compliance Manual") for use in relation to the management and operation of Prosperity REIT, which sets out the key processes, systems and measures, and certain corporate governance policies and procedures to be applied for compliance with all applicable regulations and legislation. Set out below is a summary of the key components of the corporate governance policies that have been adopted and complied with by the REIT Manager and Prosperity REIT.

The Compliance Manual, together with the Trust Deed made between the REIT Manager and HSBC Institutional Trust Services (Asia) Limited (the "Trustee"), were modified to comply with the revision of the Code on Real Estate Investment Trusts (the "REIT Code") which took effect from 25 June 2010 which among other things, extended the application of The Codes on Takeovers and Mergers and Share Repurchases to real estate investment trusts authorized by the Securities and Futures Commission (the "SFC").

## Authorization Structure

Prosperity REIT is a collective investment scheme authorized by the SFC under section 104 of the Securities and Futures Ordinance (Cap. 571) (the "SFO") and regulated by the provisions of the REIT Code. The REIT Manager has been licensed by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. Mr. Stephen Henry Chu, the Chief Executive Officer and Executive Director, Miss Wong Lai Hung, Mavis and Mr. Chan Kei Kin, Ken are the Responsible Officers of the REIT Manager pursuant to the requirements of section 125 of the SFO and Chapter 5.4 of the REIT Code.

The Trustee is registered as a trust company under section 77 of the Trustee Ordinance (Cap. 29). The Trustee is qualified to act as a trustee for collective investment schemes authorized under the SFO pursuant to the REIT Code.

## Roles of the Trustee and the REIT Manager

The Trustee and the REIT Manager are independent of each other. The Trustee is responsible under the Trust Deed for the safe custody of the assets of Prosperity REIT on behalf of the unitholders.

The REIT Manager has general power of management over the assets of Prosperity REIT and shall act in the best interests of the unitholders in accordance with the REIT Code. The REIT Manager's role under the Trust Deed is to manage Prosperity REIT in accordance with the Trust Deed and, in particular, to ensure that the financial and economic aspects of the assets of Prosperity REIT are professionally managed in the sole interests of the unitholders. Other main roles, functions and responsibilities of the REIT Manager include:

- (1) setting the strategic direction and risk management policies of Prosperity REIT on acquisition, divestment or enhancement of assets of Prosperity REIT in accordance with its stated investment strategy;
- (2) preparing various property plans on a regular basis to explain the performance of the assets of Prosperity REIT;
- (3) ensuring compliance with the applicable provisions of the REIT Code, the SFO and all other relevant legislation, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the Trust Deed, all other relevant legislation and all relevant contracts; and
- (4) attending to all regular communications with unitholders.

## Board of Directors of the REIT Manager

The Board is responsible for the overall governance of the REIT Manager including establishing goals for management and monitoring the achievement of these goals. The Board has established a framework for the management of Prosperity REIT, including a system of internal control and business risk management processes.

The Board is collectively responsible for the management of the business and affairs of the REIT Manager. The Board exercises its general powers within the limits defined by the articles of association of the REIT Manager, with a view to ensuring that the management discharges its duties and is compensated appropriately, and that sound internal control policies and risk management systems are maintained. The Board also reviews major financial decisions and the performance of the REIT Manager. Subject to the matters specifically reserved to the Board as set out in the Compliance Manual, the Board delegates certain management and supervisory functions to relevant management teams and committees of the Board.

With the aim of creating a board structure that is both effective and balanced, the size of the Board has been set to provide for a minimum of five Directors and a maximum of twenty Directors.

The composition of the Board is determined using the following principles:

- (1) the Chairman of the Board shall be a Non-executive Director of the REIT Manager;
- (2) the Chief Executive Officer shall be a member of the Board; and
- (3) the Board shall comprise Directors with a broad range of commercial experience including expertise in funds management and the property industry.

The composition will be reviewed regularly to ensure that the Board has the appropriate mix of expertise and experience.

The Board presently comprises seven members, three of whom are Independent Non-executive Directors (“INEDs”). All Directors (including INEDs) shall retire from office at every annual general meeting of the REIT Manager but shall be eligible for re-election in accordance with the articles of association of the REIT Manager.

The positions of Chairman and Chief Executive Officer are held by two different persons in order to maintain an effective segregation of duties. The Chairman of the Board is Mr. Chiu Kwok Hung, Justin who is a Non-executive Director. The Chief Executive Officer is Mr. Stephen Henry Chu who is an Executive Director and a Responsible Officer.

Four full Board meetings of the REIT Manager were held in 2010 and the attendance record of the Board meetings is as follows:

<b>Members of the Board</b>	<b>Attendance</b>
<i>Chairman and Non-executive Director</i> Mr. Chiu Kwok Hung, Justin	4/4
<i>Chief Executive Officer and Executive Director</i> Mr. Stephen Henry Chu	4/4
<i>Non-executive Directors</i> Mr. Lim Hwee Chiang Mr. Ma Lai Chee, Gerald	4/4 3/4
<i>Independent Non-executive Directors</i> Mr. Lan Hong Tsung, David Mrs. Sng Sow-Mei (alias Poon Sow Mei) Mr. Robert Douglas Pope	4/4 4/4 4/4

Pursuant to the corporate governance policy adopted by the REIT Manager, the INEDs must fulfill the independence criteria set out in the Compliance Manual. The REIT Manager has received written annual confirmation from each INED of his/her independence pursuant to the "Criteria for Independence of INEDs" as set out in the Compliance Manual.

## Appointment and Removal of Directors

The appointment and removal of Directors is a matter for the Board and the shareholders of the REIT Manager to determine in accordance with the Compliance Manual, the articles of association of the REIT Manager and the applicable law. As the REIT Manager is licensed by the SFC under Part V of the SFO, the appointment of an Executive Director who is or is to be appointed as a Responsible Officer requires the prior approval of the SFC.

Directors may be nominated for appointment and/or removed by the Board following a recommendation made by the Audit Committee. In considering persons for appointment and re-appointment as Directors, the Board will have regard to a number of matters as set out in the Compliance Manual in assessing whether such persons are fit and proper to be a Director.

## Internal Controls

The REIT Manager has an internal audit function in place to provide an independent assessment of the REIT Manager's internal control systems and operational functions and review of their effectiveness. The Internal Auditor prepares an audit plan using a risk based methodology in consultation with, but independent of, the management for review by the Audit Committee. The audit review focuses on operational and compliance controls of Prosperity REIT and effective implementation of the internal control systems and compliance procedures.

The Board, through the Audit Committee, conducts reviews on the effectiveness of internal control system of Prosperity REIT, which shall cover all material controls including financial, operational and compliance controls, risk management functions, the adequacy of resources, qualifications and experience of the REIT Managers' staff who carry out Prosperity REIT's accounting and financial reporting function, and their training programmes and budget.

## AUDIT COMMITTEE

The REIT Manager has established an Audit Committee according to accepted practices for Hong Kong listed companies. The Audit Committee comprises three INEDs, namely, Mr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei), and Mr. Robert Douglas Pope. Mr. Lan Hong Tsung, David is the chairman of the Audit Committee.

The Audit Committee shall meet on a half yearly basis, and held two meetings in 2010 for considering and reviewing the 2009 final results, 2010 interim results and other internal controls, risk management and compliance matters of Prosperity REIT. The attendance record of the Audit Committee meetings is as follows:

Members of the Audit Committee	Attendance
Mr. Lan Hong Tsung, David	2/2
Mrs. Sng Sow-Mei (alias Poon Sow Mei)	2/2
Mr. Robert Douglas Pope	2/2

The principal duties of the Audit Committee include the review of the completeness, accuracy, clarity and fairness of Prosperity REIT's financial statements, recommendation for the appointment and periodical review of the relationship with the external auditors of Prosperity REIT, as well as the review and supervision of the internal control procedures and risk management systems.

The Audit Committee's responsibilities also include:

- (1) reviewing external audit reports to ensure that where deficiencies in internal controls have been identified, appropriate and prompt remedial action is taken by the management;
- (2) monitoring the procedures in place to ensure compliance with the applicable legislation, the REIT Code and the Listing Rules;
- (3) reviewing all financial statements and all internal audit reports;
- (4) monitoring the procedures established to regulate connected party transactions, including ensuring compliance with the provisions of the REIT Code relating to transactions between Prosperity REIT and a "connected person" (as defined in the REIT Code); and
- (5) making recommendations to the Board on persons for appointment and reappointment as Directors to, and persons for removal as Directors from, the full Board.

Pursuant to the waiver from strict compliance with the requirement under Clause 9.13(b) of the REIT Code granted by the SFC, the Audit Committee confirms that the public relations-related expenses are incurred in accordance with the internal control procedures of the REIT Manager and the nature of the same are incurred solely for the purposes as set out in Clauses 4.5.6 and 4.5.13 of the Trust Deed.

## Disclosures Committee

The REIT Manager has set up a Disclosures Committee to review matters relating to the disclosure of information to unitholders and public announcements. The Disclosures Committee also works with the management of the REIT Manager to ensure the disclosure of information is accurate and complete.

The Disclosures Committee is appointed by the Board from among the Directors of the REIT Manager. The Disclosures Committee presently consists of three members, namely, Mr. Chiu Kwok Hung, Justin, Chairman and a Non-executive Director, Mr. Stephen Henry Chu, Chief Executive Officer and an Executive Director, and Mr. Lan Hong Tsung, David, an INED. Mr. Stephen Henry Chu is the chairman of the Disclosures Committee.

The Disclosures Committee shall meet on a half yearly basis and otherwise on an as-needed basis. The Disclosures Committee held two meetings in 2010 for considering and reviewing the 2009 final results announcement and 2010 interim results announcement, the 2009 annual report and 2010 interim report of Prosperity REIT and other corporate disclosure issues of Prosperity REIT. The Disclosures Committee also reviewed all public announcements issued by Prosperity REIT throughout the year ended 31 December 2010. The attendance record of the Disclosures Committee meetings is as follows:

Members of the Disclosures Committee	Attendance
Mr. Chiu Kwok Hung, Justin	2/2
Mr. Stephen Henry Chu	2/2
Mr. Lan Hong Tsung, David	2/2

The Disclosures Committee's responsibilities also include:

- (1) reviewing and recommending to the Board on matters of corporate disclosure issues and announcements regarding (without limitation) financial reporting, connected party transactions, and potential areas of conflict of interests;
- (2) overseeing compliance with the applicable legal requirements and the continuity, accuracy, clarity, completeness and currency of information disseminated by or on behalf of Prosperity REIT to the public and the applicable regulatory agencies;
- (3) reviewing and approving all material non-public information and all public regulatory filings of or on behalf of Prosperity REIT prior to such information being disseminated to the public or filed with the regulatory agencies, as applicable; and
- (4) reviewing periodic and current reports, proxy statements, information statements, registration statements and other information filed with regulatory bodies.

## Designated (Finance) Committee

The REIT Manager set up a Designated (Finance) Committee on 20 August 2010 to assist the Board in reviewing matters relating to hedging strategies, financing and re-financing arrangements and transactions involving derivative instruments for hedging purposes.

The Designated (Finance) Committee comprises, among others, three Directors, namely, Mr. Stephen Henry Chu, Chief Executive Officer and an Executive Director, Mr. Ma Lai Chee, Gerald, a Non-executive Director, and Mr. Lan Hong Tsung, David, an INED. Mr. Stephen Henry Chu is the convener of the Designated (Finance) Committee.

The meetings of the Designated (Finance) Committee will be convened as and when necessary. In lieu of physical meetings, written resolutions are also circulated for approval by the Designated (Finance) Committee.

# Corporate Governance

## Management of Business Risk

The Board will meet quarterly or more often if necessary and will review the financial performance of Prosperity REIT against a previously approved budget. The Board has reviewed any risks to the assets of Prosperity REIT, examined liability management and will act upon any comments from the auditors of Prosperity REIT in respect of the Reporting Year.

The REIT Manager has appointed experienced and well-qualified management team to handle the day-to-day operations of the REIT Manager and Prosperity REIT. In assessing business risk, the Board will consider the economic environment and the property industry risk. It will review management reports and feasibility studies on individual development projects prior to approving any major transactions.

## Conflicts of Interest

The REIT Manager has instituted the following procedures to deal with conflicts of interest issues:

- (1) The REIT Manager is a dedicated manager to Prosperity REIT and will not manage any other real estate investment trust or be involved in any other real property business.
- (2) All connected party transactions have been managed in accordance with the procedures set out in the Compliance Manual.
- (3) At least one-third of the Board shall comprise INEDs.

## Communication with Unitholders

The REIT Manager considers that effective communication with unitholders is essential for enhancing investor relations and investor understanding of Prosperity REIT's business performance and strategies. The REIT Manager also recognizes the importance of transparency and timely disclosure of corporate information, which will enable unitholders and investors to make the best investment decisions.

The general meetings of Prosperity REIT provide a forum for communication between the Board and the unitholders. In 2010, the Annual General Meeting ("AGM") was held on 3 May 2010. The Chairman of the Board as well as the Chairmen of the Audit Committee and Disclosures Committee attended the 2010 AGM and were available to answer questions. The notice of AGM was sent to unitholders at least 20 clear business days before the AGM.

Prosperity REIT maintains a website at [www.prosperityreit.com](http://www.prosperityreit.com) where updated information on Prosperity REIT's business operations and developments, financial information and other information are posted. The REIT Manager has been actively participating in regular press conferences and meetings with investors and analysts in order to update the interested parties on the performance of Prosperity REIT.

## Reporting and Transparency

Prosperity REIT will prepare its accounts in accordance with the generally accepted accounting principles in Hong Kong with a financial year-end of 31 December and a financial half-year of 30 June. In accordance with the REIT Code, the annual report and interim report for Prosperity REIT will be published and sent to unitholders within four months of the end of each financial year and within two months of the end of each financial half-year respectively.



As required by the REIT Code, the REIT Manager will ensure that public announcements of material information and developments with respect to Prosperity REIT will be made on a timely basis in order to keep unitholders apprised of the position of Prosperity REIT. Announcements will be made by publishing them on the website of the SEHK and the website of Prosperity REIT.

## Directors' Responsibility for Financial Statements

The Directors acknowledge their responsibility for preparation of a true and fair presentation of the financial statements for the year ended 31 December 2010. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the ability of Prosperity REIT to continue as a going concern.

The statement of the auditors of Prosperity REIT about their reporting responsibilities on the financial statements is set out in the Independent Auditors' Report.

## Issues of Further Units Post-Listing

To minimize the possible material dilution of holdings of unitholders, any further issue of units will need to comply with the pre-emption provisions contained in the REIT Code. Such provisions require that further issues of units be first offered on a pro rata pre-emptive basis to existing unitholders except that units may be issued: (i) free of such pre-emption rights up to an aggregate maximum in any financial year of 20% of the number of units in issue at the end of the previous financial year; and (ii) free of pre-emption rights in other circumstances provided that the approval of unitholders by way of an ordinary resolution is obtained.

## Code Governing Dealings in Units by Directors, or the REIT Manager and Interests of the Significant Unitholders

The REIT Manager has adopted a code governing dealings in the securities of Prosperity REIT by the Directors or the REIT Manager (collectively, the "Management Persons") (the "Units Dealing Code"), on terms no less exacting than the required standards of the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules. The Units Dealing Code has been extended to apply to any senior executives, officers or other employees of the REIT Manager.

Pursuant to the Units Dealing Code, Management Persons wishing to deal in any securities of Prosperity REIT must first have regard to the provisions of Parts XIII and XIV of the SFO with respect to insider dealing and market misconduct, as if the SFO applies to the securities of Prosperity REIT. In addition, Management Persons must not make any unauthorized disclosure of confidential information or make any use of such information for the advantage of himself, itself or others.

Management Persons who are aware of or privy to any negotiations or agreements related to intended acquisitions or disposals which are notifiable transactions under Chapter 14 of the Listing Rules or connected party transactions under the REIT Code or any price sensitive information must refrain from dealing in the securities of Prosperity REIT as soon as they become aware of them or privy to them until proper disclosure of the information in accordance with the REIT Code and any applicable Listing Rules is made. Management Persons who are privy to relevant negotiations or agreements or any price-sensitive information should caution those Management Persons who are not so privy that there may be unpublished price-sensitive information and that they must not deal in the securities of Prosperity REIT for a similar period.

# Corporate Governance

Pursuant to the Units Dealing Code, Management Persons must not deal in any securities of Prosperity REIT on any day on which Prosperity REIT's financial results are published and:

- (1) during a period of 60 days immediately preceding the publication date of the annual results or, if shorter, the period from the end of the relevant financial year up to the publication date of the results; and
- (2) during a period of 30 days immediately preceding the publication date of the quarterly results (if any) and half-yearly results or, if shorter, the period from the end of the relevant quarter or half-year period up to the publication date of the results;

unless the circumstances are exceptional for example, the exceptional circumstances as described in the Compliance Manual. The Management Persons must comply with the procedures set out in the Units Dealing Code.

Specific enquiry has been made with the Management Persons, who confirmed that they have complied with the required standard set out in the Units Dealing Code.

The REIT Manager has also adopted procedures for monitoring disclosure of interests by Directors, the chief executive of the REIT Manager and the REIT Manager. The provisions of Part XV of the SFO shall be deemed to apply to the REIT Manager, the Directors, the chief executive of the REIT Manager and each unitholder and all persons claiming through or under him/her.

The Trust Deed contains provisions to deem the application of Part XV of the SFO. Accordingly, unitholders with a holding of 5% or more of the units in issue have a notifiable interest and will be required to notify the HKEx and the REIT Manager of their holdings in Prosperity REIT. The REIT Manager shall then send copies of such notifications received by it to the Trustee. The REIT Manager keeps a register for the purposes of maintaining disclosure of interests in units of Prosperity REIT and it has recorded in the register, against a person's name, the particulars provided pursuant to the disclosure of interests notifications and the date of entry of such record. The said register is available for inspection by the Trustee and any unitholder at any time during business hours upon reasonable notice to the REIT Manager.

## Matters to be Decided by Unitholders by Special Resolution

Pursuant to the Trust Deed, decisions with respect to certain matters require specific prior approval of unitholders by way of special resolution. Such matters include: (i) change in the REIT Manager's investment policies for Prosperity REIT; (ii) disposal of any land or an interest, option or right over any of the land forming part of the assets of Prosperity REIT or shares in any special purpose vehicles holding such land, option or right over any of the land for Prosperity REIT within two years of acquisition of such land; (iii) any increase in the rate above the permitted limit or change in structure of the REIT Manager's management fees; (iv) any increase in the rate above the permitted limit or change in structure of the Trustee's fees; (v) certain modifications of the Trust Deed; (vi) termination of Prosperity REIT; and (vii) merger of Prosperity REIT. The unitholders may also, by way of special resolution (i) remove Prosperity REIT's auditors and appoint other auditors or (ii) remove the Trustee or the REIT Manager. The quorum for passing a special resolution is two or more unitholders present in person or by proxy registered as holding together not less than 25% of the units of Prosperity REIT in issue.

## Change of Directors' Information

Subsequent to publication of the Interim Report 2010 of Prosperity REIT, the REIT Manager received notifications regarding the following changes of Directors' information:

1. Mr. Lim Hwee Chiang has become a council member of the Singapore Chinese Chamber of Commerce & Industry.
2. Mr. Ma Lai Chee, Gerald has become a member of the President's Circle of the University of British Columbia, Canada.
3. Mr. Lan Hong Tsung, David became an independent non-executive director and a member of the audit committee of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT which is listed in Singapore and Hong Kong) with effect from 29 July 2010.

## Compliance with the Compliance Manual

During the Reporting Year, both the REIT Manager and Prosperity REIT have in material terms complied with the provisions of the Compliance Manual.

## Review of Annual Report

The annual report of Prosperity REIT for the year ended 31 December 2010 has been reviewed by the Audit Committee and the Disclosures Committee.

## Public Float of the Units

As far as the REIT Manager is aware, more than 25% of the issued units of Prosperity REIT were held in public hands as of 31 December 2010.

## Connected Party Transactions

Set out below is the information in respect of the connected party transactions involving Prosperity REIT and its connected persons as defined in paragraph 8.1 of the REIT Code:

### Connected Party Transactions — Income

The following table sets forth information on all the connected party transactions from which Prosperity REIT derived its income during the Reporting Year:

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Rental and charge out collection (excluding rental deposit, if applicable) for the year ended 31 December 2010 HK\$	Rental deposit received as at 31 December 2010 HK\$
Goodwell Property Management Limited	Subsidiary of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>3</sup>	1,347,089	335,433
Tremayne Investments Limited	Subsidiary of an associate of a significant holder <sup>2</sup>	Tenancy of property of Prosperity REIT <sup>4</sup>	18,797,544	see note 7
E-Park Parking Management Limited	Subsidiary of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>5</sup>	232,584	61,064
Hutchison Telephone Company Limited	Subsidiary of an associate of a significant holder <sup>2</sup>	Licence of property of Prosperity REIT <sup>6</sup>	48,000	15,000
<b>Total</b>			<b>20,425,217</b>	<b>411,497</b>

<sup>1</sup> Significant holder being Cheung Kong (Holdings) Limited ("Cheung Kong").

<sup>2</sup> The connected parties are the subsidiaries of Hutchison Whampoa Limited ("HWL"), an associate of a significant holder of Prosperity REIT, namely Cheung Kong.

<sup>3</sup> For 2/F, Units 302-3, 306-7 & Unit 703, New Treasure Centre.

<sup>4</sup> For 3/F, 5/F & 6/F, Harbourfront Landmark.

<sup>5</sup> For Unit 306, Prosperity Place.

<sup>6</sup> For installation of micro-transmission station equipment at Prosperity Place.

<sup>7</sup> By a bank guarantee of HK\$4,850,346 given by HWL.

## Connected Party Transactions — Building Management Services

The following table sets forth information in relation to building management services provided by the connected parties for the properties of Prosperity REIT during the Reporting Year:

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Payment received/ receivable for the year ended 31 December 2010 HK\$
Goodwell Property Management Limited <sup>1</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of DMC Manager	162,659
Goodwell Property Management Limited <sup>2</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of Carpark Manager	6,507
Citybase Property Management Limited <sup>1</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of DMC Manager	258,905
Citybase Property Management Limited <sup>2</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of Carpark Manager	70,189
Harbourfront Landmark Premium Services Limited <sup>1</sup>	Subsidiary of an associate of a significant holder <sup>4</sup>	Remuneration of DMC Manager	77,936
<b>Total</b>			<b>576,196</b>

1 These managers appointed under the deed of mutual covenant of the properties of Prosperity REIT (the "DMC Manager") are connected parties by virtue of their relationship with Cheung Kong.

2 They are the carpark managers of certain properties of Prosperity REIT (the "Carpark Manager") as delegated by Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT pursuant to a property management agreement dated 29 November 2005, as modified, amended and/or extended from time to time.

3 Significant holder being Cheung Kong.

4 The connected party is an indirect wholly-owned subsidiary of HWL.

# Connected Party Transactions

## Connected Party Transactions — Expenses

The following table sets forth information on all the connected party transactions in which Prosperity REIT incurred its expenses (other than the building management fees and other charges of the building accounts mentioned above) during the Reporting Year:

Name of Connected Party	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Expenses for the year ended 31 December 2010 HK\$
Goodwell-Prosperity Property Services Ltd	Subsidiary of a significant holder <sup>1</sup>	Property management and lease management fee	6,263,074
Goodwell-Prosperity Property Services Ltd	Subsidiary of a significant holder <sup>1</sup>	Marketing service fee	5,882,967
E-Park Parking Management Limited	Subsidiary of a significant holder <sup>1</sup>	Carpark lease agency fee	1,379,298
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee fee	1,634,220
ARA Asset Management (Prosperity) Limited	REIT Manager	Base fee and variable fees	28,631,011
Cheung Kong Companies <sup>2</sup>	Subsidiaries and associates of a significant holder <sup>1</sup>	Back-office support service fee	792,778
<b>Total</b>			<b>44,583,348</b>

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

<sup>2</sup> Cheung Kong Companies include Cheung Kong Real Estate Agency Limited, Randash Investment Limited, Hutchison Hotel Hong Kong Limited and Harbour Plaza Metropolis Limited.

## Connected Party Transaction with HSBC Group\* for Bank Deposits

Prosperity REIT has engaged The Hongkong and Shanghai Banking Corporation Limited, the holding company of the Trustee, to provide ordinary banking and financial services (namely, bank deposits and interest earned therefrom) within the year.

\* HSBC Group means The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries and, unless otherwise expressly stated herein, excludes the Trustee and its proprietary subsidiaries (being the subsidiaries of the Trustee but excluding those subsidiaries formed in its capacity as the trustee of Prosperity REIT).

## Connected Party Transactions — Lease transactions under which the annual rent exceed HK\$1 million:

Name of Connected Party (Tenant)	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Annual income <sup>2</sup> HK\$
Tremayne Investments Limited	Subsidiary of an associate of a significant holder <sup>1</sup>	Tenancy agreement for 3/F, 5/F & 6/F, Harbourfront Landmark	16,636,536
<b>Total</b>			<b>16,636,536</b>

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

2 The annual income stated herein refers to the rental income, excluding charge out collection, that would have been received for a 12-month period according to the relevant tenancy agreements.

## Other Connected Party Transactions

The following companies had provided back-office services, car park management services and property management services to Prosperity REIT for the Reporting Year and hence amounts due from Prosperity REIT as at 31 December 2010 are as follows:

Name of Connected Party	Amount payable HK\$
Cheung Kong (Holdings) Limited	2,253
Goodwell-Prosperity Property Services Limited	2,055,545
Goodwell Property Management Limited	3,988,522
E-Park Parking Management Limited	245,078
Citybase Property Management Limited	1,409,904
Harbourfront Landmark Premium Services Limited	411,233
<b>Total</b>	<b>8,112,535</b>

# Connected Party Transactions

## Confirmation by the INEDs

The INEDs confirm that they have reviewed the terms of all relevant connected party transactions including those connected party transactions with the HSBC Group and that they are satisfied that these transactions have been entered into:

- (a) in the ordinary and usual course of business of Prosperity REIT;
- (b) on normal commercial terms (to the extent that there are comparable transactions) or, where 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
- (c) in accordance with the relevant agreement governing them (if any) on terms that are fair and reasonable and in the interests of the unitholders of Prosperity REIT as a whole.

## Confirmation by the Auditor of Prosperity REIT

Messrs. Deloitte Touche Tohmatsu, auditor of Prosperity REIT, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions on leasing/licensing transactions, property management arrangements, third party services and other operational transactions and transactions involving ordinary banking and financial services disclosed by the Group from pages 50 to 53 of the Annual Report in accordance with the waiver from strict compliance with disclosure requirements under Chapter 8 of the REIT Code granted by the SFC. A copy of auditor's letter will be provided by Prosperity REIT to the SFC.

## Confirmation by the REIT Manager and the Trustee of corporate finance transaction with the HSBC Group

Both the REIT Manager and the Trustee confirm that there is no corporate finance transaction and other connected party transaction (save and except for those disclosed hereinabove) with the HSBC Group during the Reporting Year.

## Repurchase, Sale or Redemption of Units

During the Reporting Year, other than the disposal of 19,055,000 units by the REIT Manager which the REIT Manager had received as payment of its management fee, there was no purchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or its subsidiaries.



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

The following persons, being connected persons (as defined under the REIT Code) of Prosperity REIT, held units of Prosperity REIT:

Name	As at 31 December 2010		As at 31 December 2009
	Number of Units	Percentage of Unitholdings <sup>6</sup>	Number of Units
Total Win Group Limited <sup>1</sup>	176,328,129	13.13%	176,328,129
Wide Option Investments Limited <sup>1</sup>	98,883,559	7.36%	98,883,559
HKSCC Nominees Limited <sup>2</sup>	978,155,092	72.85%	956,629,419
HSBC <sup>3</sup>	35,437	0.0026%	35,781
ARA Asset Management (Prosperity) Limited <sup>4</sup>	460	0.00003%	660
Stephen Henry Chu <sup>5</sup>	300,000	0.022%	100,000

<sup>1</sup> Total Win Group Limited ("Total Win") is a connected person of Prosperity REIT as it is a significant holder (as defined under the REIT Code) of Prosperity REIT as at 31 December 2010. Total Win is a direct wholly-owned subsidiary of Cheung Kong Investment Company Limited, which was therefore deemed to hold 176,328,129 units held by Total Win as at 31 December 2010. Total Win is an indirect wholly-owned subsidiary of Cheung Kong.

Wide Option Investments Limited ("Wide Option") is a connected person of Prosperity REIT as it is an associated company (as defined under the REIT Code) of Total Win as at 31 December 2010. Wide Option is a wholly-owned subsidiary of HWL, which in turn is 49.9% owned by Cheung Kong.

Cheung Kong was therefore deemed to hold 275,211,688 units as at 31 December 2010, of which 176,328,129 units were held by Total Win and 98,883,559 units were held by Wide Option.

<sup>2</sup> HKSCC Nominees Limited is a connected person of Prosperity REIT as it is a significant holder (as defined under the REIT Code) of Prosperity REIT as at 31 December 2010. So far as the REIT Manager is aware of, HKSCC Nominees Limited held such units as a nominee.

<sup>3</sup> HSBC Holdings plc. and other members of its group ("HSBC") are connected persons of Prosperity REIT as HSBC Institutional Trust Services (Asia) Limited, the Trustee of Prosperity REIT, is an indirect subsidiary of HSBC Holdings plc. So far as the REIT Manager is aware of, the Trustee had no beneficial interest in any units as at 31 December 2010 and 31 December 2009. The directors, senior executives, officers and their associates of the Trustee were beneficially interested in 35,187 units as at 31 December 2010 and 31 December 2009. The controlling entity, holding company, subsidiary or associated company of the Trustee were beneficially interested in 250 units as at 31 December 2010 and 594 units as at 31 December 2009.

<sup>4</sup> ARA Asset Management (Prosperity) Limited is a connected person of Prosperity REIT as it is the management company (as defined under the REIT Code) of Prosperity REIT as at 31 December 2010.

<sup>5</sup> Mr. Stephen Henry Chu is a connected person of Prosperity REIT as he is a Director of the REIT Manager as at 31 December 2010.

<sup>6</sup> The total number of issued units as at 31 December 2010 is 1,342,636,682.

Save as disclosed above, the REIT Manager is not aware of any connected persons (as defined under the REIT Code) of Prosperity REIT holding any units of Prosperity REIT as at 31 December 2010.

## Connected Party Transactions

### Holdings of the REIT Manager, Directors and Chief Executive of the REIT Manager in the Units of Prosperity REIT

As at 31 December 2010, the interests of the REIT Manager, Directors and chief executive of the REIT Manager in the units of Prosperity REIT as recorded in the Register of Interests maintained by the REIT Manager under clause 30.3 of the Trust Deed are as follows:

Name	Number of Units		Percentage of Unitholdings <sup>2</sup>
	Direct Interest	Indirect Interest	
ARA Asset Management (Prosperity) Limited	460		0.00003%
Lim Hwee Chiang <sup>1</sup>		460	0.00003%
Stephen Henry Chu	300,000		0.022%

<sup>1</sup> Mr. Lim Hwee Chiang is deemed to be interested in 460 units of Prosperity REIT by virtue of his direct and indirect holding of one third or more of shareholding interest in a chain of corporations including ARA Asset Management (Holdings) Limited, the holding company of the REIT Manager.

<sup>2</sup> The total number of issued units as at 31 December 2010 is 1,342,636,682.

Save as disclosed above, none of the Directors and chief executive of the REIT Manager had any interest in the units of Prosperity REIT as at 31 December 2010.

# Valuation Report

HSBC Institutional Trust Services (Asia) Limited  
(as Trustee for Prosperity REIT)  
17th Floor, Tower 2 and 3  
HSBC Centre  
1 Sham Mong Road  
Kowloon

ARA Asset Management (Prosperity) Limited  
(as Manager of Prosperity REIT)  
Units 5508–5509, 55th Floor  
The Center  
99 Queen's Road Central  
Hong Kong

31 January 2011  
Our Ref: GV/2011/PREIT/0001/CC/ES/cl

Dear Sirs

- Re: (1) Office Accommodation of The Metropolis, 10 Metropolis Drive, Hung Hom, Kowloon**
- (2) Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong**
- (3) Commercial Units on 3rd, 5th And 6th Floors, Harbourfront Landmark, 11 Wan Hoi Street, Hung Hom, Kowloon**
- (4) Prosperity Place, 6 Shing Yip Street, Kwun Tong, Kowloon**
- (5) Trendy Centre, 682 Castle Peak Road, Cheung Sha Wan, Kowloon**
- (6) Various Portions in Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon**
- (7) Various Portions in New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon**

In accordance with your instructions for us to value the captioned properties owned by Prosperity REIT, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of these properties as at 31 December 2010 (the "Valuation Date") for accounting purposes.

Our valuation for each of the properties is our opinion of its market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a Property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

# Valuation Report

Our valuation is prepared in accordance with Chapter 6.8 of the REIT Code and The HKIS Valuation Standards on Properties published by the Hong Kong Institute of Surveyors.

We have valued the properties on the basis of capitalization of the net income shown on schedules handed to us and, where appropriate, by reference to sales evidence as available on the market. We have made provisions for outgoings and in appropriate cases allowed for reversionary income potential.

In undertaking our valuation of the properties, Income Capitalization and Direct Comparison approaches are adopted. For the purposes of this valuation, we consider the Income Capitalization Approach is the most appropriate valuation method for assessing the market values of the properties, due to the income driven nature of the properties. Apart from Income Capitalization approach, Direct Comparison approach is adopted for cross referencing purpose.

## Income Capitalization

The Income Capitalization approach is a method of valuation whereby the existing net rental incomes (i.e. exclusive of rates, Government rent and management fees) of all lettable units of each property are capitalized for the respective unexpired terms of contractual tenancies whilst vacant units are assumed to be let at their respective market rents as at the Valuation Date. Upon expiry of the existing tenancies, each unit is assumed to be let at its market rent as at the Valuation Date, which is in turn capitalized for the unexpired term of the Government lease under which the property is held. Due consideration has been given to the expectation of the renewal of the Government lease upon expiry. The summation of the capitalized value of the term income for the leased portion, the capitalized value of the reversion income (i.e. market rental income) as appropriately deferred for the leased portion and the capitalized value for the vacant portion provides the market value of each property.

The market rentals of all lettable units of each property are determined by reference to the rentals achieved by other units in the property and by reference to the lettings of similar properties in the neighbourhood. The capitalization rate adopted is determined by reference to the yields achieved in analysed market sales transactions and our knowledge of the market expectation from property investors. This expected return reflects implicitly the quality of the investment, the expectation of the potential for future rental growth and capital appreciation, operating costs, risk factors and the like.

## Direct Comparison

As a supporting approach to the valuation, we have also considered the Direct Comparison approach as a reference check for the valuations arrived from Income Capitalization approach. In this regard, comparable sales transactions around the Valuation Date are collected and analyzed in terms of a price per square footage. The collected comparables are then adjusted to take account of the discrepancies between the properties and comparables in terms of time, location, accessibility, age, building quality and condition, facilities and the like.

We have not been provided with extracts from title documents relating to the properties but we have caused searches to be made at the Land Registry. We have not, however, searched the original documents to verify ownership or to ascertain the existence of any amendment which does not appear on the copies handed to us. We do not accept a liability for any interpretation which we have placed on such information which is more properly the sphere of your legal advisers.

We have relied to a very considerable extent on information given by the instructing party and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, lettings, site and floor areas and all other relevant matters. We have no reason to doubt the truth and accuracy of the information provided to us by the instructing party, and have been advised by the instructing party that no material facts have been omitted from the information provided.

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the properties but have assumed that the floor areas shown on the documents handed to us are correct. Dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the instructing party and are therefore only approximations.

We have inspected the exterior of the properties valued and, where possible, we have also inspected the interior of the premises. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defect. We are not, however, able to report that the properties are free of rot, infestation or any other structural defect. No tests were carried out to any of the services.

No allowance has been made in our report for any charge, mortgage or amount owing on the properties nor for any expense or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that all properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

In performing our valuation, we have taken note of the legal issues relating to the leasehold title of the properties as set forth in the section headed "Material Agreements and Other Documents Relating to Prosperity REIT — Information Regarding the Leasehold Title to the Properties — Certain Matters Relating to the Leasehold Title to the Properties" and in the section headed "Material Agreements and other Documents Relating to Prosperity REIT — Deed of Undertaking and Indemnity in relation to Prosperity Center Property, Trendy Centre and Modern Warehouse (now known as Prosperity Place)" in the Offering Circular of Prosperity REIT dated 5 December 2005.

The reported analyses, opinions and conclusions are subject to the assumptions and limiting conditions stated in our valuation certificate and are our personal, unbiased professional analyses, opinions and conclusions. We have no present or prospective interest in the properties and are not a related corporation of nor do we have a relationship with the Trustee, the Manager or other party/parties who, Prosperity REIT is contracting with.

We hereby certify that our valuers undertaking this valuation are authorized to practice as valuers and have the necessary expertise and experience in valuing similar types of properties.

This report is for the use of the Manager, the Board of Directors of the Manager and the Trustee in connection with the annual valuation of the properties, as required under the REIT Code. No responsibility is accepted to any other party for the whole and any part of its contents.

We enclose herewith our summary of values, valuation certificate and market overview.

Yours faithfully

For and on behalf of

**Savills Valuation and Professional Services Limited**

**Charles C K Chan**

MSc FRICS FHKIS MCI Arb RPS(GP)

*Managing Director*

Enc

# Valuation Report

## Summary of Values

Property	Approximate Gross Area (sq.ft.)	No. of Parking Lots	Market value in existing state as at 31 December 2010
1. The Metropolis Tower	271,418	98	HK\$2,225,000,000
2. Prosperity Millennia Plaza	217,955	43	HK\$1,276,000,000
3. Harbourfront Landmark Property	77,021	N/A	HK\$344,000,000
4. Prosperity Place	240,000	60	HK\$767,000,000
5. Trendy Centre	173,764	79	HK\$623,000,000
6. Prosperity Center Property	149,253	105	HK\$504,000,000
7. New Treasure Centre Property	86,168	22	HK\$195,000,000
<b>Total</b>	<b>1,215,579</b>	<b>407</b>	<b>HK\$5,934,000,000</b>

## Valuation Certificate

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2010	Estimated Net Property Yield
1. Office Accommodation of The Metropolis, 10 Metropolis Drive, Hung Hom, Kowloon  24,734/247,769th undivided parts or shares of and in Kowloon Inland Lot No. 11077.	<p>The Metropolis Tower is a 15-storey office building comprising 11th to 28th Floors (13th, 14th and 24th Floors are omitted from floor numberings) built over a multi-storey retail/carparking podium erected on an irregular site with a registered site area of approximately 50,058 sq.m. (538,824 sq.ft.). The building was completed in 2001.</p> <p>The Metropolis Tower forms part of a comprehensive development (known as The Metropolis). The Metropolis also comprises a shopping centre (The Metropolis Mall), two 18-storey residential towers (The Metropolis Residence) and a 12-storey hotel (Harbour Plaza Metropolis).</p> <p>The property comprises the entire office units from the 11th to 28th Floors of the building with a total gross area of approximately 25,215.35 sq.m. (271,418 sq.ft.). The total saleable area of the property is approximately 18,832.87 sq.m. (202,717 sq.ft.).</p> <p>The property also comprises 98 carparking spaces within the retail/carparking podium of the development.</p> <p>Kowloon Inland Lot No. 11077 is held under Conditions of Grant No. 12444 for a term from 14 February 1997 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the property.</p>	<p>The office portion of the property is let under various tenancies for various terms with the latest expiring in June 2013 yielding a total monthly rental income of approximately HK\$5,680,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The overall occupancy rate is 100.0% (excluding carparking spaces).</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average net monthly income of approximately HK\$245,000 from January 2010 to December 2010 exclusive of Government rates and rent, management fees and utility charges.</p>	HK\$2,225,000,000	3.2%

Notes:

(1) The registered owners of the property are as follows:

Floor	Registered Owner
11th Floor and 6 carparking spaces	Wisdom Champion Limited
12th Floor and 6 carparking spaces	Wisdom Champion (12) Limited
15th Floor and 6 carparking spaces	Wisdom Champion (15) Limited
16th Floor and 6 carparking spaces	Wisdom Champion (16) Limited
17th Floor and 6 carparking spaces	Wisdom Champion (17) Limited
18th Floor and 6 carparking spaces	Wisdom Champion (18) Limited
19th Floor and 6 carparking spaces	Wisdom Champion (19) Limited
20th Floor and 7 carparking spaces	Wisdom Champion (20) Limited
21st Floor and 7 carparking spaces	Wisdom Champion (21) Limited
22nd Floor and 7 carparking spaces	Wisdom Champion (22) Limited
23rd Floor and 7 carparking spaces	Wisdom Champion (23) Limited
25th Floor and 7 carparking spaces	Wisdom Champion (25) Limited
26th Floor and 7 carparking spaces	Wisdom Champion (26) Limited
27th Floor and 7 carparking spaces	Wisdom Champion (27) Limited
28th Floor and 7 carparking spaces	Wisdom Champion (28) Limited

(2) The property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.

(3) The property lies within an area zoned "Other Specified Uses (For "Commercial Development and Freight Yard" only)".

(4) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.

(5) Estimated net property yield is based on the net monthly rental income for December 2010 and the average net monthly car parking income for the period of January 2010 to December 2010.

(6) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces) is set out below:

#### Tenancy Commencement Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2008	44,014	16.2	1,145,676	20.2	12	13.0
2009	144,877	53.4	2,777,953	48.9	41	44.6
2010	82,527	30.4	1,753,430	30.9	39	42.4
<b>Total</b>	<b>271,418</b>	<b>100.0</b>	<b>5,677,059</b>	<b>100.0</b>	<b>92</b>	<b>100.0</b>

#### Tenancy Expiry Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
31 Dec 2010 and 2011	89,841	33.1	1,882,376	33.1	37	40.2
2012	151,698	55.9	3,159,783	55.7	42	45.7
2013 and after	27,673	11.0	634,900	11.2	13	14.1
<b>Total</b>	<b>271,418</b>	<b>100.0</b>	<b>5,677,059</b>	<b>100.0</b>	<b>92</b>	<b>100.0</b>

#### Tenancy Duration Profile

Tenancy Duration	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
Below and up to 2 years	85,532	31.5	1,660,880	29.3	32	34.8
More than 2 years and up to 3 years	176,057	64.9	3,766,179	66.3	59	64.1
More than 3 years	9,829	3.6	250,000	4.4	1	1.1
<b>Total</b>	<b>271,418</b>	<b>100.0</b>	<b>5,677,059</b>	<b>100.0</b>	<b>92</b>	<b>100.0</b>

# Valuation Report

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2010	Estimated Net Property Yield
2. Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong  3,741/10,000th undivided parts or shares of and in Inland Lot No. 8885.	<p>Prosperity Millennia Plaza is a 32-storey office building (including 3 mechanical floors and a refuge floor) surmounting a 2-level basement carport erected on portion of a site with a registered site area of approximately 3,404 sq.m. (36,641 sq.ft.). The building was completed in 1999.</p> <p>The 2-level basement of the building is devoted to carparking and ancillary purposes. The 1st Floor of the building (Ground Floor is omitted from floor numbering) is designed for lobby and circulation purposes whereas the remaining upper floors from the 2nd to 32nd Floors (4th, 13th, 14th and 24th Floors are omitted from floor numberings) are for office uses.</p> <p>The property comprises the entire office units within the building with a total gross area of approximately 20,248.51 sq.m. (217,955 sq.ft.). The total saleable area of the property is approximately 14,551.28 sq.m. (156,630 sq.ft.).</p> <p>The property also comprises 43 carparking spaces within the 2-level basement of the building.</p> <p>Inland Lot No. 8885 is held under Conditions of Exchange No. 12374 for a term from 24 January 1996 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the property.</p>	<p>The office portion of the property is let under various tenancies for various terms with the latest expiring in October 2013 yielding a total monthly rental income of approximately HK\$3,740,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The overall occupancy rate is approximately 99.5% (excluding carparking spaces).</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average net monthly income of approximately HK\$187,000 from January 2010 to December 2010 exclusive of Government rates and rent, management fees and utility charges.</p>	HK\$1,276,000,000	3.7%



Notes:

- (1) The registered owner of the property is Conestoga Limited.
- (2) The property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation (deeds pending registration).
- (3) The property lies within an area zoned "Commercial".
- (4) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (5) Estimated net property yield is based on the net monthly rental for December 2010 and the average net monthly car parking income for the period of January 2010 to December 2010.
- (6) According to the information provided, the building name of the property (ie "MLC Millennia Plaza") has been changed to "Prosperity Millennia Plaza".
- (7) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces) is set out below:

#### Tenancy Commencement Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2008	50,115	23.1	886,675	23.7	13	15.7
2009	117,633	54.2	1,909,448	51.0	47	56.6
2010	49,176	22.7	945,350	25.3	23	27.7
<b>Total</b>	<b>216,924</b>	<b>100.0</b>	<b>3,741,473</b>	<b>100.0</b>	<b>83</b>	<b>100.0</b>

#### Tenancy Expiry Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
31 Dec 2010 and 2011	97,762	45.1	1,691,657	45.2	45	54.2
2012	95,494	44.0	1,684,816	45.0	30	36.2
2013 and after	23,668	10.9	365,000	9.8	8	9.6
<b>Total</b>	<b>216,924</b>	<b>100.0</b>	<b>3,741,473</b>	<b>100.0</b>	<b>83</b>	<b>100.0</b>

#### Tenancy Duration Profile

Tenancy Duration	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
Below and up to 2 years	45,095	20.8	882,997	23.6	31	37.4
More than 2 years and up to 3 years	163,497	75.4	2,688,276	71.9	48	57.8
More than 3 years	8,332	3.8	170,200	4.5	4	4.8
<b>Total</b>	<b>216,924</b>	<b>100.0</b>	<b>3,741,473</b>	<b>100.0</b>	<b>83</b>	<b>100.0</b>

# Valuation Report

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2010	Estimated Net Property Yield
3. Commercial Units on 3rd, 5th and 6th Floors, Harbourfront Landmark, 11 Wan Hoi Street, Hung Hom, Kowloon  7,031/74,479th undivided parts or shares of and in Kowloon Inland Lot No. 11055.	<p>Harbourfront Landmark is a deluxe residential/office development comprising three blocks of 50 to 60-storey residential towers built over a level of clubhouse, 3 levels of office podium plus 2 levels of carport (including a basement carport) erected on a site with a registered site area of approximately 7,402 sq.m. (79,675 sq.ft.). The building was completed in 2001.</p> <p>The Basement and the Lower 1st Floor of the development are designed for carparking purposes whilst the Upper 1st Floor is for lobby and circulation purposes. The 3rd to 6th Floors (4th Floor is omitted from floor numbering) are devoted to office uses whilst the 7th Floor of the development is a clubhouse. The remaining upper floors of the 3 residential towers are designed for domestic uses.</p> <p>The property comprises the three office floors within the development with a total gross area of approximately 7,155.43 sq.m. (77,021 sq.ft.). The total saleable area of the property is approximately 5,875.98 sq.m. (63,249 sq.ft.).</p> <p>Kowloon Inland Lot No. 11055 is held under Conditions of Sale No. 12460 for a term from 3 June 1997 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the property.</p>	The property is let under a tenancy for a term of 6 years commencing in November 2005 at a monthly rent of HK\$1,155,315 for the 1st three years and HK\$1,386,378 for the remaining years exclusive of Government rates and rent, management fees and utility charges with an option of renew for a further term of 3 years.	HK\$344,000,000	4.8%

*Notes:*

- (1) *The registered owner of the property is Harbour Champ Limited.*
- (2) *The property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation (deeds pending registration).*
- (3) *The property lies within an area zoned "Residential (Group A) (Sub-group 3)".*
- (4) *In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.*
- (5) *Estimated net property yield is based on the estimate net monthly rental income for December 2010.*

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2010	Estimated Net Property Yield
4. Prosperity Place, 6 Shing Yip Street, Kwun Tong, Kowloon  Kwun Tong Inland Lot No. 62.	<p>Prosperity Place is a 27-storey industrial/office building with ancillary parking and loading/unloading facilities erected on a rectangular site with a registered site area of approximately 1,858.06 sq.m. (20,000 sq.ft.). The building was completed in 1996.</p> <p>Portion of the Ground Floor, 1st and 2nd Floors of the building are devoted to carparking and loading/unloading purposes whereas the remaining upper floors from the 3rd to 29th Floors (4th, 14th and 24th Floors are omitted from floor numberings) are designed for workshop/office purposes.</p> <p>The property comprises the entire workshop/office units within the building with a total gross area of approximately 22,296.54 sq.m. (240,000 sq.ft.). The total saleable area of the property is approximately 14,754.09 sq.m. (158,813 sq.ft.).</p> <p>The property also consists of a total of 60 carparking spaces within the building.</p> <p>Kwun Tong Inland Lot No. 62 is held under a Government lease for a term expiring on 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the property.</p>	<p>The workshop/office portion of the property is let under various tenancies for various terms with the latest expiring in August 2013, yielding a total monthly rental income of approximately HK\$2,340,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The overall occupancy rate is approximately 99.2% (including the leasing office but excluding carparking spaces).</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average net monthly income of approximately HK\$262,000 from January 2010 to December 2010 exclusive of Government rates and rent, management fees and utility charges.</p>	HK\$767,000,000	4.1%

# Valuation Report

## Notes:

- (1) The registered owner of the property is Bandick Limited.
- (2) The property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui banking Corporation (deeds pending registration).
- (3) The property lies within an area zoned "Other Specified Uses (For "Business" only).
- (4) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (5) Estimated net property yield is based on the net monthly rental income for December 2010 and the average net monthly car parking income for the period of January 2010 to December 2010.
- (6) According to the information provided, the building name of the property (ie "Modern Warehouse") has been changed to "Prosperity Place".
- (7) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces and leasing office of 956 sq.ft.) is set out below:

### Tenancy Commencement Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2008	21,047	8.9	240,752	10.3	7	5.2
2009	108,232	45.6	1,012,087	43.2	58	43.3
2010	107,769	45.5	1,090,585	46.5	69	51.5
<b>Total</b>	<b>237,048</b>	<b>100.0</b>	<b>2,343,424</b>	<b>100.0</b>	<b>134</b>	<b>100.0</b>

### Tenancy Expiry Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
31 Dec 2010 and 2011	105,430	44.5	1,035,751	44.2	58	43.3
2012	100,646	42.4	1,006,796	43.0	65	48.5
2013 and after	30,972	13.1	300,877	12.8	11	8.2
<b>Total</b>	<b>237,048</b>	<b>100.0</b>	<b>2,343,424</b>	<b>100.0</b>	<b>134</b>	<b>100.0</b>

### Tenancy Duration Profile

Tenancy Duration	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
Below and up to 2 years	82,663	34.9	801,995	34.2	55	41.0
More than 2 years and up to 3 years	152,525	64.3	1,519,574	64.9	78	58.2
More than 3 years	1,860	0.8	21,855	0.9	1	0.8
<b>Total</b>	<b>237,048</b>	<b>100.0</b>	<b>2,343,424</b>	<b>100.0</b>	<b>134</b>	<b>100.0</b>

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2010	Estimated Net Property Yield
5. Trendy Centre, 682 Castle Peak Road, Cheung Sha Wan, Kowloon  New Kowloon Inland Lot No. 6224.	<p>Trendy Centre is a 30-storey industrial/office building with ancillary parking and loading/unloading facilities erected on a rectangular site with a registered site area of approximately 1,393.50 sq.m. (15,000 sq.ft.). The building was completed in 1998.</p> <p>Portion of the Ground Floor and 1st to 3rd Floors of the building are devoted to carparking and/or loading/unloading purposes whereas the remaining portion of the Ground Floor is for shop use. The upper floors from the 5th to 10th Floors (4th Floor is omitted from floor numbering) are designed for showroom use and the remaining floors from 11th to 33rd Floors (13th, 14th and 24th Floors are omitted from floor numberings) are designed for industrial/office purposes.</p> <p>The property comprises the entire units within the building with a total gross area of approximately 16,143.07 sq.m. (173,764 sq.ft.). The total saleable area of the property is approximately 10,934.23 sq.m. (117,696 sq.ft.).</p> <p>The property also comprises 79 carparking spaces within the building.</p> <p>New Kowloon Inland Lot No. 6224 is held under Conditions of Exchange No. 12399 for a term from 24 July 1996 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the property.</p>	<p>The industrial/office portion of the property is let under various tenancies for various terms with the latest expiring in September 2013, yielding a total monthly rental income of approximately HK\$2,090,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The overall occupancy rate is approximately 99.7% (including the leasing office but excluding carparking spaces).</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average net monthly income of approximately HK\$288,000 from January 2010 to December 2010 exclusive of Government rates and rent, management fees and utility charges.</p>	HK\$623,000,000	4.6%

# Valuation Report

## Notes:

- (1) The registered owner of the property is Top Easy Profits Limited.
- (2) The property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation (deeds pending registration).
- (3) The property lies within an area zoned "Other Specified Uses (For "Business 1" Only).
- (4) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (5) Estimated net property yield is based on the net monthly rental income for December 2010 and the average net monthly car parking income for the period of January 2010 to December 2010.
- (6) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding parking spaces and leasing office of 1,412 sq.ft.) is set out below:

### Tenancy Commencement Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2008	14,825	8.6	181,270	8.7	10	6.4
2009	85,076	49.5	1,032,941	49.5	77	49.7
2010	71,909	41.9	871,600	41.8	68	43.9
<b>Total</b>	<b>171,810</b>	<b>100.0</b>	<b>2,085,811</b>	<b>100.0</b>	<b>155</b>	<b>100.0</b>

### Tenancy Expiry Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
31 Dec 2010 and 2011	97,348	56.7	1,128,777	54.1	85	54.9
2012	55,014	32.0	744,034	35.7	56	36.1
2013 and after	19,448	11.3	213,000	10.2	14	9.0
<b>Total</b>	<b>171,810</b>	<b>100.0</b>	<b>2,085,811</b>	<b>100.0</b>	<b>155</b>	<b>100.0</b>

### Tenancy Duration Profile

Tenancy Duration	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
Below and up to 2 years	77,682	45.2	922,907	44.2	71	45.8
More than 2 years and up to 3 years	94,128	54.8	1,162,904	55.8	84	54.2
<b>Total</b>	<b>171,810</b>	<b>100.0</b>	<b>2,085,811</b>	<b>100.0</b>	<b>155</b>	<b>100.0</b>

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2010	Estimated Net Property Yield
6. Various Portions in Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon (see note (1))  12,014/22,510th undivided parts or shares of and in Kwun Tong Inland Lot No. 729.	<p>Prosperity Center is a 26-storey industrial/office building with ancillary parking and loading/unloading facilities erected on a site with registered site area of approximately 1,889 sq.m. (20,333 sq.ft.), completed in 1999.</p> <p>Portion of the Ground Floor, 2nd to 5th Floors of the building (1st Floor and 4th Floor are omitted from floor numberings) are devoted to carparking or loading/unloading purposes whereas the remaining portion of the Ground Floor and upper floors from the 6th to 30th Floors (13th, 14th and 24th Floors are omitted from floor numberings) are designed for office/workshop purposes.</p> <p>The property comprises various office/workshop units and retained areas within the building with a total gross area of approximately 13,865.94 sq.m. (149,253 sq.ft.). The total saleable area of the property is approximately 10,095.60 sq.m. (108,669 sq.ft.).</p> <p>The property also consists of a total of 105 carparking spaces comprising 91 private carparking spaces, 13 lorry parking spaces and 1 container parking space within the building.</p> <p>Kwun Tong Inland Lot No. 729 is held under Conditions of Exchange No. 12317 for a term from 6 August 1994 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the property.</p>	<p>The office/workshop portion of the property is let under various tenancies for various terms with the latest expiring in April 2013 yielding a total monthly rental income of approximately HK\$1,670,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The overall occupancy rate is 100.0% (excluding carparking spaces).</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average net monthly income of approximately HK\$256,000 from January 2010 to December 2010 exclusive of Government rates and rent, management fees and utility charges.</p>	HK\$504,000,000	4.6%

# Valuation Report

## Notes:

(1) The property comprises Units G01, G02, G03, G05 and G06 on Ground Floor, Units 601–610 on 6th Floor, the whole of 7th Floor, 801–810 on 8th Floor, 901–910 on 9th Floor, 1001–1010 on 10th Floor, 1101–1110 on 11th Floor, 1201–1210 on 12th Floor, 1501–1510 on 15th Floor, 1701 and 1707–1710 on 17th Floor, 1801–1810 on 18th Floor, 1901–1910 on 19th Floor, 2007–2010 on 20th Floor, 2310 on 23rd Floor, 2601–2603, 2605 and 2607–2610 on 26th Floor, 2701–2706 and 2708–2710 on 27th Floor, 2805–2806 on 28th Floor, 2901–2907 on 29th Floor (Unit No. 04 is omitted in each floor), the Retained Areas on 6th Floor, 8th–12th Floors, 15th–16th Floors, 18th–19th Floors, 23rd Floor, 25th–27th Floors and 105 carparking spaces, Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon.

(2) The registered owners of the property are set out below:

Property	Registered Owner
Units 1001–1010 on 10th Floor and Units 2601–2603 and 2605 on 26th Floor	Winrise Champion Limited
The remainder of the property	Prodes Company Limited (the beneficial owner is Winrise Champion Limited)

(3) The property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation (deeds pending registration). (Excluding units 1001–1010 on 10th Floor and units 2601–2603 and 2605 on 26th Floor)

(4) The property lies within an area zoned “Other Specified Uses (For “Business” only)”.

(5) In accordance with the property owner’s standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.

(6) Estimated net property yield is based on the net monthly rental income for December 2010 and the average net monthly car parking income for the period of January 2010 to December 2010.

(7) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces) is set out below:

### Tenancy Commencement Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2008	18,531	12.4	253,346	15.2	4	5.6
2009	65,826	44.1	672,970	40.4	32	45.1
2010	64,896	43.5	741,292	44.4	35	49.3
<b>Total</b>	<b>149,253</b>	<b>100.0</b>	<b>1,667,608</b>	<b>100.0</b>	<b>71</b>	<b>100.0</b>

### Tenancy Expiry Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
31 Dec 2010 and 2011	64,256	43.0	732,167	43.9	27	38.0
2012	65,639	44.0	729,191	43.7	34	47.9
2013 and after	19,358	13.0	206,250	12.4	10	14.1
<b>Total</b>	<b>149,253</b>	<b>100.0</b>	<b>1,667,608</b>	<b>100.0</b>	<b>71</b>	<b>100.0</b>

### Tenancy Duration Profile

Tenancy Duration	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
Below and up to 2 years	35,396	23.7	403,929	24.2	18	25.4
More than 2 years and up to 3 years	113,857	76.3	1,263,679	75.8	53	74.6
<b>Total</b>	<b>149,253</b>	<b>100.0</b>	<b>1,667,608</b>	<b>100.0</b>	<b>71</b>	<b>100.0</b>



Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 December 2010	Estimated Net Property Yield
7. Various Portions in New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon (see note (1))  11,163/26,198th undivided parts or shares of and in New Kowloon Inland Lot No. 4864.	<p>New Treasure Centre is a 30-storey industrial building (including a Mezzanine Floor) with ancillary parking and loading/unloading facilities erected on a rectangular site with a registered site area of approximately 1,304.35 sq.m. (14,040 sq.ft.). The building was completed in 1995.</p> <p>Portion of the Ground Floor and Mezzanine of the building are devoted to carparking and/or loading/unloading purposes whereas the remaining upper floors from the 1st to 31st Floor (4th, 14th and 24th Floors are omitted from floor numberings) are designed for factory purposes.</p> <p>The property comprises the various factory units within the building with a total gross area of approximately 8,005.20 sq.m. (86,168 sq.ft.). The total saleable area of the property is approximately 5,947.70 sq.m. (64,021 sq.ft.).</p> <p>The property also consists of flat roof areas on the 1st Floor with a total area of approximately 401.99 sq.m. (4,327 sq.ft.) and 22 carparking spaces within the building.</p> <p>New Kowloon Inland Lot No. 4864 is held under a Government lease for a term expiring on 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the property.</p>	<p>The factory portion of the property is let under various tenancies for various terms with the latest expiring in September 2013 yielding a total monthly rental income of approximately HK\$650,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The overall occupancy rate is 100.0% (excluding carparking spaces).</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average net monthly income of approximately HK\$127,000 from January 2010 to December 2010 exclusive of Government rates and rent, management fees and utility charges.</p>	HK\$195,000,000	4.8%

# Valuation Report

## Notes:

- (1) The property comprises Units 101 (and portion of Flat Roof adjacent thereto), 103 (and portion of Flat Roof adjacent thereto) and 107 on 1st Floor, 201–203, 205–207 on 2nd Floor, 301–303, 306 and 307 on 3rd Floor, 501–503, 505–507 on 5th Floor, 603, 606 and 607 on 6th Floor, 703 on 7th Floor, 801–803, 806 and 807 on 8th Floor, 1005 on 10th Floor, 1201–1203, 1205 and 1207 on 12th Floor, 1302, 1303 and 1306 on 13th Floor, 1506 and 1507 on 15th Floor, 1602, 1603, 1605 and 1607 on 16th Floor, 1702, 1703, 1705–1707 on 17th Floor, 1801–1803 and 1805–1807 on 18th Floor, 2202, 2203 and 2205 on 22nd Floor, 2301–2303, 2306 and 2307 on 23rd Floor, 2706 and 2707 on 27th Floor, 2803 on 28th Floor, 2903, 2906 and 2907 on 29th Floor and 22 carparking spaces, New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon.
- (2) The registered owner of the property is Haskins Investments Limited.
- (3) The property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation (deeds pending registration).
- (4) The property lies within an area zoned "Other Specified Uses (For "Business" only).
- (5) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (6) Estimated net property yield is based on the net monthly rental income for December 2010 and the average net monthly car parking income for the period of January 2010 to December 2010.
- (7) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces) is set out below:

### Tenancy Commencement Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
2008	1,265	1.5	11,400	1.8	1	1.9
2009	34,983	40.6	255,982	39.7	23	43.4
2010	49,920	57.9	377,710	58.5	29	54.7
<b>Total</b>	<b>86,168</b>	<b>100.0</b>	<b>645,092</b>	<b>100.0</b>	<b>53</b>	<b>100.0</b>

### Tenancy Expiry Profile

Year	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
31 Dec 2010 and 2011	29,982	34.8	227,062	35.2	21	39.6
2012	48,817	56.7	359,030	55.7	27	51.0
2013 and after	7,369	8.5	59,000	9.1	5	9.4
<b>Total</b>	<b>86,168</b>	<b>100.0</b>	<b>645,092</b>	<b>100.0</b>	<b>53</b>	<b>100.0</b>

### Tenancy Duration Profile

Tenancy Duration	Gross Area (sq.ft.)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
Below and up to 2 years	49,246	57.2	386,062	59.8	34	64.2
More than 2 years and up to 3 years	36,922	42.8	259,030	40.2	19	35.8
<b>Total</b>	<b>86,168</b>	<b>100.0</b>	<b>645,092</b>	<b>100.0</b>	<b>53</b>	<b>100.0</b>

## Market Overview

### 1.0 Hong Kong Office Market Overview

The Hong Kong office market has witnessed robust growth over the past 20 years driven by the city's structural transformation from a manufacturing base to a more services oriented economy. This shift has also had the effect of lifting demand substantially for commercial floor space. Benefiting from its close proximity to Mainland China as well as its locational attributes, Hong Kong has become a gateway for business into Mainland China, one of the world's most rapidly growing economies. Hong Kong has also successfully evolved as a major global financial and business centre in its own right, boosting the development of the office sector over the past decade.

#### 1.1 Office Stock

The size of Hong Kong's office sector has expanded rapidly since the 1980s. According to the Hong Kong Rating and Valuation Department ("R&V"), total Grade 'A' office stock in Hong Kong grew more than three fold between 1982 and 2009 and stood at approximately 70.71 million sq.ft.<sup>1</sup> at the end of 2009. Savills estimates Grade 'A' office stock grew further to 72.35 million sq.ft. at the end of 2010 as another 1.64 million sq.ft. space was added to the market during the year.

In terms of stock distribution at the end of 2010<sup>2</sup>, total Grade 'A' stock in Tsimshatsui amounted to 9.21 million sq.ft., while Grade 'A' stock in the decentralized areas of Island East<sup>3</sup>, Kowloon East<sup>4</sup> and Western Corridor<sup>5</sup> amounted to 7.98 million sq.ft., 10.88 million sq.ft. and 3.86 million sq.ft. respectively.

#### 1.2 Grade 'A' Office Supply, Take-up and Vacancy

New supply of Grade 'A' offices in 2010 stood at 1.64 million sq.ft.<sup>6</sup>, around half of which was located in the decentralized area of Kowloon East totaling 0.78 million sq.ft. The completion of ICC Phase 3 (0.48 million sq.ft.) and Kerry Centre (0.38 million sq.ft.) were the only new supply in Tsimshatsui and Island East respectively. Grade 'A' office supply thereafter is expected to revert to low levels, particularly in the core areas of Central, Wanchai/Causeway Bay and Tsimshatsui. New supply in non-core areas (Island East, Kowloon East and Western Corridor) will amount to 1.58 million sq.ft. from 2011 to 2013, with supply in the latter two areas amounting to 1,190,000 sq.ft. and 390,000 sq.ft. respectively (no new supply in Island East).

Recovering local and global economies have both helped to improve the business environment over 2010 and many companies in different industries, including finance and trading, are actively rehiring and are in an expansion mode, while the strong IPO market last year has translated into higher office demand with many PRC corporations expanding aggressively after their fund raising activities. Therefore, according to our in-house data, overall Grade 'A' office vacancy in core areas decreased from 7.7 per cent in December 2009 to 4.0 per cent at the end of December 2010. Many large corporations including well-known insurance companies, consumer goods firms as well as trading companies from Wanchai/Causeway Bay and Tsimshatsui have committed to new quality office space in decentralized area for consolidation or cost saving relocation. As a result, Grade 'A' office vacancy rates in non-core areas decreased from 9.7 per cent in December 2009 to 4.7 per cent in December 2010. Tsimshatsui and Island East vacancy rates stood at 6.5 and 3.5 per cent respectively in December 2010.

#### 1.3 Grade 'A' Office Rental Trends

The improving economy, which was evidenced by rehiring in a number of key industries, and rapid take-up of new office space in decentralized areas has induced landlords to raise their asking rents which has helped to underpin rental values in 2010. The robust Initial Public Offering (IPO) market, which saw Hong Kong ranked first in funds raised in 2010 ahead of other major stock exchanges, has induced another influx of expatriates in recent months as financial institutions have been quick to expand manpower resources amidst increasing business opportunities. The recovering trading sector, which saw imports and total exports growing by 16.4 and 16.6 per cent y-o-y respectively in November 2010, also supported office demand from trading and manufacturing companies.

According to Savills in-house data, average Grade 'A' office rents rebounded by 26.0 per cent in 2010 on the back of strong new letting and expansion demand, with rents in Tsimshatsui and Island East growing by 27.0 and 19.2 per cent respectively over the same period.

1 Internal Floor Area (IFA).  
2 Source: Savills estimates  
3 Includes North Point and Quarry Bay

4 Includes Kwun Tong  
5 Includes Sham Shui Po, Kwai Tsing and Tsuen Wan  
6 Source: Savills estimates

## 1.4 Outlook

We expect office rents to continue their rally in 2011, given improved demand and exceptionally tight upcoming supply, especially in core areas. The strong take-up of new office premises in Kowloon East and along the Western Corridor has already prompted landlords to increase asking rents in these areas.

The continuing integration of the Hong Kong and Mainland economies has seen many industries in Hong Kong benefiting from the tremendous growth of China's economy over the past few years. Many expect China's GDP growth to average 9.0 per cent from 2011 to 2014<sup>7</sup>, where 2010 already recorded a growth of 10.0 per cent<sup>8</sup>. This will inevitably help support Hong Kong's economy, in particular the finance and trading sectors which will in turn benefit the local office market.

## 2.0 Industrial/Office and Industrial Markets Overview

### 2.1 Stock and Supply

According to the Rating and Valuation Department, total stock of private I/O premises amounted to 6.6 million sq.ft.<sup>9</sup> in 2009, a majority of which was located in Kowloon (66%). Meanwhile, private flatted factory stock amounted to 186 million sq.ft. at the end of 2009<sup>10</sup>, over half of which (51%) was located in the New Territories. While no new supply is recorded in the I/O market and Savills estimates the same level of stock and distribution of I/O in 2010, 416,000 sq.ft. of new flatted factories space were completed in 2010, but with an estimates of around 1 million sq.ft. of demolition of flatted factories space in the same year, Savills expects flatted factory stock to stay at 186 million sq.ft. in 2010.

New supply of I/O properties averaged approximately 40,472 sq.ft. per annum from 2001 to 2010 while that for flatted factories averaged 173,000 sq.ft. per annum over the same period<sup>11</sup>.

After the completion of 2 Tai Yip Street (46,300 sq.ft.) in 2008, no new I/O supply is scheduled for completion from 2011 to 2013. More new industrial supply is expected to come on line in the next three years with a total of 1.32 million sq.ft. (average 441,000 sq.ft. per annum) scheduled for completion from 2011 to 2013.

### 2.2 Demand

The recovering trading performances and gradual take-up of new office spaces in decentralized areas have both helped restoring demand for I/O premises, and we saw I/O vacancy rates declined to 6.9 per cent at the end of 2010.

### 2.3 Rental Trend<sup>12</sup>

On the back of a strong rebound in imports and a robust total export performance in 2010, I/O rents recorded growth of 11.6 per cent over the year.

In the flatted factory sector market sentiment has been boosted by the latest urban revitalization policy, and as such flatted factory rents remained stable over the second half of 2009 before rebounding by 12.5 per cent in 2010.

### 2.4 Outlook

The global economy is showing gradual recovery and the Mainland economic fundamentals remain strong thanks to an accommodative monetary policy.

Decentralized office rents in Kowloon East rebounded strongly to record a 31 per cent increase in 2010, and we expect the strong rental growth performance in decentralized office market to continue over 2011. The I/O rents will benefit from this trend and we expect I/O rents to move more in line with decentralized office rents in 2011.

With signs of global as well as local economic stabilization where Hong Kong GDP recorded a growth of 6.8<sup>13</sup> per cent in Q3 2010 and forecast a growth of 6.5 per cent for the whole year of 2010<sup>14</sup>, demand for industrial space is expected to return while the supply coming on stream from 2011 to 2013 is expected to be moderate, which amounts to 1.32 million sq.ft. of new industrial space, these positive factors will definitely support the rents in the industrial market. Coupled with the revitalization policy which may take some flatted factory stock out of the market, we expect the industrial market to see healthy rental increments in 2011.

7 Source: Focus Economics, January 2011

8 National Bureau of Statistics of China

9 Internal Floor Area (IFA)

10 Source: Rating and Valuation Department

11 Rating and Valuation Department and Savills estimates

12 Source: Savills Research & Consultancy estimates

13 Census and Statistics Department

14 The Government of Hong Kong Special Administrative Region

# Report of the Trustee

We hereby confirm that, in our opinion, the manager of Prosperity Real Estate Investment Trust has, in all material respects, managed Prosperity Real Estate Investment Trust in accordance with the provisions of the Trust Deed dated 29 November 2005, as amended by the First Supplemental Deed dated 12 December 2005 and the second supplemental Deed dated 15 May 2007 and the third supplemental deed dated 14 May 2008 and the fourth supplemental deed dated 23 July 2010, for the financial year ended 31 December 2010.

**HSBC Institutional Trust Services (Asia) Limited**

In its capacity as the trustee of Prosperity Real Estate Investment Trust  
Hong Kong, 25 February 2011

# Independent Auditor's Report

## **TO THE UNITHOLDERS OF 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))*

We have audited the consolidated financial statements of Prosperity Real Estate Investment Trust ("Prosperity REIT") and its subsidiaries (collectively referred to as the "Group") set out on pages 78 to 110, which comprise the consolidated statement of financial position as at 31 December 2010, and consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to unitholders, consolidated statement of cash flows and distribution statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

## **Manager's Responsibility for the Consolidated Financial Statements**

ARA Asset Management (Prosperity) Limited (the "Manager" of Prosperity REIT) is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the relevant provisions of the Trust Deed dated 29 November 2005 (as amended) (the "Trust Deed") and the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts (the "Code") issued by the Securities and Futures Commission of Hong Kong, and for such internal control as the Manager determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## **Auditor's Responsibility**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Appendix C of the Code, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Manager, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

# Independent Auditor's Report

## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the disposition of the assets and liabilities of the Group as at 31 December 2010 and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the Code.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

25 February 2011

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	2010 HK\$'000	2009 HK\$'000
Revenue	5	270,094	263,624
Property management fees		(6,263)	(6,169)
Property operating expenses	6	(51,300)	(50,555)
Total property operating expenses		(57,563)	(56,724)
<b>Net property income</b>		<b>212,531</b>	206,900
Interest income		30	148
Manager's fee		(28,631)	(26,080)
Trust and other expenses	7	(6,801)	(7,344)
Increase in fair value of investment properties		670,207	405,160
Finance costs	8	(65,497)	(81,518)
<b>Profit before taxation and transactions with unitholders</b>		<b>781,839</b>	497,266
Taxation	9	(129,282)	(75,439)
<b>Profit for the year, before transactions with unitholders</b>		<b>652,557</b>	421,827
Distribution to unitholders		(147,831)	(145,365)
<b>Profit for the period, after transactions with unitholders</b>		<b>504,726</b>	276,462
<b>Other comprehensive income</b>			
Change in fair value of cashflow hedge		3,041	(2,847)
Reclassification adjustment in respect of cash flow hedge		9,284	25,111
<b>Total other comprehensive income</b>		<b>12,325</b>	22,264
<b>Total comprehensive income for the year, after transactions with unitholders</b>		<b>517,051</b>	298,726
<b>Income available for distribution to unitholders</b>		<b>147,831</b>	145,365
<b>Basic earnings per unit and diluted earnings per unit (HK\$)</b>	10	<b>0.49</b>	0.32



# Distribution Statement

For the year ended 31 December 2010

	2010 HK\$'000	2009 HK\$'000
<b>Profit for the year, before transactions with unitholders</b>	<b>652,557</b>	421,827
<b>Adjustments:</b>		
Manager's fee	<b>28,582</b>	26,034
Increase in fair value of investment properties	<b>(670,207)</b>	(405,160)
Finance costs	<b>13,844</b>	29,091
Deferred tax	<b>123,055</b>	73,573
<b>Income available for distribution (note (i))</b>	<b>147,831</b>	145,365
<b>Distributions to unitholders:</b>		
HK\$0.0555 (2009: HK\$0.0554) per unit for the six months ended 30 June (note (ii))	<b>74,297</b>	73,065
HK\$0.0546 (2009: HK\$0.0544) per unit for the six months ended 31 December (note (iii))	<b>73,534</b>	72,300
	<b>147,831</b>	145,365
<b>Total distribution per unit (HK\$)</b>	<b>0.1101</b>	0.1098

Notes:

(i) These adjustments for the current year include:

- (a) Manager's fee paid in units of HK\$28,582,000 (2009: HK\$26,034,000) out of the total Manager's fee of HK\$28,631,000 (2009: HK\$26,080,000) (the difference of HK\$49,000 (2009: HK\$46,000) are paid in cash);
- (b) increase in fair value of investment properties of HK\$670,207,000 (2009: HK\$405,160,000);
- (c) adjustment in respect of the difference between the accounting finance cost of HK\$65,497,000 (2009: HK\$81,518,000) less cash finance cost of HK\$51,653,000 (2009: HK\$52,427,000); and
- (d) deferred tax provision of HK\$123,055,000 (2009: HK\$73,573,000).

In accordance with the Trust Deed, Prosperity Real Estate Investment Trust ("Prosperity REIT") is required to distribute to unitholders not less than 90% of its distributable income for each financial period and it is the REIT Manager's stated policy to distribute 100% of the distributable income. Pursuant to the Trust Deed, distributable income is defined as the amount calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial year, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) which have been recorded in the consolidated statement of comprehensive income for the relevant financial year.

- (ii) The distribution per unit of HK\$0.0555 (2009: HK\$0.0554) for the six months ended 30 June 2010 is calculated based on Prosperity REIT's income available for distribution of HK\$74,297,000 (2009: HK\$73,065,000) over 1,338,387,711 units (30 June 2009: 1,318,720,913 units), representing issued units as at 30 June 2010 plus the number of units issued after the distribution period to the REIT Manager as Manager's fee for its service in the second quarter of 2010. The distribution was paid to unitholders on 28 October 2010.
- (iii) The distribution per unit of HK\$0.0546 (2009: HK\$0.0544) for the six months ended 31 December 2010 is calculated based on Prosperity REIT's income available for distribution of HK\$73,534,000 (2009: HK\$72,300,000) over 1,346,635,755 units (2009: 1,328,682,612 units), representing issued units as at 31 December 2010 plus the number of units issued after the distribution period to the REIT Manager as Manager's fee for its service in the last quarter of the relevant distribution year.

# Consolidated Statement of Financial Position

As at 31 December 2010

	Note	2010 HK\$'000	2009 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	11	5,934,000	5,256,000
<b>Current assets</b>			
Trade and other receivables	13	8,002	8,235
Tax recoverable		261	393
Bank balances and cash	14	29,832	53,373
Total current assets		38,095	62,001
<b>Total assets</b>		<b>5,972,095</b>	5,318,001
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Derivative financial instruments	12	32,311	—
Secured term loan	15	1,723,933	—
Deferred tax liabilities	16	388,340	265,285
Total non-current liabilities, excluding net assets attributable to unitholders		2,144,584	265,285
<b>Current liabilities</b>			
Trade and other payables	17	115,095	114,858
Amount due to related companies	18	8,113	6,920
Secured term loan	15	—	1,765,873
Secured revolving loan	15	26,000	—
Derivative financial instruments	12	—	35,352
Provision for taxation		3,069	1,347
Manager's fee payable		7,577	6,835
Distribution payable		73,534	72,300
Total current liabilities		233,388	2,003,485
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>2,377,972</b>	2,268,770
<b>Net assets attributable to unitholders</b>		<b>3,594,123</b>	3,049,231
<b>Units in issue ('000)</b>	19	<b>1,342,637</b>	1,323,582
<b>Net asset value per unit (HK\$) attributable to unitholders</b>	20	<b>2.70</b>	2.34

The consolidated financial statements on pages 78 to 110 were approved and authorised for issue by the Manager on 25 February 2011 and were signed on its behalf by:

Chiu Kwok Hung, Justin

Stephen Henry Chu

# Consolidated Statement of Changes in Net Assets Attributable to Unitholders

## For the year ended 31 December 2010

	Issued units HK\$'000	Unit issue costs HK\$'000	Hedging reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2010	2,799,290	(91,278)	(44,636)	385,855	3,049,231
<b>OPERATIONS</b>					
Profit for the year, before transactions with unitholders	—	—	—	652,557	652,557
Distribution paid and payable	—	—	—	(147,831)	(147,831)
Change in fair value of cashflow hedge	—	—	—	504,726	504,726
Reclassification adjustment in respect of cash flow hedge	—	—	3,041	—	3,041
	—	—	9,284	—	9,284
Total comprehensive income for the year	—	—	12,325	504,726	517,051
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>					
Units issued to Manager	27,841	—	—	—	27,841
Net assets attributable to unitholders as at 31 December 2010	2,827,131	(91,278)	(32,311)	890,581	3,594,123

## For the year ended 31 December 2009

	Issued units HK\$'000	Unit issue costs HK\$'000	Hedging reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2009	2,773,698	(91,278)	(66,900)	109,393	2,724,913
<b>OPERATIONS</b>					
Profit for the year, before transactions with unitholders	—	—	—	421,827	421,827
Distribution paid and payable	—	—	—	(145,365)	(145,365)
Change in fair value of cashflow hedge	—	—	—	276,462	276,462
Reclassification adjustment in respect of cash flow hedge	—	—	(2,847)	—	(2,847)
	—	—	25,111	—	25,111
Total comprehensive income for the year	—	—	22,264	276,462	298,726
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>					
Units issued to Manager	25,592	—	—	—	25,592
Net assets attributable to unitholders as at 31 December 2009	2,799,290	(91,278)	(44,636)	385,855	3,049,231

# Consolidated Statement of Cash Flows

For the year ended 31 December 2010

	2010 HK\$'000	2009 HK\$'000
<b>Operating activities</b>		
Profit before taxation and transactions with unitholders	781,839	497,266
Adjustments for:		
Allowance for doubtful debts	27	23
Manager's fees	28,582	26,034
Increase in fair value of investment properties	(670,207)	(405,160)
Interest income	(30)	(148)
Finance costs	65,497	81,518
Operating cashflow before working capital changes	205,708	199,533
Increase (decrease) in amount due to related companies	1,193	(387)
Decrease in trade and other receivables	206	612
Increase (decrease) in trade and other payables	237	(157)
Increase in Manager's fee payable	1	1
Cash generated from operations	207,345	199,602
Income tax paid	(4,373)	(707)
Net cash from operating activities	202,972	198,895
<b>Investing activities</b>		
Interest received	30	148
Additional expenditure to investment properties	(7,793)	(11,840)
Net cash used in investing activities	(7,763)	(11,692)
<b>Financing activities</b>		
Origination fees	(46,500)	—
Drawdown of secured revolving loan	26,000	—
Interest payment of term loan and revolving loan	(51,653)	(52,427)
Distribution to unitholders	(146,597)	(148,557)
Net cash used in financing activities	(218,750)	(200,984)
Net decrease in cash and cash equivalents	(23,541)	(13,781)
Cash and cash equivalents at beginning of the year	53,373	67,154
<b>Cash and cash equivalents at end of year, represented by bank balances and cash</b>	<b>29,832</b>	<b>53,373</b>

# Notes to the Financial Statements

For the year ended 31 December 2010

## 1 General

Prosperity Real Estate Investment Trust ("Prosperity REIT") is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units have been listed on The Stock Exchange of Hong Kong Limited (the "HKSE") since 16 December 2005. Prosperity REIT is governed by the deed of trust dated 29 November 2005 (as amended) (the "Trust Deed") made between ARA Asset Management (Prosperity) Limited (the "Manager") and HSBC Institutional Trust Services (Asia) Limited (the "Trustee"), and the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission.

The principal activity of Prosperity REIT and its subsidiaries (the "Group") is to own and invest in a portfolio of offices and commercial properties located in Hong Kong with the objective of producing stable and sustainable distributions to unitholders and to achieve long term growth in the net asset value per unit.

The addresses of the registered office of the Manager and the Trustee are Units 5508–5509, 55 Floor, The Center, 99 Queen's Road Central, Hong Kong and 1 Queen's Road Central, Hong Kong, respectively.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of Prosperity REIT.

The Group has entered into various service agreements in relation to the management of Prosperity REIT and its property operations. The fee structures of these services are as follows:

### (a) Property management fees

Under the Property Management Agreement, the Property Manager, Goodwell-Prosperity Property Services Limited, will receive from each of the property holding subsidiaries a fee of 3% per annum of gross property revenue for the provision of property management services and lease management services.

Gross property revenue means the amount equivalent to the gross revenue less rental related income and car park income.

### (b) Marketing services

For the marketing services, the property holding subsidiaries will pay the Property Manager the following commissions:

- one month's base rent for securing a tenancy of three years or more;
- one-half month's base rent for securing a tenancy of less than three years;
- one-half month's base rent for securing a renewal of tenancy irrespective of duration of the renewal term; and
- 10% of the total licence fee for securing a licence for duration of less than 12 months.

### (c) Trustee's fees

The Trustee is entitled to receive a trustee's fee not exceeding 0.05% per annum on the value of the real estate properties (subject to a minimum of HK\$50,000 per month), the fee is currently charged at 0.03% per annum.

# Notes to the Financial Statements

For the year ended 31 December 2010

## 1 General *(continued)*

### (d) Manager's fees

Under the Trust Deed, the Manager is entitled to receive the following remuneration for the provision of asset management services:

#### Base fee

The Manager will receive a base fee from Prosperity REIT at 0.4% per annum on the value of the properties on a quarterly basis. The base fee will be paid quarterly in arrears and in the form of units in Prosperity REIT during the first five years after the units are listed on the HKSE. Thereafter, the Manager may elect whether the base fee is to be paid in cash or in units.

#### Variable fee

The Manager will receive from each property holding subsidiary a variable fee of 3% of its net property income (before deduction therefrom the base fee and variable fee) on a quarterly basis. The variable fee will be paid in units during the first five years after the units are listed on the HKSE, and thereafter, may elect whether the variable fee is to be paid in cash or in units at the election of the Manager.

## 2 Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs")

In the current year, the Group has applied the following new and revised Standards, Amendments and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

HKFRS 2 (Amendments)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (as revised in 2008)	Business Combinations
HKAS 27 (as revised in 2008)	Consolidated and Separate Financial Statements
HKAS 39 (Amendments)	Eligible Hedged Items
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2009
HKFRSs (Amendments)	Amendments to HKFRS 5 as part of Improvements to HKFRSs issued in 2008
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners
HK-Int 5	Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause

Except as described below, the application of the new and revised Standards and Interpretations in the current year has had no material effect on the amounts reported in these consolidated financial statements and/or disclosures set out in these consolidated financial statements.

## 2 Application of New and Revised Hong Kong Financial Reporting Standards (“HKFRSs”) (continued)

### HKFRS 3 (as revised in 2008) Business Combinations and HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements

The Group applies HKFRS 3 (as revised in 2008) Business Combinations prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current period in which HKFRS 3 (as revised in 2008) and HKAS 27 (as revised in 2008) are applicable, the application of HKFRS 3 (as revised in 2008) and HKAS 27 (as revised in 2008) had no effect on the consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (as revised in 2008), HKAS 27 (as revised in 2008) and the consequential amendments to the other HKFRSs are applicable.

The Group has not early applied the following new and revised Standards, Amendments and Interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs 2010 <sup>1</sup>
HKFRS 7 (Amendments)	Disclosures — Transfers of Financial Assets <sup>3</sup>
HKFRS 9	Financial Instruments <sup>4</sup>
HKAS 12 (Amendments)	Deferred Tax: Recovery of Underlying Assets <sup>5</sup>
HKAS 24 (Revised)	Related Party Disclosures <sup>6</sup>
HKAS 32 (Amendments)	Classification of Rights Issues <sup>7</sup>
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement <sup>6</sup>
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 July 2010 or 1 January 2011, as appropriate

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2010

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2012

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2011

<sup>7</sup> Effective for annual periods beginning on or after 1 February 2010

HKFRS 9 Financial Instruments (as issued in November 2009) introduces new requirements for the classification and measurement of financial assets. HKFRS 9 Financial Instruments (as revised in November 2010) adds requirements for financial liabilities and for derecognition.

Under HKFRS 9, all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement are subsequently measured at either amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

# Notes to the Financial Statements

For the year ended 31 December 2010

## 2 Application of New and Revised Hong Kong Financial Reporting Standards ("HKFRSs") *(continued)*

### **HKFRS 3 (as revised in 2008) Business Combinations and HKAS 27 (as revised in 2008) Consolidated and Separate Financial Statements** *(continued)*

In relation to financial liabilities, the significant change relates to financial liabilities that are designated as at fair value through profit or loss. Specifically, under HKFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the presentation of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The Manager anticipates that HKFRS 9 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new Standard will not have a significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

The amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets mainly deal with the measurement of deferred tax for investment properties that are measured using the fair value model in accordance with HKAS 40 Investment Property. Based on the amendments, for the purposes of measuring deferred tax liabilities and deferred tax assets for investment properties measured using the fair value model, the carrying amounts of the investment properties are presumed to be recovered through sale, unless the presumption is rebutted in certain circumstances.

If the presumption is not rebutted, the Manager anticipates that the application of the amendments to HKAS 12 for investment properties that are measured using fair value model will result in the elimination of the entire carrying amount of the deferred tax liabilities in respect of revaluation of investment properties and a corresponding adjustment to be recognised in retained earnings as the entire carrying amount of the deferred tax liabilities as at 31 December 2010 in respect of revaluation of investment properties were estimated based on recovery of the investment properties through use. The Group has not early applied these amendments and deferred tax has been provided for in respect of changes in fair value of such properties as disclosed in note 16.

The Manager anticipates that the application of the other new and revised Standards, Amendments and Interpretations will have no material impact on the consolidated financial statements of the Group.



### 3 Significant Accounting Policies

#### (a) Basis of preparation of financial statements

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include the applicable disclosures requirements set out in Appendix C of the Code on Real Estate Investment Trusts issued by the Securities and Future Commission and the Rules Governing the Listing of Securities on the HKSE.

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments that are measured at fair values, as explained in the accounting policies set out below.

The Manager is of the opinion that, taking into account the fair value of investment properties, presently available banking facilities and internal financial resources of the Group, the Group has sufficient working capital for its present requirements within one year from the end of reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

#### (b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Prosperity REIT and entities controlled by Prosperity REIT. Control is achieved where Prosperity REIT has the power to govern the financial and operating policies of the subsidiaries so as to obtain benefits from their activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. All significant intercompany transactions and balances are eliminated on consolidation.

#### (c) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

#### (d) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs (which include origination fees) that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition.

##### **Financial assets**

The Group's financial assets are classified as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables, which includes trade and other receivables and bank balances and cash, are carried at amortised cost using the effective interest method, less any identified impairment losses.

# Notes to the Financial Statements

For the year ended 31 December 2010

## 3 Significant Accounting Policies *(continued)*

### (d) Financial instruments *(continued)*

#### **Financial assets** *(continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) or payment through the expected life of the financial asset or liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

#### **Impairment of financial assets**

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio and observable changes in economic conditions that correlate with default on receivables.

The carrying amount of the trade receivables is reduced by the impairment loss through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

If in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### **Financial liabilities**

Financial liabilities are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

In accordance with the Trust Deed, Prosperity REIT has a limited life of 80 years less one day from the date of commencement of Prosperity REIT. The units contain a contractual obligation to its unitholders, upon the termination of Prosperity REIT to distribute a share of all net cash proceeds derived from the sale or realisation of the assets of Prosperity REIT less any liabilities, in accordance with their proportionate interests in Prosperity REIT at the date of its termination.

In accordance with the Trust Deed, Prosperity REIT is required to distribute to unitholders not less than 90% of its distributable income for each financial period. This provision in the Trust Deed provides the unitholders with a right to receive distribution which Prosperity REIT has a contractual obligation to pay or declare at least 90% of its distributable income.

### 3 Significant Accounting Policies *(continued)*

#### (d) Financial instruments *(continued)*

##### **Financial liabilities** *(continued)*

Accordingly, the unitholders' funds are compound instruments in accordance with Hong Kong Accounting Standard 32: Financial Instruments: Disclosure and Presentation. Unitholders' fund presented on the consolidated statement of financial position as net assets attributable to unitholders are classified as financial liabilities because the equity component is considered insignificant.

Other than the net assets attributable to unitholders of Prosperity REIT, non-derivative financial liabilities include trade and other payables, amount due to related companies, secured term and revolving loans, manager's fee payable and distribution payable. They are subsequently measured at amortised cost, using the effective interest method.

##### **Derivative financial instruments and hedging**

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

The Group uses interest rate swaps to hedge its exposure against changes in interest rates. Hedging relationships are classified as cash flow hedges when such relationships are used to hedge against exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability and such variability could affect profit or loss.

At the inception of the hedge relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in fair values or cash flows of the hedged item.

The effective portion of changes in the fair value of derivatives that are designated and qualify as hedging instruments for cash flow hedges are recognised in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as other gains or losses.

Amounts accumulated in hedging reserve are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss accumulated in the hedging reserve at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was accumulated in the hedging reserve is recognised immediately in profit or loss. The hedging reserve is presented as a separate item in the consolidated statement of changes in net assets attributable to unitholders.

# Notes to the Financial Statements

For the year ended 31 December 2010

## 3 Significant Accounting Policies *(continued)*

### (d) Financial instruments *(continued)*

#### **Derecognition**

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly and accumulated in hedging reserve is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### (e) Unit issue costs

The transaction costs relating to the initial public offering and listing of units of Prosperity REIT are accounted for as a deduction from the proceeds raised to the extent they are incremental costs directly attributable to the transaction that otherwise would have been avoided. Other transaction costs are recognised as an expense.

### (f) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

### (g) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts and sales related taxes.

Rental income from operating leases, including rent payable by licensee, is recognised in the consolidated statement of comprehensive income on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense on a straight-line basis over the lease term.

Rental related income, representing mainly air conditioning fee, management fee and promotion fee are recognised when the services and facilities are provided.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount. Interest income is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

### (h) Borrowings cost

Borrowing costs directly attributable to the acquisition of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

### 3 Significant Accounting Policies *(continued)*

#### **(h) Borrowings cost** *(continued)*

All other borrowing cost are recognised as an expense in the statement of comprehensive income in the year in which they are incurred.

#### **(i) Taxation**

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from profit as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax is recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity respectively.

# Notes to the Financial Statements

For the year ended 31 December 2010

## 4 Financial Instruments

### (a) Categories of financial instruments

	2010 HK\$'000	2009 HK\$'000
<b>Loans and receivables</b>		
Trade receivables	376	773
Bank balances and cash	29,832	53,373
	<b>30,208</b>	54,146
<b>Financial liabilities</b>		
<i>Derivative instruments in designated hedge accounting relationships</i>		
Interest rate swap	32,311	35,352
<b>Financial liabilities at amortised costs</b>		
Trade payables	562	2,453
Amount due to related companies	8,113	6,920
Secured term loan	1,723,933	1,765,873
Secured revolving loan	26,000	—
Manager's fee payable	13	12
Distribution payable	73,534	72,300
	<b>1,832,155</b>	1,847,558
Unitholders' funds	<b>3,594,123</b>	3,049,231

Details of the financial instruments are disclosed in respective notes.

### (b) Financial risks management objectives and policies

The risks associated with the Group's financial instruments include interest rate risk, credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### (i) Interest rate risk

The Group is exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 15 for details of these borrowings). The Group manage its exposure to interest rate movements on its bank borrowings by swapping a majority proportion of these borrowing from floating rates to fixed rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in interest rate on its secured term loan. These interest rate swaps are designated as effective hedging instruments and hedge accounting is used (see note 12 for details).

If the interest rates have been higher/lower by 50 basis points and all other variables were held constant, other comprehensive income recognised in equity would decrease/increase by HK\$35,000,000 (2009: other comprehensive income recognised in equity would decrease/increase by HK\$6,500,000) as a result of the changes in the fair value of interest rate swap.

## 4 Financial Instruments *(continued)*

### (b) Financial risks management objectives and policies *(continued)*

#### (i) Interest rate risk *(continued)*

The above sensitivity analysis have been determined based on the exposure to interest rates for variable rate bank borrowings and derivative instruments at the end of reporting period. For variable rate bank borrowings, the analysis is prepared assuming the amount of liability outstanding at the end of reporting period was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the effect from possible change in interest rates.

#### (ii) Credit risk

As at 31 December 2010, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

To mitigate the risk of financial loss from default, tenants of the rental properties are required to pay three months deposits upon entering the lease. The Group has the right to offset the deposits against the outstanding receivables. There is no credit period given to the tenants of the rental properties. Rental is payable in advance and interest is charged on receivables overdue for more than 10 days at the rate of 12% per annum. In addition, the Manager has delegated the Property Manager responsible for follow up action to recover the overdue debt. The Manager also reviews the recoverable amount of each individual trade debtor regularly to ensure that adequate impairment losses are recognised for irrecoverable debts.

The credit risk on liquid funds is limited because cash and fixed deposits are placed with reputable financial institutions which are banks with high credit ratings assigned by international credit-rating agencies.

The credit risk on derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

#### (iii) Liquidity risk management

The Manager monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group's operations. In addition, the Manager observes the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission concerning limits on total borrowings and monitors the level of borrowing to be within the permitted limit.

As at 31 December 2010, the Group has a bank loan facility of HK\$2,200,000,000, comprising a HK\$1,770,000,000 term loan and a HK\$430,000,000 revolving credit facility. The term loan facility was fully drawn on 16 December 2010 and revolving credit facility of HK\$26,000,000 was drawn as at 31 December 2010. The term loan is repayable five years from 16 August 2010. The revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity. Other than certain investment properties, with aggregate carrying value of HK\$5,887,600,000 which have been pledged to secure banking facilities granted to the Group, the Group, with a cash balance of HK\$29,832,000 and available unutilised revolving credit facility of approximately HK\$404,000,000 as at 31 December 2010, has sufficient financial resources to satisfy its commitments and working capital requirements.

# Notes to the Financial Statements

For the year ended 31 December 2010

## 4 Financial Instruments (continued)

### (b) Financial risks management objectives and policies (continued)

#### (iii) Liquidity risk management (continued)

##### Liquidity risk

The following table details the Group's remaining contractual maturity for its financial liabilities except for the unitholders' funds which will be distributed to unitholders upon termination of Prosperity REIT in accordance with the Trust Deed. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

For derivative instruments settled on a net basis, undiscounted net cash outflows are presented based on the expected interest payment. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

The secured term loan bears interest at floating interest rate of HIBOR+0.81% per annum and is repayable in full on 16 August 2015.

	Weighted average interest rate %	Less than 1 month or on demand HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	More than 1 year HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31/12/2010 HK\$'000
<b>2010</b>							
<b>Non-derivative</b>							
Trade payables	—	562	—	—	—	562	562
Tenants' deposits	—	8,960	2,530	16,723	48,363	76,576	76,576
Amount due to related companies	—	8,113	—	—	—	8,113	8,113
Secured term loan	1.06%	1,593	3,033	15,678	1,857,319	1,877,623	1,723,933
Secured revolving loan	1.06%	26,013	—	—	—	26,013	26,000
Manager's fee payable	—	13	—	—	—	13	13
Distribution payable	—	—	—	73,534	—	73,534	73,534
Cash outflow		45,254	5,563	105,935	1,905,682	2,062,434	1,908,731
<b>Derivatives — net settlement</b>							
Interest rate swap, cash outflow		1,305	2,483	10,342	38,463	52,593	32,311



## 4 Financial Instruments *(continued)*

### (b) Financial risks management objectives and policies *(continued)*

#### (iii) Liquidity risk management *(continued)*

##### Liquidity risk *(continued)*

	Weighted average interest rate %	Less than 1 month or on demand HK\$'000	1–3 months HK\$'000	3 months to 1 year HK\$'000	More than 1 year HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31/12/2009 HK\$'000
<b>2009</b>							
<b>Non-derivative</b>							
Trade payables	—	2,453	—	—	—	2,453	2,453
Tenants' deposits	—	9,750	5,665	16,312	41,393	73,120	73,120
Amount due to related companies	—	6,920	—	—	—	6,920	6,920
Secured term loan	0.70%	1,052	2,003	1,778,826	—	1,781,881	1,765,873
Manager's fee payable	—	12	—	—	—	12	12
Distribution payable	—	—	—	72,300	—	72,300	72,300
Cash outflow		20,187	7,668	1,867,438	41,393	1,936,686	1,920,678
<b>Derivatives — net settlement</b>							
Interest rate swap, cash outflow		4,137	7,874	31,804	—	43,815	35,352

### (c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

- the fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input;
- the fair value of derivative instruments is determined based on discounted cash flow analysis using the applicable yield curve for the duration of the instruments; and
- the fair value of unitholders' funds with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices.

The Manager considers that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the financial statements approximate their fair values.

# Notes to the Financial Statements

For the year ended 31 December 2010

## 5 Revenue

	2010 HK\$'000	2009 HK\$'000
Gross rental from investment properties		
Rental income	209,683	206,794
Car park income	17,206	15,650
	<b>226,889</b>	222,444
Rental related income	43,205	41,180
	<b>270,094</b>	263,624

## 6 Property Operating Expenses

	2010 HK\$'000	2009 HK\$'000
Building management fees	25,623	22,794
Utilities	6,434	6,193
Government rent and rates	161	710
Car park operating expenses	3,986	3,643
Marketing service fee	5,883	6,704
Lease commission	1,726	3,493
Repairs and maintenance	2,839	2,602
Legal cost and stamp duty	958	903
Secretarial fee	563	548
Valuation fees (paid to principal valuer)	122	186
Audit fee	1,123	1,156
Tax fees	275	182
Back-office support service fee	756	756
Others	851	685
	<b>51,300</b>	50,555

## 7 Trust and Other Expenses

	2010 HK\$'000	2009 HK\$'000
Audit fee	248	248
Trustee's fee	1,634	1,460
Bank charges	375	374
Legal and professional fees	562	401
Registrar fee	695	1,532
Back-office support service fee	37	46
Public relations-related expenses	228	170
Trust administrative expenses	3,022	3,113
	<b>6,801</b>	<b>7,344</b>

## 8 Finance Costs

	2010 HK\$'000	2009 HK\$'000
Interest expense on:		
Secured term loan	17,479	24,595
Release of hedging reserve	9,284	25,111
Equalisation of interest expense through cashflow hedges	38,717	31,812
	<b>65,480</b>	<b>81,518</b>
Secured revolving loan	17	—
	<b>65,497</b>	<b>81,518</b>

## 9 Taxation

	2010 HK\$'000	2009 HK\$'000
Current tax	6,227	1,866
Deferred tax (note 16)	123,055	73,573
	<b>129,282</b>	<b>75,439</b>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

# Notes to the Financial Statements

For the year ended 31 December 2010

## 9 Taxation (continued)

No provision for Hong Kong Profits Tax are required for certain subsidiaries as these subsidiaries did not have any assessable profits for the year or the assessable profit is wholly absorbed by tax losses brought forward. Deferred tax is provided on temporary differences using the current applicable rates. The taxation for the year can be reconciled to the profit before taxation and transactions with unitholders as per the consolidated statement of comprehensive income as follows:

	2010 HK\$'000	2009 HK\$'000
Income tax expense at statutory rate of 16.5%	129,003	82,049
Tax effect of non-taxable income	(5)	(24)
Tax effect of non-deductible expenses	1,798	1,805
Tax effect of utilisation of tax losses previously not recognised	(30)	(133)
Tax effect of utilisation of deductible temporary differences previously not recognised	(1,353)	(8,126)
Others	(131)	(132)
Taxation for the year	129,282	75,439

## 10 Earnings Per Unit

The basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$652,557,000 (2009: HK\$421,827,000) by the weighted average of 1,334,319,173 (2009: 1,313,406,331) units in issue during the year.

The diluted earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$652,557,000 (2009: HK\$421,827,000) by the weighted average units in issue during the year of 1,334,319,173 (2009: 1,313,406,331) units together with the effects of potential units (units issued for manager's fee) of 498,515, amounting to 1,334,817,688 (2009: 1,314,019,163) units in aggregate.

## 11 Investment Properties

	2010 HK\$'000	2009 HK\$'000
FAIR VALUE		
At beginning of the year	5,256,000	4,839,000
Additional expenditure	7,793	11,840
Increase in fair value of investment properties	670,207	405,160
At end of the year	5,934,000	5,256,000

## 11 Investment Properties *(continued)*

On 31 December 2010 and 2009, an independent valuation was undertaken by Savills Valuation and Professional Services Limited. The firm is an independent qualified professional valuer not connected to the Group and have appropriate professional qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation of the properties was arrived at using the basis of capitalisation of the net income. In the valuation, the market rentals of all lettable units of the properties are assessed and capitalised at market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in other lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yields derived from analysing the sales transactions and the valuer's knowledge of the market expectation from property investors.

All of the Group's property interests in properties located in Hong Kong are held under medium-term leases, which are finance lease in nature, to earn rentals or for capital appreciation purposes. They are measured using the fair value model and are classified and accounted for as investment properties.

Certain of the Group's investment properties as at 31 December 2010, with aggregate carrying value of HK\$5,887,600,000 (2009: HK\$5,212,400,000), have been pledged to secure banking facilities granted to the Group.

## 12 Derivative Financial Instruments

	2010 HK\$'000	2009 HK\$'000
Cash flow hedges — interest rate swaps		
Non-current	32,311	—
Current	—	35,352
	<b>32,311</b>	35,352

The Group uses interest rate swaps as hedging instruments in order to manage its exposure to interest rate movements on its bank borrowings by swapping a proportion of these borrowing from floating rates to fixed rates.

Contracts with notional amount of HK\$1,416,000,000 (2009: HK\$1,770,000,000) as at 31 December 2010 will mature on 16 June 2015 (2009: 16 December 2010). These contracts have fixed interest payments at 1.34% (2009: 2.09% to 2.65%) per annum and have floating interest receipts at three months HIBOR for periods until 16 June 2015 (2009: 16 December 2010). The Manager designated that the interest rate swaps are effective hedging instruments.

The above derivatives are measured at fair value at the end of reporting period. Their fair values are determined based on the discounted future cash flows using the applicable yield curve for the duration of the swap.

The fair value of the derivatives fall under level 2 of the fair value hierarchy and is measured based on inputs other than quoted prices that are observable directly.

# Notes to the Financial Statements

For the year ended 31 December 2010

## 13 Trade and Other Receivables

	2010 HK\$'000	2009 HK\$'000
Trade receivables	376	840
Less: allowance for doubtful debts	—	(67)
	376	773
Deposit and prepayments	7,626	7,462
	8,002	8,235

Ageing analysis of the Group's trade receivables presented based on the invoice date at the end of reporting period is as follows:

	2010 HK\$'000	2009 HK\$'000
Current—1 month	223	686
2–3 months	153	87
	376	773

The trade receivable balance are past due but not impaired at the reporting date and for which the Group has not provided for impairment loss.

The Group has provided in full all receivables overdue for 120 days after netting off the deposits received from tenant because historical experience is such that receivables that are past due beyond 120 days are generally not recoverable.

Movement in the allowance for doubtful debt:

	2010 HK\$'000	2009 HK\$'000
Balance at beginning of the year	67	132
Impairment losses recognised on receivables	27	23
Amounts written off as uncollectible	(94)	(88)
Balance at the end of the year	—	67

## 14 Bank Balances and Cash

	2010 HK\$'000	2009 HK\$'000
Cash at bank	27,832	21,373
Fixed deposits with financial institutions	2,000	32,000
	<b>29,832</b>	53,373

Fixed deposits with financial institutions at the end of the year consist of deposits bearing interest at approximately 0.13% (2009: 0.08%) per annum.

Fixed deposits and cash at bank, with aggregate value of HK\$29,832,000 (2009: HK\$21,373,000) are placed with The Hongkong and Shanghai Banking Corporation Limited, a related company of the Trustee.

## 15 Borrowings

	2010 HK\$'000	2009 HK\$'000
Secured term loan	1,770,000	1,770,000
Origination fees	(46,067)	(4,127)
	<b>1,723,933</b>	1,765,873
Secured revolving loan	26,000	—
	<b>1,749,933</b>	1,765,873
Carrying amount repayable:		
Within one year	26,000	1,765,873
More than two years, but not exceeding five years	1,723,933	—
	<b>1,749,933</b>	1,765,873

During the year, the Group entered into an agreement to refinance its existing banking facilities, which expired on 16 December 2010.

In relation to the expired banking facilities, the Group had been granted a facility of HK\$1,900,000,000, comprising a HK\$1,770,000,000 term loan and a HK\$130,000,000 revolving credit facility. The amount outstanding under the facilities drawn down by the Group as at 31 December 2009 was HK\$1,765,873,000. The facilities bore interest at Hong Kong Inter-bank Offer Rate ("HIBOR") plus 0.49% per annum and were secured by the Group's investment properties. In addition, Prosperity REIT and certain of its subsidiaries provide a guarantee for the term loan and revolving loan granted to a subsidiary.

Under the new banking facility agreements, the Group has been granted a facility of HK\$2,200,000,000, comprising a HK\$1,770,000,000 term loan and a HK\$430,000,000 revolving credit facility.

# Notes to the Financial Statements

For the year ended 31 December 2010

## 15 Borrowings (continued)

The terms and conditions of the facilities are as follows:

- (i) HK\$1,770,000,000 term loan bears interest at floating interest rate of HIBOR+0.81% per annum and is repayable in full on 16 August 2015.
- (ii) HK\$430,000,000 revolving loan bears interest at floating interest rate of HIBOR+0.81% per annum and is repayable on demand.

Both the term loan and revolving loan are secured by the Group's investment properties as disclosed in note 11. In addition, Prosperity REIT and certain of its subsidiaries provide a guarantee for the term loan and revolving loan granted to a subsidiary.

The fair value of the Group's borrowings, which approximates to the carrying amount, was estimated by discounting their future cash flows at market rate.

The origination fees consist of advisory fee and front-end fee with respect to the banking facility and are measured at amortised cost.

## 16 Deferred Tax Liabilities

The followings are the major component of deferred tax liabilities and assets recognised and movements thereon during the year:

	<b>Accelerated tax depreciation</b> HK\$'000	<b>Revaluation of investment properties</b> HK\$'000	<b>Tax losses</b> HK\$'000	<b>Total</b> HK\$'000
As at 31 December 2008	94,262	112,427	(14,977)	191,712
Charge to profit or loss	11,195	59,409	2,969	73,573
As at 31 December 2009	105,457	171,836	(12,008)	265,285
Charge to profit or loss	11,379	110,157	1,519	123,055
As at 31 December 2010	116,836	281,993	(10,489)	388,340

At the end of the reporting period, tax loss amounting to approximately HK3,287,000 (31 December 2009: HK\$3,469,000) were not recognised, due to unpredictability of future profits stream.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK\$14,344,000 (2009: HK\$8,643,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.



## 17 Trade and Other Payables

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Trade payables	<b>562</b>	2,453
Tenants' deposits		
— Outside parties	<b>76,165</b>	72,660
— Related parties	<b>411</b>	460
Rental received in advance		
— Outside parties	<b>1,430</b>	1,876
Other payables	<b>36,527</b>	37,409
	<b>115,095</b>	114,858

Ageing analysis of the Group's trade payables presented based on invoice date at the end of the reporting period is as follows:

	<b>2010</b>	2009
	<b>HK\$'000</b>	HK\$'000
Current – 1 month	<b>249</b>	998
2 – 3 months	<b>186</b>	1,063
Over 3 months	<b>127</b>	392
	<b>562</b>	2,453

Tenants' deposits represent the deposits refundable to tenants upon termination or cancellation of operating lease arrangements and amounts outstanding for ongoing costs. The tenants' deposits are refundable to tenants within 45 days upon the termination of the tenancy agreement. The tenants' deposits to be settled after twelve months from the reporting period based on the lease terms amounted to HK\$48,363,000 (2009: HK\$41,393,000).

## 18 Amount Due to Related Companies

The amount due to related companies arose from expenses of back-office services, property management services and car park management services provided by related companies. The amount is unsecured, interest-free and repayable on demand.

# Notes to the Financial Statements

For the year ended 31 December 2010

## 19 Issued Units

	Number of units	HK\$'000
Balance at 31 December 2008	1,298,654,410	2,773,698
Payment of Manager's base fee and variable fee through issuance of new units during the year	24,927,472	25,592
Balance at 31 December 2009	1,323,581,882	2,799,290
Payment of Manager's base fee and variable fee through issuance of new units during the year	19,054,800	27,841
Balance at 31 December 2010	1,342,636,682	2,827,131

Subsequent to the end of the reporting period, 3,999,073 units (2009: 5,100,730 units) at HK\$1.8914 (2009: HK\$1.3377) per unit were issued to the Manager as partial settlement of base fee and variable fee for the period from 1 October 2010 to 31 December 2010. The unitholders' fund per unit, based on the closing market price of Prosperity REIT as at 31 December 2010 was HK\$1.76 (31 December 2009: HK\$1.33).

## 20 Net Asset Value Per Unit Attributable to Unitholders

The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve and the total number of 1,342,636,682 units in issue as at 31 December 2010 (1,323,581,882 units in issue as at 31 December 2009).

## 21 Major Non-Cash Transaction

During the year, the Manager earned a fee of HK\$28,631,000 (2009: HK\$26,080,000) of which HK\$28,582,000 (2009: HK\$26,034,000) was paid through the issuance of units to the Manager. An amount of HK\$21,018,000 (2009: HK\$19,211,000) had been settled through the issuance of units to the Manager while the balance of HK\$7,564,000 (2009: HK\$6,823,000) included in other payables will be paid in units subsequent to the year end.

During the year, the Group has drawn down on the new term loan of HK\$1,770,000,000 described in note 15 to refinance the expired HK\$1,770,000,000 term loan.

## 22 Key Sources of Estimation Uncertainty

In the process of applying the Group's accounting policies, which are described in note 3, management has considered the following key sources of estimation uncertainty at the end of the reporting period, that would have significant risk of causing a material adjustment to the carrying amounts of assets within the next financial year.

As described in note 3(c) and 11, investment properties are stated at fair value based on the valuation performed by an independent professional valuer. In determining the fair value, the valuer has based on a method of valuation which involves certain estimates. In relying on the valuation report, the Manager has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions.

As described in note 3(d) and 12, the fair value of derivative financial instruments that are not quoted in active markets are determined by using certain valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

## 23 Net Current Liabilities

At the end of the reporting period, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$195,293,000 (2009: HK\$1,941,484,000). Other than certain investment properties, with aggregate carrying value of HK\$5,887,600,000 (2009: HK\$5,212,000,000), which have been pledged to secure banking facilities granted to the Group (as disclosed in note 11), the Group has in place a revolving credit facility (as disclosed in note 15) to meet its liabilities as they fall due.

## 24 Total Assets Less Current Liabilities

At the end of the reporting period, the Group's total assets less current liabilities amounted to HK\$5,738,707,000 (2009: HK\$3,314,516,000).

# Notes to the Financial Statements

For the year ended 31 December 2010

## 25 Segmental Reporting

Prosperity REIT is currently investing in seven commercial or industrial properties located in Hong Kong, namely The Metropolis Tower, Prosperity Millennia Plaza, portion of Harbourfront Landmark, Prosperity Place, Trendy Centre, portion of Prosperity Center and portion of New Treasure Centre. These properties are the basis on which Prosperity REIT reports its segment information to the Manager, being the chief operating decision maker, for the purpose of resource allocation and performance assessment.

### Segment revenue and results

For the year ended 31 December 2010

	The Metropolis Tower HK\$'000	Prosperity Millennia Plaza HK\$'000	Portion of Harbourfront Landmark HK\$'000	Prosperity Place HK\$'000	Trendy Centre HK\$'000	Portion of Prosperity Center HK\$'000	Portion of New Treasure Centre HK\$'000	Consolidated HK\$'000
Revenue in Hong Kong	87,693	57,220	18,798	37,334	33,104	25,370	10,575	270,094
Segment profit	70,336	45,598	16,508	28,001	25,153	19,313	7,622	212,531
Interest income								30
Manager's fee								(28,631)
Trust and other expenses								(6,801)
Increase in fair value of investment properties								670,207
Finance costs								(65,497)
Profit before taxation and transactions with unitholders								781,839

For the year ended 31 December 2009

	The Metropolis Tower HK\$'000	Prosperity Millennia Plaza HK\$'000	Portion of Harbourfront Landmark HK\$'000	Prosperity Place HK\$'000	Trendy Centre HK\$'000	Portion of Prosperity Center HK\$'000	Portion of New Treasure Centre HK\$'000	Consolidated HK\$'000
Revenue in Hong Kong	87,933	50,261	18,798	38,210	32,545	25,030	10,847	263,624
Segment profit	69,268	37,346	16,616	29,472	26,695	19,120	8,383	206,900
Interest income								148
Manager's fee								(26,080)
Trust and other expenses								(7,344)
Increase in fair value of investment properties								405,160
Finance costs								(81,518)
Profit before taxation and transactions with unitholders								497,266

The accounting policies of the operating segments are the same as Prosperity REIT's accounting policies described in note 3. Segment profit represents the net property income which is the measure reported to the Manager.

## 25 Segmental Reporting *(continued)*

### Segment assets

The following is an analysis of Prosperity REIT's assets by operating segment:

	2010 HK\$'000	2009 HK\$'000
The Metropolis Tower	2,225,000	1,931,000
Prosperity Millennia Plaza	1,276,000	1,118,000
Portion of Harbourfront Landmark	344,000	318,000
Prosperity Place	767,000	670,000
Trendy Centre	623,000	561,000
Portion of Prosperity Center	504,000	481,000
Portion of New Treasure Centre	195,000	177,000
Total segment assets	5,934,000	5,256,000
Other assets	38,095	62,001
Consolidated assets	5,972,095	5,318,001

For the purposes of monitoring segment performances and resources allocating, all investment properties are allocated to operating segments. Other assets and all liabilities, including the bank balances and cash, and borrowings and financial instruments, are unallocated.

## 26 Operating Lease Commitments

	2010 HK\$'000	2009 HK\$'000
Minimum lease income under operating leases included in the consolidated statement of comprehensive income	209,683	206,794

	2010 HK\$'000	2009 HK\$'000
Commitments in respect of non-cancellable operating leases for the rental of investment properties were as follows:		
Future minimum lease payments receivable:		
Within one year	291,068	176,303
In the second to fifth year inclusive	72,586	128,851
Total	363,654	305,154

The Group rents out its investment properties in Hong Kong under operating leases. Operating lease income represents rentals receivable by the Group for its investment properties. Leases are negotiated for term ranging from one to three years with monthly fixed rental.

# Notes to the Financial Statements

For the year ended 31 December 2010

## 27 Connected and Related Party Transactions

During the year, the Group entered into the following transactions with connected and related parties:

	Note	2010 HK\$'000	2009 HK\$'000
Rent and rental related income from			
E-Park Parking Management Limited	(a)	<b>233</b>	205
Goodwell Property Management Limited	(a)	<b>1,347</b>	1,220
Hutchison Telephone Company Limited	(b)	<b>48</b>	48
Tremayne Investments Limited	(b)	<b>18,798</b>	18,798
Carpark lease agency fee for the operations of the Group's carpark			
E-Park Parking Management Limited	(a)	<b>1,379</b>	1,257
Property management fee			
Goodwell-Prosperity Property Services Limited	(a)	<b>6,263</b>	6,169
Marketing service fee			
Goodwell-Prosperity Property Services Limited	(a)	<b>5,883</b>	6,704
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited		<b>1,634</b>	1,460
Manager's fee			
ARA Asset Management (Prosperity) Limited		<b>28,631</b>	26,080
Back-office support service fee			
Cheung Kong Companies	(c)	<b>793</b>	802
Balances as at year end with related parties are as follows:			
Amount due to related companies			
Cheung Kong (Holdings) Limited	(a)	<b>2</b>	22
Citybase Property Management Limited	(a)	<b>1,410</b>	1,261
Goodwell-Prosperity Property Services Limited	(a)	<b>2,056</b>	2,056
Goodwell Property Management Limited	(a)	<b>3,989</b>	2,968
Harbourfront Landmark Premium Services Limited	(b)	<b>411</b>	398
E-Park Parking Management Limited	(a)	<b>245</b>	215
Deposits placed with the Group for the lease of the Group's properties			
E-Park Parking Management Limited	(a)	<b>61</b>	61
Hutchison Telephone Company Limited	(b)	<b>15</b>	15
Goodwell Property Management Limited	(a)	<b>335</b>	384

## 27 Connected and Related Party Transactions *(continued)*

Notes:

- (a) *These companies are the subsidiaries of Cheung Kong (Holdings) Limited ("CKH"), a significant unitholder (defined in the REIT Code as a holder of 10% or more of the outstanding units) of Prosperity REIT.*
- (b) *The companies are the subsidiaries of Hutchison Whampoa Limited ("HWL"), an associate of CKH and a unitholder of Prosperity REIT.*
- (c) *These companies are CKH and its subsidiaries and associates being Cheung Kong Real Estate Agency Limited, Randash Investment Limited, Hutchison Hotel Hong Kong Limited and Harbour Plaza Metropolis Limited.*

Under the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission, the deed of mutual covenant which binds the Manager and all the owners of a development and their successors-in-title which include members of CKH group technically constitutes a contract between the Group and CKH group. Remuneration to the building managers, which are the wholly-owned subsidiaries of CKH, for the building management services provided constitutes a connected transaction. During the year, remuneration paid from the funds of the buildings, attributable to the properties owned by the Group, to the building managers amounted to HK\$576,000 (2009: HK\$467,000).

# List of Subsidiaries

As at 31 December 2010

Name of company	Place of incorporation	Effective equity interest held by Prosperity REIT		Share capital	Principal activities in Hong Kong
		Directly %	Indirectly %		
Bandick Limited	Hong Kong	100	—	HK\$2	Property investment
Conestoga Limited	Hong Kong	—	100	HK\$10,000	Property investment
Haskins Investments Limited	Hong Kong	100	—	HK\$2	Property investment
Harbour Champ Limited	British Virgin Islands	100	—	US\$1	Property investment
Jade Arch Investment Limited	British Virgin Islands	100	—	HK\$15,053	Investment holding
Prodes Company Limited	Hong Kong	—	100	HK\$10	Property owner
Progain Group Limited	British Virgin Islands	100	—	US\$1	Financing
Top Easy Profits Limited	British Virgin Islands	100	—	US\$1	Property investment
Unicenter Limited	British Virgin Islands	100	—	US\$1	Investment holding
Winrise Champion Limited	British Virgin Islands	—	100	US\$1	Property investment
Wisdom Champion Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (12) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (15) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (16) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (17) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (18) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (19) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (20) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (21) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (22) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (23) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (25) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (26) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (27) Limited	British Virgin Islands	100	—	US\$1	Property investment
Wisdom Champion (28) Limited	British Virgin Islands	100	—	US\$1	Property investment

None of the subsidiaries had issued debt securities at the end of the year.



# Performance Table

## Results Analysis of Prosperity REIT for the year ended 31 December

	<b>Year ended 31 December 2010 HK\$'000</b>	Year ended 31 December 2009 HK\$'000	Year ended 31 December 2008 HK\$'000	Year ended 31 December 2007 HK\$'000	Year ended 31 December 2006 HK\$'000
Gross rental from investment properties	<b>226,889</b>	222,444	221,870	205,861	180,349
Net property income	<b>212,531</b>	206,900	208,677	192,780	167,535
Profit/(loss) for the year, before transactions with unitholders	<b>652,557</b>	421,827	(257,222)	327,012	310,744
Distribution to unitholders	<b>147,831</b>	145,365	164,516	165,727	151,549
Earnings/(loss) per unit (HK\$)	<b>0.49</b>	0.32	(0.20)	0.26	0.25
Distribution per unit (HK\$)	<b>0.1101</b>	0.1098	0.1268	0.1298	0.1201

## Major assets and liabilities of Prosperity REIT as at 31 December

	<b>2010 HK\$'000</b>	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000
Investment properties	<b>5,934,000</b>	5,256,000	4,839,000	5,225,000	4,864,000
Secured bank loans, excluding origination fees	<b>(1,796,000)</b>	(1,770,000)	(1,770,000)	(1,795,000)	(1,790,000)
Net asset value	<b>3,594,123</b>	3,049,231	2,724,913	3,138,053	2,967,748
Net asset value per unit (HK\$) (Note 20)	<b>2.70</b>	2.34	2.15	2.50	2.38
<b>Other Information</b>					
The highest traded price during the year (HK\$)	<b>1.77</b>	1.38	1.72	1.85	2.475
The highest (discount)/premium of the traded price to net asset value	<b>(34.4%)</b>	(41.0%)	(20.0%)	(26.0%)	4.0%
The lowest traded price during the year (HK\$)	<b>1.31</b>	0.84	0.59	1.52	1.59
The lowest discount of the traded price to net asset value	<b>(51.5%)</b>	(64.1%)	(72.6%)	(39.2%)	(33.2%)
The net yield per unit based on market price at the end of year	<b>6.3%<sup>(1)</sup></b>	8.3%	14.1%	8.4%	7.1%

<sup>1</sup> Based on the distribution per unit of HK\$0.1101 for the year ended 31 December 2010 and the closing market price of HK\$1.76 as at 31 December 2010.

# Investment Properties Portfolio

As at 31 December 2010

Property	Type	Lease term	Lease expiry date	Location	Valuation 2010 HK\$ Million
The Metropolis Tower	O	Medium-term lease	30 June 2047	No. 10 Metropolis Drive Hung Hom Kowloon Hong Kong	2,225
Prosperity Millennia Plaza	O	Medium-term lease	30 June 2047	No. 663 King's Road North Point Hong Kong	1,276
Harbourfront Landmark (portion)	O	Medium-term lease	30 June 2047	No. 11 Wan Hoi Street Hung Hom Kowloon Hong Kong	344
Prosperity Place	I/O	Medium-term lease	30 June 2047	No. 6 Shing Yip Street Kwun Tong Kowloon Hong Kong	767
Trendy Centre	I/O	Medium-term lease	30 June 2047	No. 682 Castle Peak Road Cheung Sha Wan Kowloon Hong Kong	623
Prosperity Center (portion)	I/O	Medium-term lease	30 June 2047	No. 25 Chong Yip Street Kwun Tong Kowloon Hong Kong	504
New Treasure Centre (portion)	I	Medium-term lease	30 June 2047	No. 10 Ng Fong Street San Po Kong Kowloon Hong Kong	195
<b>Total</b>					<b>5,934</b>

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

## Summary Financial Information

Following is a summary of the consolidated statements of comprehensive income and the consolidated statements of financial position of Prosperity REIT for the past financial years prepared on a basis as consistent to the financial year ended 2010:

### Consolidated Statements of Comprehensive Income

	<b>Year ended 31 Dec 2010 HK\$'000</b>	Year ended 31 Dec 2009 HK\$'000	Year ended 31 Dec 2008 HK\$'000	Year ended 31 Dec 2007 HK\$'000	Year ended 31 Dec 2006 HK\$'000
Revenue	<b>270,094</b>	263,624	263,146	244,628	217,127
Profit/(loss) before taxation and transactions with unitholders	<b>781,839</b>	497,266	(315,930)	381,014	368,155
Taxation	<b>(129,282)</b>	(75,439)	58,708	(54,002)	(57,411)
Profit/(loss) for the years, before transactions with unitholders	<b>652,557</b>	421,827	(257,222)	327,012	310,744
Distribution to unitholders	<b>147,831</b>	145,365	164,516	165,727	151,549
Distribution per unit (HK\$)	<b>0.1101</b>	0.1098	0.1268	0.1298	0.1201

### Consolidated Statement of Financial Positions

	<b>2010 HK\$'000</b>	2009 HK\$'000	2008 HK\$'000	2007 HK\$'000	2006 HK\$'000
Non-current assets	<b>5,934,000</b>	5,256,000	4,839,000	5,333,288	5,054,375
Current assets	<b>38,095</b>	62,001	76,326	32,012	54,316
Current liabilities	<b>233,388</b>	2,003,485	204,303	218,433	189,401
<b>Net assets attributable to unitholders</b>	<b>3,594,123</b>	3,049,231	2,724,913	3,138,053	2,967,748

## Board of Directors of the REIT Manager

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

Lim Hwee Chiang  
*Non-executive Director*

Stephen Henry Chu  
*Chief Executive Officer and Executive Director*

Ma Lai Chee, Gerald  
*Non-executive Director*

Lan Hong Tsung, David  
*Independent Non-executive Director*

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

Robert Douglas Pope  
*Independent Non-executive Director*

## Company Secretary of the REIT Manager

Seng Sze Ka Mee, Natalia

## Trustee

HSBC Institutional Trust Services (Asia) Limited

## Auditor of Prosperity REIT

Deloitte Touche Tohmatsu

## Principal Valuer

Savills Valuation and Professional Services Limited

## Principal Bankers

DBS Bank Limited  
Standard Chartered Bank (Hong Kong) Limited  
Sumitomo Mitsui Banking Corporation  
The Hongkong and Shanghai Banking Corporation Limited

## Legal Advisers

Baker & McKenzie  
P.C. Woo & Co

## Registered Office

Units 5508–09, 55/F  
The Center  
99 Queen's Road Central  
Hong Kong

## Unit Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited  
Shops 1712–16, 17/F  
Hopewell Centre  
183 Queen's Road East, Wan Chai  
Hong Kong

## Stock Code

The Stock Exchange of Hong Kong Limited: 808

## Investor Relations

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Email: [prosperityenquiry@ara.com.hk](mailto:prosperityenquiry@ara.com.hk)

## Website

[www.prosperityreit.com](http://www.prosperityreit.com)

## Key Dates

Annual Results Announcement	25 February 2011
Closure of Register of Unitholders for final distribution	15 to 20 April 2011 (both days inclusive)
Payment of Final Distribution	28 April 2011
Closure of Register of Unitholders for Annual General Meeting	23 to 27 May 2011 (both days inclusive)
Annual General Meeting	27 May 2011

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that an Annual General Meeting of unitholders of Prosperity Real Estate Investment Trust (“Prosperity REIT”) will be held at Exhibition Venue A on Level 7, The Metropolis Mall, 6 Metropolis Drive, Hung Hom, Kowloon, Hong Kong on Friday, 27 May 2011 at 2:30 p.m. for the following purposes:

- (1) To note the audited financial statements of Prosperity REIT together with the Auditors’ Report for the year ended 31 December 2010; and
- (2) To note the appointment of Auditors of Prosperity REIT and the fixing of their remuneration.

By Order of the Board  
**ARA Asset Management (Prosperity) Limited**  
as manager of Prosperity Real Estate Investment Trust  
**Seng Sze Ka Mee, Natalia**  
Company Secretary

Hong Kong, 19 April 2011

Notes:

- (a) *The Register of Unitholders of Prosperity REIT will be closed from Monday, 23 May 2011 to Friday, 27 May 2011, both days inclusive, during which period no transfer of units will be effected. In order to qualify for attending the Annual 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.*
- (b) *Reference is made to the announcement made by ARA Asset Management (Prosperity) Limited as manager of Prosperity REIT (the “REIT Manager”) on 25 February 2011. The Register of Unitholders of Prosperity REIT will be closed from Friday, 15 April 2011 to Wednesday, 20 April 2011, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution per unit of HK\$0.0546 payable to unitholders on Thursday, 28 April 2011, 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 Thursday, 14 April 2011.*
- (c) *Any unitholder entitled to attend at the Annual General Meeting is entitled to appoint a proxy to attend in his/her stead.*
- (d) *In order to be valid, an instrument of proxy, together with any 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 Annual General Meeting.*

*The annual report ("Annual Report 2010") is available in both English and Chinese. Unitholders who have received either the English or the Chinese version of the Annual Report 2010 may request a copy in the language different from that which has been received by 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.*

*The Annual Report 2010 (in both English and Chinese versions) has been posted on Prosperity REIT's website at [www.prosperityreit.com](http://www.prosperityreit.com) and the website of The Stock Exchange of Hong Kong Limited at [www.hkexnews.hk](http://www.hkexnews.hk). Unitholders who have chosen to rely on 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 Annual Report 2010 posted on Prosperity REIT's website may request the printed copy of the Annual Report 2010 free of charge.*

*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 notice in writing to Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited, or by email at [prosperityenquiry@ara.com.hk](mailto:prosperityenquiry@ara.com.hk).*



**1** The Metropolis Tower  
都會大廈

**5** Trendy Centre  
潮流工貿中心



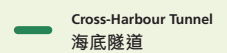
**2** Prosperity Millennia Plaza  
泓富產業千禧廣場

**6** Prosperity Center Property  
創富中心物業



**3** Harbourfront Landmark Property  
海名軒物業

**7** New Treasure Centre Property  
新寶中心物業



**4** Prosperity Place  
泓富廣場



Manager



(An Affiliate of Cheung Kong Group)

ARA Asset Management (Prosperity) Limited

Prosperity REIT is managed by  
ARA Asset Management (Prosperity) Limited

商界展關懷

caringcompany<sup>2010/11</sup>  
Awarded by The Hong Kong Council of Social Service  
香港社會服務聯會頒發