

Continued Excellence

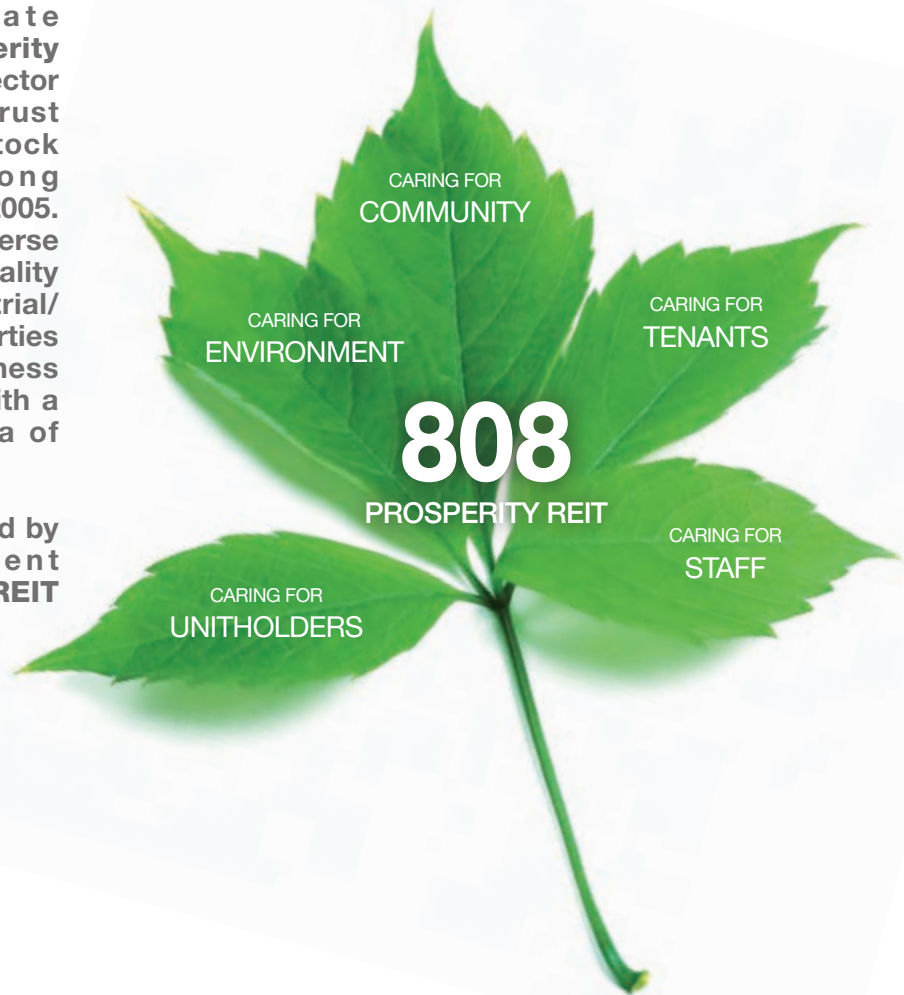
Annual Report 2012

Stock Code: 808

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, commercial, industrial/office and industrial properties in the decentralized business districts of 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”).



From small seedlings to giant trunks, tree is seen as a symbol of resilience, perennially growing and bearing fruits in different weather and climates.

Used as the main theme of this annual report, the tree exemplifies Prosperity REIT’s continued strive for excellence. Weathering through challenges in the global economy and local office leasing market, Prosperity REIT continues to grow healthily and steadily on the back of its solid foundation. Resembling a strong tree that remains sturdy in different weather conditions, Prosperity REIT always stays focused on its objective of providing stable and sustainable returns to its unitholders.

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 focused 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.

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A young green seedling with four leaves growing out of a mound of soil against a dark green background. The seedling is the central focus, with its stem and leaves clearly visible. The leaves are bright green and have a slightly rounded shape. The soil is dark brown and appears to be a mix of earth and small stones. The background is a solid, dark green color, which makes the seedling stand out prominently.

**Highlight of the year
was the approval
by the Hong Kong
SAR government to
convert the use of
Prosperity Place from
industrial/office to
commercial under the
industrial buildings
revitalization scheme.**

Chairman's Statement

Dear Unitholders,

On behalf of the Board of Directors (the "**Board**") of ARA Asset Management (Prosperity) Limited, the manager of Prosperity Real Estate Investment Trust ("**Prosperity REIT**"), I am pleased to present the annual report of Prosperity REIT for the financial year ended 31 December 2012 (the "**Reporting Year**").

Results and Distribution

Prosperity REIT achieved a fruitful year in 2012 during which we attained strong unit price performance and delivered outstanding operating results.

The commendable achievements of Prosperity REIT, together with investors' increasing appetite for defensive investments amid volatile market conditions had been reflected in the strong performance of our unit price. In 2012, Prosperity REIT's unit price appreciated by 56.7%, versus the 22.9% increase in the Hang Seng Index.

During the Reporting Year, distributable income having benefited from the resilience of the decentralized office property market, increased by 14.3% year-on-year ("**YoY**"). Valuation of Prosperity REIT's property portfolio registered an uplift of 13.7% YoY to HK\$7,952 million, mainly attributable to the increase in rental revenue. As at 31 December 2012, the net asset value per unit was HK\$4.24, representing a growth of 17.1% YoY.

I am pleased to announce a total distribution per unit ("**DPU**") of HK\$0.1354 for our unitholders, equivalent to a YoY increase of 12.6% and representing an attractive distribution yield of 5.8%¹.

Market Review

The year 2012 began with multiple challenges such as the ongoing Eurozone debt crisis, fiscal uncertainties in the United States and a possible economic hard landing in Mainland China. Thanks to the decisive actions taken by central governments around the globe to launch economic stimulus, most of these issues were well on their way to being resolved by the end of the year. However, a full rebound of the global markets may still be beyond reach in the near term. In tandem with the subdued economies of its major foreign trade partners, Hong Kong recorded a modest 1.4% full year real GDP growth, the slowest since 2009².

Against this backdrop, the office property market in Hong Kong was inevitably affected. However, Prosperity REIT's properties are strategically located in decentralized areas where both demand and supply remained favorable during the Reporting Year.

On the demand side, the uncertain business environment further encouraged the trend to move offices into decentralized areas. Consequently, in contrast to the weakened market sentiment in the central business district ("**CBD**"), rental in decentralized areas remained resilient. On the supply side, vacancy in the overall office market held in a low range of 3.4% to 4.4%³ throughout the year due to the limited introduction of new office space in the territory. Supported by healthy underlying demand and extremely tight supply, the office property market in decentralized areas remained relatively impervious to economic slowdown.

¹ Based on Prosperity REIT's closing unit price of HK\$2.35 as at 31 December 2012

² Source: Hong Kong Census and Statistics Department

³ Source: Jones Lang LaSalle

Chairman's Statement (continued)

Operations Review

During the Reporting Year, revenue rose 11.9% YoY to HK\$308.4 million, on the back of the resilient decentralized office property market. Through prudent cost control, the cost-to-revenue ratio improved to 22.3%. As a result, net property income recorded a leap of 13.2%, reaching HK\$239.5 million.

Portfolio occupancy rate remained steady at 98.5% as at 31 December 2012. Average effective unit rent jumped to HK\$16.94 per sq. ft., representing an increase of 12.6% YoY. Our proactive leasing strategy and strong tenant relations enabled us to further improve the tenant retention rate to 71.5% during the Reporting Year. Rental reversion rate reached an astounding 36.1%. Gearing ratio remained at a prudent level of 22.4% as at 31 December 2012.

Highlight of the year was the approval by the Hong Kong SAR government to convert the use of Prosperity Place from industrial/office to commercial under the industrial buildings revitalization scheme. This approval allows Prosperity Place to include commercial elements, thus enabling us to tap into the expanding high quality commercial tenant pool in Kowloon East.

Prospects

Despite the positive economic indicators which began to emerge at the end of the year, we expect the global economy will remain fragile in 2013. However, the drivers for a resilient decentralized office property market in Hong Kong remain very much intact.

We remain committed to providing stable and sustainable returns to our unitholders. In light of the uncertain macro conditions ahead, we will actively manage and enhance our assets to drive rental and valuation growth. The industrial/office focus in our portfolio allows us to benefit from wholesale conversion under the industrial buildings revitalization scheme. We plan to continue utilizing this unique opportunity going forward to upgrade our portfolio. Last but not least, we will prudently manage our operating and financial costs to prepare for any contingencies in the macro environment.

Having steered through difficult market conditions in the past, we are confident in our ability to successfully deal with future challenges. Due to the ongoing trend of office decentralization and, in particular, our strategic position in Kowloon East, Prosperity REIT with its strong fundamentals will, barring unforeseen circumstances, remain resilient amid the uncertain global economy.


Acknowledgement

I would like to take this opportunity to thank my fellow Board members, our management team, staff, service providers and business partners for their contributions to the success of Prosperity REIT.

I would also like to congratulate Ms. Mavis Wong, who has recently been promoted to Chief Executive Officer. Ms. Wong has been a key member of the investment and asset management team since the listing of Prosperity REIT.

Special thanks must go to The Hong Kong Institute of Directors for bestowing the Directors Of The Year Awards 2012 to our Board. We are honored to be recognized for our corporate governance practices by an authoritative institution and to receive such a strong vote of confidence.

Finally, I would like to express my deep gratitude to you, our unitholders, for your continuing support and confidence throughout the year.



Chiu Kwok Hung, Justin

Chairman

ARA Asset Management (Prosperity) Limited

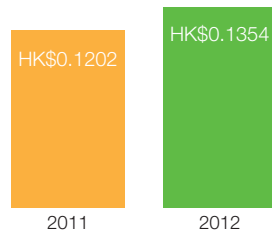
as manager of Prosperity REIT

Hong Kong, 28 February 2013

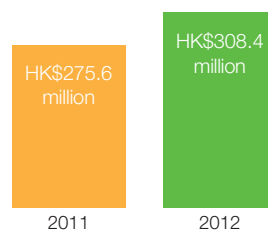


Performance Highlights in 2012

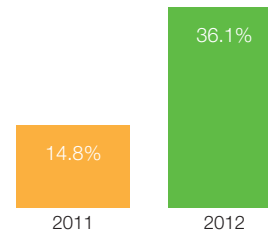
Distribution Per Unit¹
+12.6%



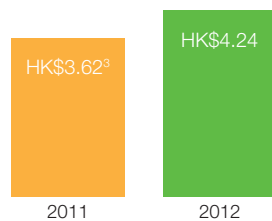
Revenue¹
+11.9%



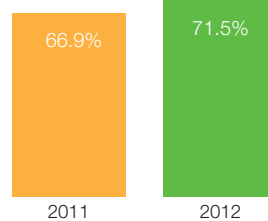
Rental Reversion Rate¹
+21.3%⁴



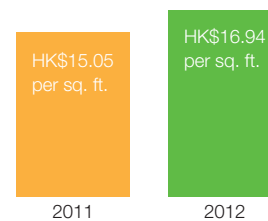
Net Asset Value Per Unit²
+17.1%



Tenant Retention Rate¹
+4.6%⁴



Average Effective Unit Rent¹
+12.6%



Notes:

¹ For the year ended 31 December

² As at 31 December

³ Net asset value per unit as at 31 December 2011 has been restated due to the amendments to Hong Kong Accounting Standard 12

⁴ Absolute change

Trust Review

Diversified Property Portfolio

Prosperity REIT has a diversified portfolio comprising seven high-quality properties in the decentralized business districts of Hong Kong. The portfolio comprises all, or a portion of, two Grade A office buildings, two commercial buildings, two industrial/office buildings and one industrial building, with total gross rentable area of about 1.22 million sq. ft.. All properties in Prosperity REIT's portfolio are well served by multiple transportation networks.

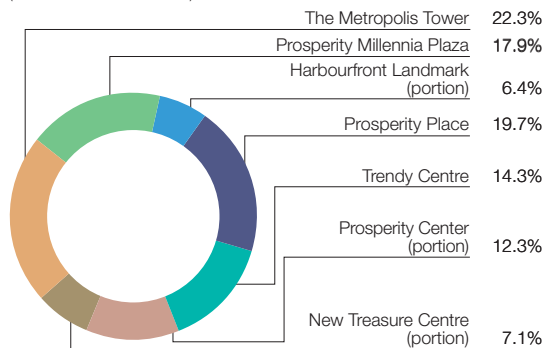
These seven properties were completed during the period from 1995 to 2001. As at 31 December 2012, the appraised value of the portfolio was HK\$7,952 million. Grade A office buildings, commercial buildings, industrial/office buildings and industrial building accounted for 55.4%, 21.8%, 19.4% and 3.4% of the total appraised value respectively.

	Valuation HK\$ million as at 31 December 2012	Valuation HK\$ million as at 31 December 2011	Percentage change Increase/(Decrease)
Grade A Office			
The Metropolis Tower	2,773	2,508	10.6%
Prosperity Millennia Plaza	1,632	1,480	10.3%
Commercial			
Harbourfront Landmark (portion)	436	397	9.8%
Prosperity Place	1,301	1,006	29.3%
Industrial/Office			
Trendy Centre	818	732	11.7%
Prosperity Center (portion)	726	636	14.2%
Industrial			
New Treasure Centre (portion)	266	232	14.7%
Total	7,952	6,991	13.7%

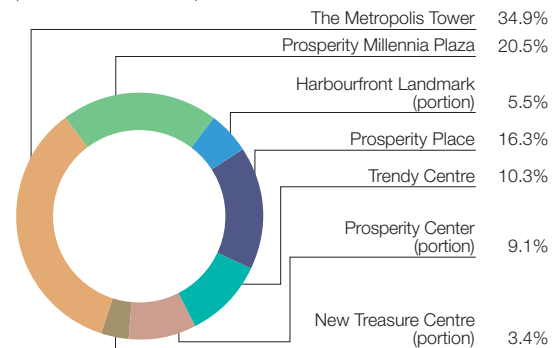
Trust Review (continued)

Gross Rentable Area by Property

(as at 31 December 2012)

**Appraised Value by Property**

(as at 31 December 2012)

**Effective Lease Management**

As a result of proactive tenant recruitment efforts by the REIT Manager, the portfolio's occupancy rate maintained at a high level of 98.5% as at 31 December 2012. The portfolio's average effective unit rent increased by 12.6% YoY to HK\$16.94 per sq. ft., with the rental reversion rate at an astounding 36.1% for the leases successfully renewed in 2012.

As at 31 December 2012, leases expiring in 2013 accounted for 33.9% of the portfolio's gross rental income. Proactive leasing strategies will be continued in 2013 to deliver stable distribution to unitholders.

Lease Expiry Profile by Gross Rental Income (as at 31 December 2012)

	31 December 2012 and 2013	2014	2015 and Beyond
The Metropolis Tower	33.6%	22.1%	44.3%
Prosperity Millennia Plaza	33.1%	46.8%	20.1%
Harbourfront Landmark (portion)	0.0%	99.9%	0.1%
Prosperity Place	35.8%	50.0%	14.2%
Trendy Centre	44.9%	41.6%	13.5%
Prosperity Center (portion)	45.0%	33.3%	21.7%
New Treasure Centre (portion)	32.5%	49.7%	17.8%
Portfolio	33.9%	40.6%	25.5%

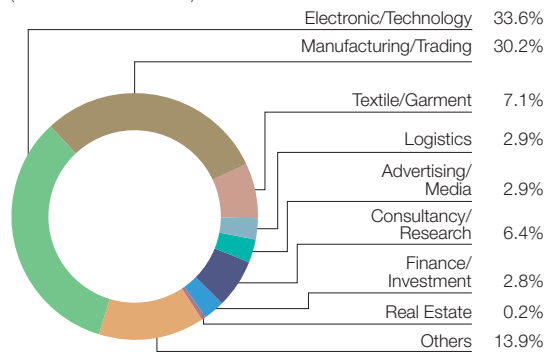
Well-balanced Tenant Mix

As at 31 December 2012, Prosperity REIT had a total of 546 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 business sectors such as electronics, technology, manufacturing, trading, as well as textiles and garments.

Over 60% (in terms of gross rentable area) of our tenants are medium-to-large sized enterprises. 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.

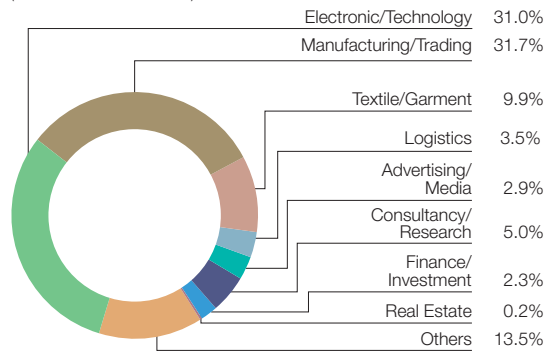
Trade Mix by Gross Rental Income

(as at 31 December 2012)



Trade Mix by Gross Rentable Area

(as at 31 December 2012)



Trust Review (continued)

Size of tenant premises on gross rentable area (as at 31 December 2012)	Percentage
Above 10,000 sq. ft.	21.4%
5,001 sq. ft.–10,000 sq. ft.	12.5%
2,001 sq. ft.–5,000 sq. ft.	26.4%
1,001 sq. ft.–2,000 sq. ft.	26.0%
1,000 sq. ft. and below	13.7%
Total	100.0%

Close-to-Zero Rent Delinquency Rate

During 2012, 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.

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. During 2012, a number of asset enhancement works were carried out at The Metropolis Tower, Prosperity Place and Trendy Centre. Asset enhancement initiatives will continue in 2013 across the entire portfolio, with prudently planned payback periods.

Outlook

Since its listing on 16 December 2005 (the “**Listing Date**”), Prosperity REIT has met challenges posed by various economic uncertainties, and 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 stable returns to the unitholders in 2013 through our proven expertise in professional management.



1 The Metropolis Tower



2 Prosperity Millennium Plaza



3 Harbourfront Landmark Property (portion)



4 Prosperity Place



5 Trendy Centre



6 Prosperity Center Property (portion)



7 New Treasure Centre Property (portion)

Trust Review (continued)

The Metropolis Tower



A uniquely and meticulously designed green wall was installed at the entrance lobby to further promote green life to our tenants and the community.



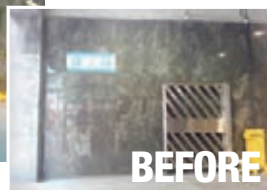
Prosperity Place



The concrete parapet wall at the roof garden was replaced with a tempered glass wall for tenants to enjoy better views of the Victoria Harbour as well as the Kai Tak Cruise Terminal.



A vertical green wall was installed at the car park entrance to create an eco-friendly surrounding and increase the environmental awareness of our tenants and the community.



Trendy Centre



The cargo lift lobbies on typical floors were renovated to enhance the work environment for our tenants and increase the competitiveness of the building.



The common washrooms were renovated to improve hygiene conditions for our tenants.



Prosperity REIT Portfolio

The Metropolis Tower

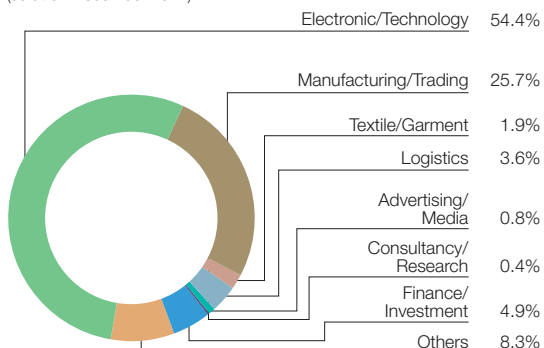


Top 5 Tenants¹

Tenants	Trade	GRA* (sq. ft.)	% of GRI**	% of GRA
Canon Hongkong Company Limited	Electronic/Technology	52,105	19.2%	19.6%
The Hong Kong Polytechnic University	Others	21,298	10.5%	8.0%
NEC Hong Kong Limited	Electronic/Technology	18,161	6.0%	6.8%
Heidelberg Hong Kong Limited	Manufacturing/Trading	11,885	4.4%	4.5%
Presidio Production Limited	Electronic/Technology	11,319	4.3%	4.3%

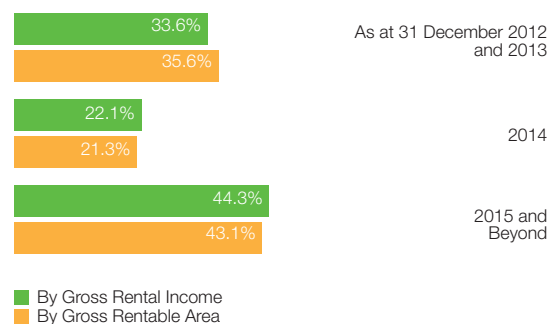
The Metropolis Tower Trade Mix by Gross Rentable Area

(as at 31 December 2012)



Lease Expiry Profile of The Metropolis Tower

(as at 31 December 2012)



* Gross rentable area ** Gross rental income

¹ Top 5 tenants are measured based on tenant's contribution to the total rental income of the property as at 31 December 2012.

Location	: 10 Metropolis Drive, Hung Hom, Kowloon
Year of Completion	: 2001
Gross Rentable Area (sq. ft.)	: 271,418
No. of Car Park Spaces	: 98
Appraised Value (HK\$ million)	: 2,773
Number of Tenants	: 81

Occupying a prime location in the commercial hub of Hung Hom and featuring spectacular sea view of the 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 of a Grade A office tower, a 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.

A uniquely and meticulously designed green wall was installed at the entrance lobby in 2012 in order to further promote green life and environmental awareness to our tenants and the community, following the successful opening of the living green roof garden in 2010.

As at 31 December 2012, the occupancy rate of the building was 97.9%.



Prosperity REIT Portfolio (continued)

Prosperity Millennia Plaza

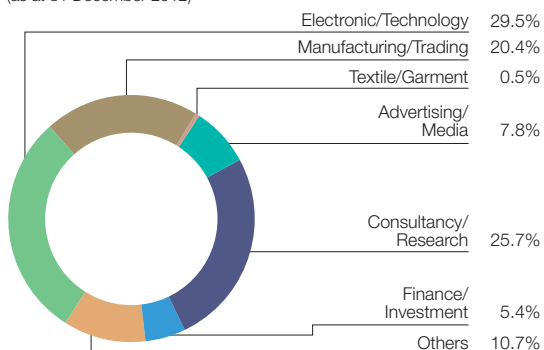


Top 5 Tenants

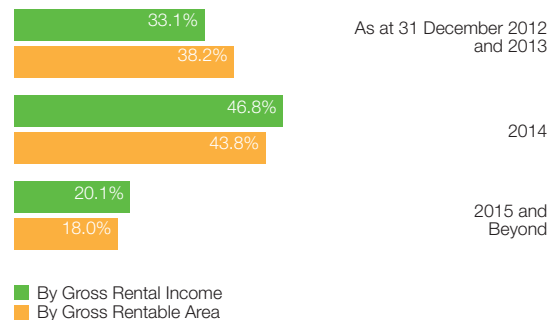
Tenants	Trade	GRA (sq. ft.)	% of GRI	% of GRA
JDB Holdings Limited	Consultancy/Research	17,181	9.9%	7.9%
Computer and Technologies International Limited	Electronic/Technology	16,628	7.8%	7.7%
Lamex Trading Company Limited	Manufacturing/Trading	16,132	7.7%	7.4%
Jobs DB Hong Kong Limited	Consultancy/Research	7,818	4.6%	3.6%
Owtel Consulting Limited	Consultancy/Research	8,314	4.3%	3.8%

Prosperity Millennia Plaza
Trade Mix by Gross Rentable Area

(as at 31 December 2012)

Lease Expiry Profile of
Prosperity Millennia Plaza

(as at 31 December 2012)



Location	: 663 King's Road, North Point, Hong Kong
Year of Completion	: 1999
Gross Rentable Area (sq. ft.)	: 217,955
No. of Car Park Spaces	: 43
Appraised Value (HK\$ million)	: 1,632
Number of Tenants	: 73

With panoramic sea view of the Victoria Harbour and strategically located in the Island East office district, Prosperity Millennia 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.

The entire Island East district has been 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.

Upgrading of the common corridors and washrooms was completed in the third quarter of 2012 with the aim to improve tenants' working environment.

As at 31 December 2012, the occupancy rate of the building was 99.6%.



Prosperity REIT Portfolio (continued)

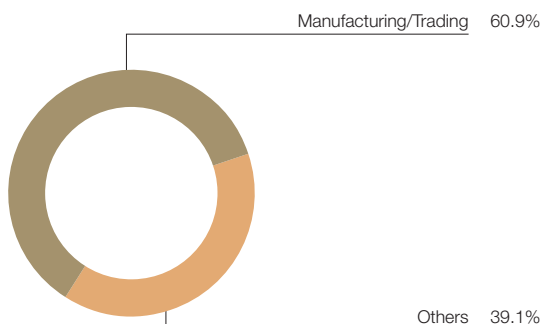
Harbourfront Landmark Property (Portion of Harbourfront Landmark)



Tenants	Trade	GRA (sq. ft.)	% of GRI	% of GRA
Universal Entertainment Hong Kong Limited	Others	30,151	42.0%	39.1%
Hallmark Cards (HK) Limited	Manufacturing/Trading	29,063	35.9%	37.8%
UP Global Sourcing Hong Kong Limited	Manufacturing/Trading	17,807	22.0%	23.1%

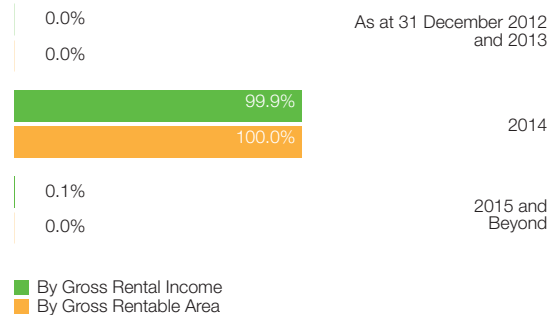
Harbourfront Landmark Property Trade Mix by Gross Rentable Area

(as at 31 December 2012)



Lease Expiry Profile of Harbourfront Landmark Property

(as at 31 December 2012)



Location	: 11 Wan Hoi Street, Hung Hom, Kowloon
Year of Completion	: 2001
Gross Rentable Area (sq. ft.)	: 77,021
No. of Car Park Spaces	: –
Appraised Value (HK\$ million)	: 436
Number of Tenants	: 4

Harbourfront Landmark Property is a three-storey commercial area on the podium level of Harbourfront Landmark, a stunning 70-storey skyscraper on the harbour front of the Kowloon peninsula, offering breathtaking sea view of the 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 Mainland China. 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 the Hong Kong Island. The Hung Hom pier is located within a three-minute walking distance from the building, with regular ferry services to and from the Hong Kong Island business districts at North Point pier.

As at 31 December 2012, the occupancy rate of the property was 100.0%.



Prosperity REIT Portfolio (continued)

Prosperity Place

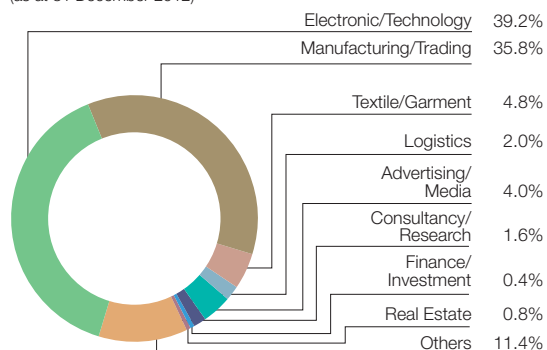


Top 5 Tenants

Tenants	Trade	GRA (sq. ft.)	% of GRI	% of GRA
Evlite Electronics Company Limited	Electronic/Technology	11,819	4.8%	5.1%
Dartslive International Limited	Others	5,402	3.0%	2.3%
Radio Frequency Engineering Limited	Electronic/Technology	5,608	2.5%	2.4%
Opsec Delta (HK) Limited	Manufacturing/Trading	6,355	2.3%	2.8%
Wistron Hong Kong Limited	Electronic/Technology	4,598	2.2%	2.0%

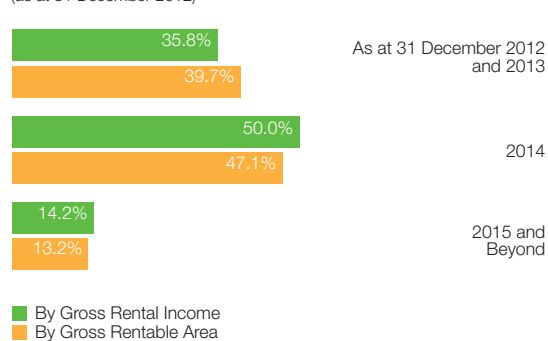
Prosperity Place Trade Mix by Gross Rentable Area

(as at 31 December 2012)



Lease Expiry Profile of Prosperity Place

(as at 31 December 2012)



Location	: 6 Shing Yip Street, Kwun Tong, Kowloon
Year of Completion	: 1996
Gross Rentable Area (sq. ft.)	: 240,000
No. of Car Park Spaces	: 83 ²
Appraised Value (HK\$ million)	: 1,301
Number of Tenants	: 118

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. With the implementation of Kai Tak Development and the Kwun Tong Town Centre Renewal Projects by the Government, the district shall undergo significant change by uplifting of transport infrastructures. Both public and private sectors' developments and community facilities are scheduled to be completed in the coming years. Due to these attractive developments, prestigious tenants from the traditional core 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 to renovate the ground floor lobby, common lift lobbies, passenger lift cars, corridors on the upper floors, washrooms and lower portion of the façade, to erect a green roof garden and to upgrade the lift controller systems.

In 2012, the concrete parapet wall at the roof garden was replaced with a tempered glass wall for tenants to enjoy better views of the Victoria Harbour as well as the Kai Tak Cruise Terminal. Moreover, a vertical green wall was installed at the car park entrance to create an eco-friendly surrounding and increase the environmental awareness to our tenants and the community.

The special waiver to convert Prosperity Place's use from industrial/office to commercial under the industrial buildings revitalization scheme was executed in the fourth quarter of 2012. The relevant additions and alterations works have been submitted to the Government for approval and are expected to be completed in the first half of 2013. Upon completion of the conversion, Prosperity Place will become a premium commercial landmark in the Kowloon East district.

As at 31 December 2012, the occupancy rate of the building was 96.1%.

² The number of car park spaces at Prosperity Place had been increased from 60 to 83 in order to fulfill the requirements of the conversion of Prosperity Place's use from industrial/office to commercial in the fourth quarter of 2012.



Prosperity REIT Portfolio (continued)

Trendy Centre

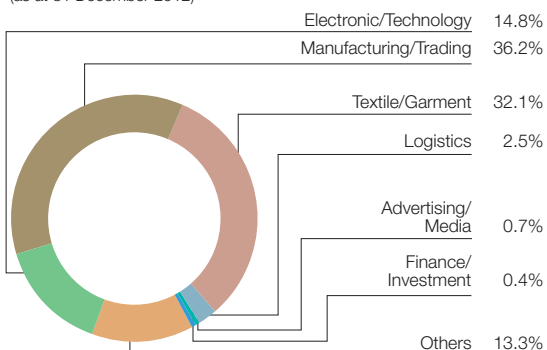


Top 5 Tenants

Tenants	Trade	GRA (sq. ft.)	% of GRI	% of GRA
Digital World International Limited	Electronic/Technology	4,773	4.1%	2.8%
CEH Textiles Limited	Textile/Garment	6,849	3.7%	4.0%
Madrid Cafe O/B Madrid Group Limited	Restaurant	708	3.2%	0.4%
STI Asia Pacific Limited	Manufacturing/Trading	898	2.1%	0.5%
Sun-Flower Lace (H.K.) Company Limited	Textile/Garment	3,366	1.7%	2.0%

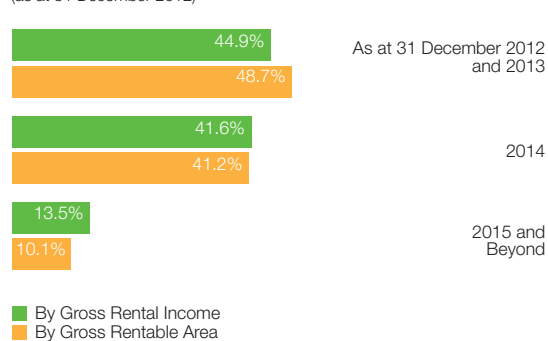
Trendy Centre Trade Mix by Gross Rentable Area

(as at 31 December 2012)



Lease Expiry Profile of Trendy Centre

(as at 31 December 2012)



Location	: 682 Castle Peak Road, Lai Chi Kok, Kowloon
Year of Completion	: 1998
Gross Rentable Area (sq. ft.)	: 173,764
No. of Car Park Spaces	: 79
Appraised Value (HK\$ million)	: 818
Number of Tenants	: 152

Situated on Castle Peak Road in Lai Chi Kok, 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 expressway incorporating the Ting Kau Bridge and Kong Sham Western Highway and the Route 8 expressway incorporating the Tsing Ma Bridge and Stonecutters Bridge, 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.

In the fourth quarter of 2012, to enhance the working environment of our tenants and increase competitiveness of the building, renovation works for the common washrooms and cargo lift lobbies on typical floors commenced. The target completion date is the second quarter of 2013.

As at 31 December 2012, the occupancy rate of the building was 99.2%.



Prosperity REIT Portfolio (continued)

Prosperity Center Property (Portion of Prosperity Center)

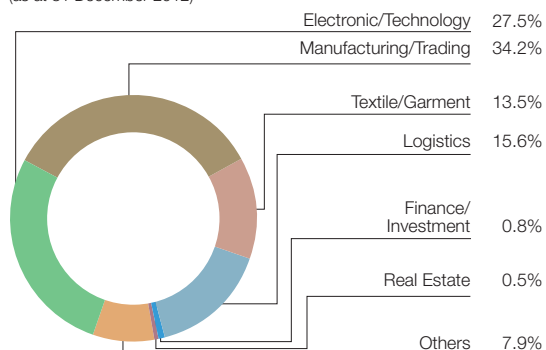


Top 5 Tenants

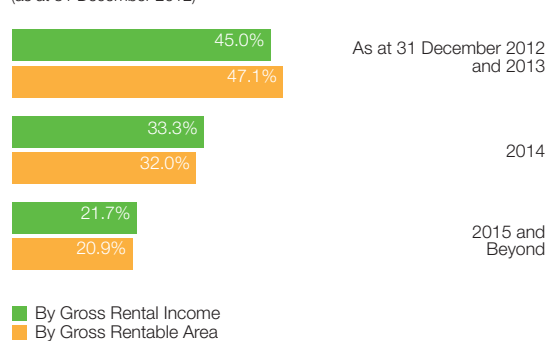
Tenants	Trade	GRA (sq. ft.)	% of GRI	% of GRA
Cosme De Net Co. Limited	Manufacturing/Trading	21,056	16.0%	14.1%
Aurora Fashions Asia Limited	Textile/Garment	10,528	8.5%	7.1%
Metatech Limited	Electronic/Technology	5,545	3.5%	3.7%
Intersport Asia Pacific Limited	Manufacturing/Trading	4,597	3.4%	3.1%
"A Better Way" (Hong Kong) Limited	Electronic/Technology	5,588	3.3%	3.7%

Prosperity Center Property
Trade Mix by Gross Rentable Area

(as at 31 December 2012)

Lease Expiry Profile of
Prosperity Center Property

(as at 31 December 2012)



Location	: 25 Chong Yip Street, Kwun Tong, Kowloon
Year of Completion	: 1999
Gross Rentable Area (sq. ft.)	: 149,253
No. of Car Park Spaces	: 105
Appraised Value (HK\$ million)	: 726
Number of Tenants	: 69

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 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, sub-divisible floor plates, cargo lifts, high-grade passenger lifts, ample loading/unloading bays, and related facilities.

As at 31 December 2012, the occupancy rate of the property was 100.0%.



Prosperity REIT Portfolio (continued)

New Treasure Centre Property (Portion of New Treasure Centre)

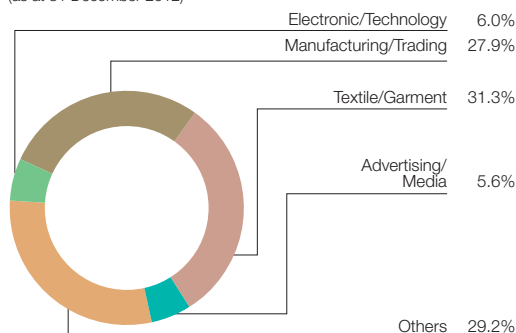


Top 5 Tenants

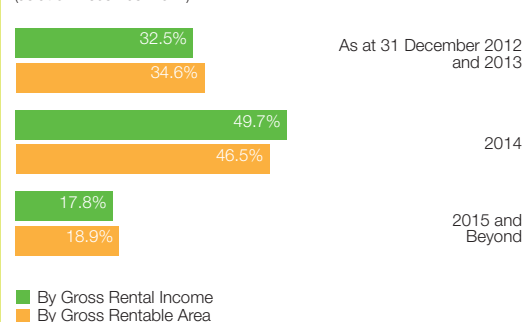
Tenants	Trade	GRA (sq. ft.)	% of GRI	% of GRA
Goodwell Property Management Limited*	Others	12,404	13.4%	14.6%
Union Apparel International Limited	Textile/Garment	2,649	3.7%	3.1%
Newmarket Engineering (Holding) Limited	Others	2,496	3.5%	2.9%
Macrotech Security & Management Services Limited	Others	2,496	3.4%	2.9%
Supermax Merchandising (H.K.) Limited	Manufacturing/Trading	2,496	3.2%	2.9%

New Treasure Centre Property
Trade Mix by Gross Rental Area

(as at 31 December 2012)

Lease Expiry Profile of
New Treasure Centre Property

(as at 31 December 2012)



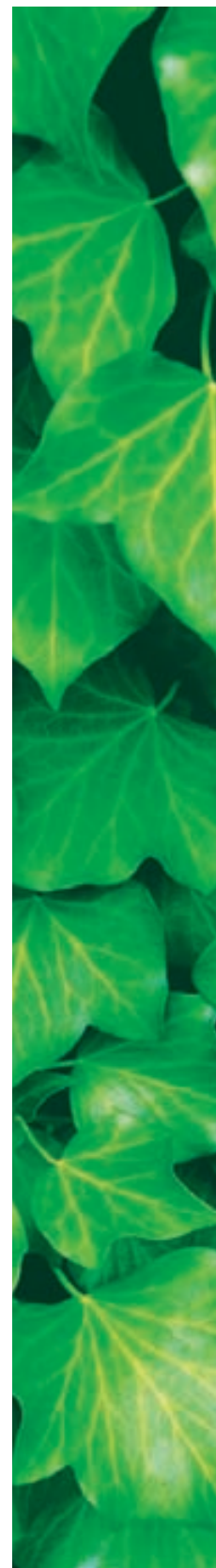
* Goodwell Property Management Limited is a connected person of Prosperity REIT within the meaning of the REIT Code.

Location	: 10 Ng Fong Street, San Po Kong, Kowloon
Year of Completion	: 1995
Gross Rentable Area (sq. ft.)	: 86,168
No. of Car Park Spaces	: 22
Appraised Value (HK\$ million)	: 266
Number of Tenants	: 49

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 and 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 2012, the occupancy rate of the property was 98.5%.





Management Discussion and Analysis

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

Performance Highlights

	Year ended 31 December 2012	Year ended 31 December 2011	Percentage change Increase/(Decrease)
Distribution per unit ("DPU")	HK\$0.1354	HK\$0.1202	12.6%
Key financial figures			
	As at 31 December 2012	As at 31 December 2011	Percentage change Increase/(Decrease)
Net asset value per unit	HK\$4.24	HK\$3.62*	17.1%
Property valuation	HK\$7,952 million	HK\$6,991 million	13.7%
Gearing ratio**	22.4%	25.6%	(3.2%) ¹
Operation data			
	Year ended 31 December 2012	Year ended 31 December 2011	Percentage change Increase/(Decrease)
Revenue	HK\$308.4 million	HK\$275.6 million	11.9%
Net property income	HK\$239.5 million	HK\$211.5 million	13.2%
Average effective unit rent	HK\$16.94 per sq. ft.	HK\$15.05 per sq. ft.	12.6%
Occupancy rate (as at 31 December)	98.5%	98.8%	(0.3%) ¹
Tenant retention rate	71.5%	66.9%	4.6% ¹
Rental reversion rate	36.1%	14.8%	21.3% ¹
Cost-to-revenue ratio	22.3%	23.3%	(1.0%) ¹

* Net asset value per unit as at 31 December 2011 has been restated due to the amendments to Hong Kong Accounting Standard 12.

** This excludes the bank facility origination fees already paid in cash, and is calculated by dividing total borrowings over total assets.

¹ Absolute change

Management Discussion and Analysis (continued)

Operations Review

Prosperity REIT owns a diverse portfolio of seven properties in the decentralized business districts of Hong Kong, comprising all, or a portion of, two Grade A office buildings, two commercial buildings, two industrial/office buildings and one industrial building. The total gross rentable area is 1,215,579 sq. ft., with a total of 430 car park spaces as at 31 December 2012.

Information about the properties in the portfolio, as at 31 December 2012, are as follows:

	Location	Gross rentable area sq. ft.	No. of car park spaces	Valuation HK\$ million	Occupancy rate
Grade A Office					
The Metropolis Tower	Hung Hom	271,418	98	2,773	97.9%
Prosperity Millennia Plaza	North Point	217,955	43	1,632	99.6%
Commercial					
Harbourfront Landmark (portion)	Hung Hom	77,021	–	436	100.0%
Prosperity Place	Kwun Tong	240,000	83 ²	1,301	96.1%
Industrial/Office					
Trendy Centre	Lai Chi Kok	173,764	79	818	99.2%
Prosperity Center (portion)	Kwun Tong	149,253	105	726	100.0%
Industrial					
New Treasure Centre (portion)	San Po Kong	86,168	22	266	98.5%
Total		1,215,579	430	7,952	98.5%

² The number of car park spaces at Prosperity Place had been increased from 60 to 83 in order to fulfill the requirements of the conversion of Prosperity Place's use from industrial/office to commercial in the fourth quarter of 2012.

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 98.5% was recorded as at 31 December 2012, reflecting the effectiveness of the leasing strategies employed. As a result of increased revenue, coupled with efficient streamlining of operations, the cost-to-revenue ratio was maintained at a relatively low level of 22.3%.

	Occupancy rate (%) As at 31 December 2012	Occupancy rate (%) As at 31 December 2011	Percentage Change ³ Increase/(Decrease)
Grade A Office			
The Metropolis Tower	97.9	98.5	(0.6%)
Prosperity Millennia Plaza	99.6	100.0	(0.4%)
Commercial			
Harbourfront Landmark (portion)	100.0	100.0	–
Prosperity Place	96.1	98.8	(2.7%)
Industrial/Office			
Trendy Centre	99.2	96.3	2.9%
Prosperity Center (portion)	100.0	99.2	0.8%
Industrial			
New Treasure Centre (portion)	98.5	100.0	(1.5%)
Portfolio	98.5	98.8	(0.3%)

Investment Review

In light of current economic uncertainties, 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 advantages of emerging investment opportunities to facilitate growth through yield-accretive acquisitions and asset enhancement when appropriate opportunities arise.

³ Absolute change

Management Discussion and Analysis (continued)

Financial Review

The revenue and net property income of each property in Prosperity REIT's 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
Grade A Office				
The Metropolis Tower	83,961	18,673	102,634	81,943
Prosperity Millennia Plaza	52,140	12,456	64,596	50,789
Commercial				
Harbourfront Landmark (portion)	15,461	5,405	20,866	16,225
Prosperity Place	43,343	201	43,544	32,836
Industrial/Office				
Trendy Centre	31,108	5,950	37,058	28,177
Prosperity Center (portion)	25,006	2,895	27,901	20,934
Industrial				
New Treasure Centre (portion)	10,101	1,666	11,767	8,567
Total	261,120	47,246	308,366	239,471

Revenue

During the Reporting Year, revenue improved to HK\$308.4 million, being HK\$32.8 million or 11.9% higher than that of 2011.

The revenue comprised HK\$261.1 million of rental and car park income, plus HK\$47.3 million of rental related income. Rental and car park income was HK\$28.6 million or 12.3% above that of 2011.

Net Property Income

For the Reporting Year, the net property income was HK\$239.5 million, exceeding that of 2011 by HK\$28 million or 13.2%. The growth was mainly attributable to the strong rental reversion rate of 36.1% and the high tenant retention rate which resulted in higher income stream while saving in the operating expense. The cost-to-revenue ratio was reduced to 22.3%.

Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$186.9 million, representing a total DPU of HK\$0.1354. The distributable income for the Reporting Year is 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 constituting Prosperity REIT (the “**Trust Deed**”)) including a finance cost of HK\$10.2 million (equivalent to HK\$0.0074 per unit), which have been recorded in the consolidated statement of comprehensive income for the Reporting Year.

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 2012. 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 2012 to 31 December 2012 is HK\$96.0 million, equivalent to a DPU of HK\$0.0694. The interim DPU from 1 January 2012 to 30 June 2012 was HK\$0.0660, and the total DPU for the Reporting Year is HK\$0.1354, which represents a distribution yield of 5.8%⁴. The DPU increased 12.6% YoY mainly due to the increase in net property income, as a result of the strong rental reversion rate and the high tenant retention rate during the Reporting Year.

The distribution for the half year from 1 July 2012 to 31 December 2012 will be paid on Tuesday, 16 April 2013.

Liquidity and Financing

As at 31 December 2012, 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\$20 million was drawn as at 31 December 2012. The term loan is repayable in five years from 16 August 2010 and will mature and become payable on 16 August 2015. The revolving credit 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 of 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 22.4% as at 31 December 2012, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT’s gross assets was 27.3% as at 31 December 2012.

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.

⁴ Based on Prosperity REIT’s closing unit price of HK\$2.35 as at 31 December 2012

Management Discussion and Analysis (continued)

Investment Properties and Property Valuation

For the Reporting Year, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$947.7 million, based on a professional valuation performed by an independent valuer, Colliers International (Hong Kong) Limited. The movements of fair values are tabulated below:

	31 December 2012	31 December 2011
	HK\$'000	HK\$'000
Fair value at the beginning of the year	6,991,000	5,934,000
Additional expenditure	13,280	12,946
Increase in fair value of investment properties	947,720	1,044,054
Fair value at the end of the year	7,952,000	6,991,000

Charges on Assets

As at 31 December 2012, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$7,885 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 facilities 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 externally 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, 5 April 2013 to Wednesday, 10 April 2013, 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 Wednesday, 3 April 2013. The payment date of the final distribution will be on Tuesday, 16 April 2013.

Major Real Estate Agents and Contractors

The commission paid to the top five real estate agents during the Reporting Year was HK\$653,000 and the total value of service contracts of the top five contractors engaged by Prosperity REIT was HK\$45,307,000.

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	231	14.7%
Cushman & Wakefield (HK) Limited	Leasing	112	7.1%
Pacific Rim	Leasing	110	7.0%
Prime Property Consultants Limited	Leasing	102	6.5%
Midland Realty	Leasing	98	6.2%
		653	41.5%

Top Five Contractors

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

Contractors	Nature of Services	Commission Paid HK\$'000	Percentage
Goodwell Property Management Limited	Building management	22,871	48.4%
Citybase Property Management Limited	Building management	11,027	23.4%
Goodwell-Prosperity Property Services Limited	Property management	6,948	14.7%
Harbourfront Landmark Premium Services Limited	Building management	2,588	5.5%
E-Park Parking Management Limited	Carpark operation	1,873	4.0%
		45,307	96.0%



The Property Manager

Pursuant to the property management agreement dated 29 November 2005 between the REIT Manager and Goodwell-Prosperity Property Services Limited (the “**Property Manager**”), as amended, supplemented and/or otherwise modified or extended from time to time, the REIT 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 REIT Manager.

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

CHAN Kei Kin, Ken
Senior Manager, Asset Management

WONG Lai Hung, Mavis
Chief Executive Officer

NG Chi Wah, Kevin
Asset Manager

YUEN Sin Sze, Cecilia
Assistant Property Manager

WONG Ling Fei, Mable
Assistant Chief Manager, Leasing

CHU Kin Leung, Kevin
Senior Property Manager

DENG Chi Yung, Jonathan
Leasing Manager

CHAN Chun Kwok, Boris
Leasing Manager

KONG Wai Kau, Ivan
Technical Manager





Corporate Social Responsibilities

As a real estate owner, we realize that our properties, as well as the staff of the REIT Manager and the Property Manager, are not just stand-alone entities, but part of the larger society. The continuous support from our stakeholders, which include our tenants, staff and the society, is vital to the sustainable development of our business. Since listing, Prosperity REIT has established a culture to conduct business in a sustainable manner. In addition to the focus on delivering stable and sustainable returns to our unitholders, we are committed to a wide range of social responsibilities towards the community, the environment, our tenants as well as our staff.

The following highlights some of our corporate social responsibility (“CSR”) accomplishments in 2012. Moving forward, we will continue to undertake our social responsibilities by reassessing existing programs and exploring alternative CSR options.

Caring for Community

Through charitable giving and volunteering, we seek to give back to the local community. We actively participate 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 the society. In support of the staff’s efforts, we foster a culture that encourages community involvement.



The People’s Food Bank established by St. James’ Settlement extends a helping hand in combating poverty in the community. Continuing the partnership with St. James’ Settlement, we made food donations to the People’s Food Bank during the year.

We received the “Caring Company Award” from The Hong Kong Council of Social Service for the third consecutive year in recognition of our continued CSR efforts.



In support of Lingnan University’s future development, we energetically participated in the “Walking with Lingnanians” fundraising walkathon 2012. The walkathon started from Sha Tin Town Hall Plaza and proceeded along Shing Mun River.



Used computer accessories were donated to Caritas-HK Computer Workshop’s “Computer Refurbish Project”. The donated computer accessories would be refurbished, upgraded and delivered to low income families free of charge.

Corporate Social Responsibility (continued)



We volunteered in an art workshop arranged by the New Life Psychiatric Rehabilitation Association. The interactive process of creating artwork among the participants helped promote a positive sense of well-being for people in recovery of mental health issues.

During the year, we collaborated with The Community Chest on a number of charitable fund raising activities, including the Skip Lunch Day, Green Day, Dress Casual Day and Love Teeth Day.



Joining hands again with St. James' Settlement, we volunteered in the Flag Day, raising proceeds to help the underprivileged.



We sponsored the 4th World Business Ethics Forum organized by Hong Kong Baptist University. This forum offered a platform for academics and practitioners from around the world to share and discuss research findings on business ethics.

Caring For Environment

Greening our property portfolio offers great opportunity to protect the environment and to provide tenants with an environmentally friendly workplace. Apart from creating more green space within the properties, we also employ a soft approach towards raising tenants' awareness in environmental protection.

(a) Rooftop Garden at The Metropolis Tower

Realizing the increasing need for green space in Hong Kong where land is limited, we started introducing rooftop gardens to a number of our properties a few years ago. Rooftop gardens not only add greenery to the city landscape and provide leisure space for tenants, but also indirectly contribute to the saving of electricity by reducing the need for air conditioning. Air quality is also improved as the plants act as a filter to purify air pollutants.

In 2012, The Metropolis Tower was accredited "The Best Landscape Award for Private Property Development" by the Leisure and Cultural Services Department. This biannual award recognizes recipients' excellence in property greening through outstanding landscape design and horticultural maintenance.



At The Metropolis Tower, green elements include solar panels, a wind turbine, and a battery system to provide lighting. The plants and vegetation are irrigated with water from the 1,000-litre rain water collection system.

(b) Green Walls at The Metropolis Tower and Prosperity Place

In 2012, we brought our greening efforts from rooftop to the ground. We installed 2 green walls at the lobby of The Metropolis Tower and the car park entrance of Prosperity Place respectively. Vertical green walls offer similar environmental benefits as rooftop gardens — reducing air temperature and improving air quality. Additionally, green walls are often appreciated for their aesthetic appeals and minimal use of ground space.



Installed at the lobby of The Metropolis Tower, this stunning green wall is a changing piece of artwork, providing striking first impressions to visitors.



Erected at the car park entrance of Prosperity Place, this green wall adds tremendous environmental benefit by purifying the pollutants emitted from the vehicles in our car park and those passing through the busy Shing Yip Street outside of Prosperity Place.

(c) Tenants' Involvement

Environmental protection is a joint effort. Therefore, besides focusing on asset enhancements, we actively engage tenants to adopt green practices.



Partnering with the Environmental Protection Department, used computer accessories were collected from tenants for donation in an effort to reduce electronic waste.



Waste separation for recycling was regularly promoted at our properties to maintain the awareness of the program and increase participation.



Participation in the Earth Hour 2012 organized by the World Wildlife Fund raised tenants' awareness in taking action for climate changes.

Corporate Social Responsibility (continued)

Caring for Tenants

Tenants form a key pillar of our business. Our asset maintenance and enhancement works accomplished throughout the years indicate our commitment in providing a high quality workplace. Moreover, we strive to foster a harmonious relationship with our tenants through attentive property management service.

(a) Excellence in Facility Management Award

Prosperity Place won for the second time the “Excellence in Facility Management Award” organized by The Hong Kong Institute of Facility Management.

We are proud that our facility management received industry recognition.



(b) Engagement with tenants

We place emphasis in open communication with tenants. Face-to-face dialogues provide a sense of sincerity and ease of receiving comments/feedback. We value this communication channel as a means of establishing sustainable relationship with tenants and understanding their needs for continuous improvement in our operations.

Courtesy visits to tenants' offices provided an ideal opportunity to discuss casually a range of issues.



To ensure Prosperity REIT's properties are maintained at the highest level of excellence, our Board members visited tenant's office to understand their business and hear their opinion.



We mingled with tenants at events such as cocktail parties, fireworks nights, Chinese New Year lion dances and golf tournament held at our properties.

Caring for Staff

The staff of the REIT Manager and the Property Manager are building blocks of our business. Besides performing hands-on work, they also create ideas, share insights and work together to contribute to the success of Prosperity REIT. We strive to provide them with a safe, healthy, enjoyable and supportive working environment.

(a) Occupational health and safety

Work procedures and guidelines are documented in details to ensure occupational health and safety at our workplace.



We follow the "5S methodology" in organizing and maintaining the tools, files and other work items efficiently and effectively. Standardization of the placement of work items fosters a clean and tidy workplace, and more importantly, minimizes potential work injuries.



Educational sessions on various occupational health and safety topics are organized for the staff to attend.



Office stretching exercises are regularly performed.



We provide full set of personal protection equipment to the frontline staff.

b) Training

To increase productivity, our staff are encouraged to continuously update their knowledge and frequently attend development seminars and workshops related to their job areas.



During the year, our staff attended classes on a variety of topics such as customer service, first aid, complaint management, enquiry handling, property market overview, regulatory and accounting standards updates, etc.

Corporate Social Responsibility (continued)

(c) Happy workforce

In attending regular activities such as outings, singing contests, movie nights, bowling competitions and dinner gatherings, our staff develop team spirit and a deeper sense of belonging to Prosperity REIT.



Team building activity



Company spring dinner



Bowling competition

Caring for Unitholders

We believe that business ethics is crucial for earning trust from unitholders and building a sustainable business. Since Prosperity REIT's listing, we have been committed to nurturing the loyalty and confidence of unitholders through effective communication and strong corporate governance practices.

(a) Open communication

We maintain an open channel of communication with our unitholders, including but not limited to the Annual General Meetings, results briefings, corporate website, investor conferences/meetings and property tours.

All Board members participated in the 2012 Annual General Meeting to have direct communication with unitholders.





Our Chairman, Dr. Justin Chiu, took the opportunity to communicate with unitholders at the Annual General Meeting to enhance investors' understanding of our business performance and strategies.



Senior management hosted briefings for the media and research houses to explain Prosperity REIT's financial results and business performance, and answered related questions.



We organized site tours at our properties in Kwun Tong for investors and analysts to better understand the property features and developments of the surrounding areas.

(b) Directors Of The Year Awards

Our Board won the Directors Of The Year Awards 2012 presented by The Hong Kong Institute of Directors. This award not only recognizes our Board's achievements in demonstrating high standards in corporate governance, but is also a gauge of the invaluable confidence given by our unitholders.



Strong corporate governance has always been the cornerstone of Prosperity REIT's business success. We are honored to be recognized for our corporate governance practices by an authoritative institution.



Our Awards in 2012

Kowloon West The Best Security Services Awards – Double Star Managed Property

Trendy Centre

Kowloon West Regional Crime Prevention Office



April

Caring Company Award 2012

The Hong Kong Council of Social Services



May

Best Landscape Award for Private Property Development 2012 – Merit

The Metropolis Tower

Leisure and Cultural Services Department



June

Wastewise Label – Class of Excellence

Prosperity Place

The Hong Kong Productivity Council



July

2011 Vision Awards Annual Report Competition – Silver

League of American Communications Professionals LLC (LACP)



July

Excellence in Facility Management Award (Office Building)

Prosperity Place

The Hong Kong Institute of Facility Management



October

Our Awards in 2012 (continued)

**Indoor Air Quality
Certificate – Good Class
Prosperity Place**

Environmental
Protection Department



October

**Directors Of The
Year Awards 2012**

The Hong Kong
Institute of Directors



November

**ARC Awards –
Non-Traditional Annual
Report (REIT) – Bronze**

MerComm, Inc.



November

**2012 Galaxy Awards –
Annual Reports (Real
Estate Investment) –
Bronze**

MerComm, Inc.



November

**2012 Galaxy Awards –
Annual Reports (REIT) –
Honors**

MerComm, Inc.



November

**Indoor Air
Quality Certificate –
Good Class
The Metropolis Tower**

Environmental
Protection Department



December

**Indoor Air Quality
Certificate – Good Class**
Prosperity Millennia Plaza

Environmental
Protection Department



December

**Quality Water Recognition
Scheme for Buildings –
Gold Certificate**

The Metropolis Tower

Water Supply Department



2012–2014

**Quality Water Recognition
Scheme for Buildings –
Gold Certificate**
Prosperity Millennia Plaza

Water Supply Department



2011–2013

**Quality Water Recognition
Scheme for Buildings –
Gold Certificate**
Prosperity Place

Water Supply Department



2011–2013

**Quality Water Recognition
Scheme for Buildings –
Gold Certificate**
Trendy Centre

Water Supply Department



2011–2013

**Quality Water Recognition
Scheme for Buildings –
Gold Certificate**
New Treasure Centre

Water Supply Department



2011–2013

Directors and Senior Management Biographical Information



CHIU Kwok Hung, Justin
Chairman and Non-executive Director



LIM Hwee Chiang
Non-executive Director



MA Lai Chee, Gerald
Non-executive Director



WONG Lai Hung, Mavis
Executive Director and
Chief Executive Officer



LAN Hong Tsung, David
Independent Non-executive Director



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



WONG Kwai Lam
Independent Non-executive Director

Directors

CHIU Kwok Hung, Justin

Chairman and Non-executive Director

Dr. CHIU Kwok Hung, Justin, aged 62, is the Chairman of the REIT Manager. He is also the Chairman and Non-executive Director of ARA Asset Management Limited (“ARA”), the holding company of the REIT Manager, the Chairman 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). Both ARA and Suntec REIT are listed on the Main Board of Singapore Exchange Securities Trading Limited (“SGX-ST”) while Fortune REIT is listed on the Main Board of both The Stock Exchange of Hong Kong Limited (“SEHK”) and SGX-ST. Dr. Chiu is also a Director of ARA Fund Management (Asia Dragon) Limited as the manager of the ARA Asia Dragon Fund. Dr. Chiu serves as a member of the Standing Committee of the 12th Shanghai Committee of the Chinese People’s Political Consultative Conference of the People’s Republic of China, and is 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.

Dr. 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. Dr. 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, Dr. 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.

Dr. Chiu holds Bachelor degrees in Sociology and Economics from Trent University in Ontario, Canada, and was conferred with Doctor of Social Sciences, *honoris causa* by Hong Kong Baptist University.

LIM Hwee Chiang

Non-executive Director

Mr. LIM Hwee Chiang, aged 56, is a Non-executive Director of the REIT Manager. He is also the Group Chief Executive Officer and an Executive Director of ARA. He has been a Director of ARA since its establishment. He is also a Director of ARA Trust Management (Suntec) Limited (the manager of Suntec REIT), ARA Asset Management (Fortune) Limited (the manager of Fortune REIT), ARA-CWT Trust Management (Cache) Limited (the manager of Cache Logistics Trust), Am ARA REIT Managers Sdn Bhd (the manager of AmFIRST REIT) and Hui Xian Asset Management Limited (the manager of Hui Xian REIT). ARA, Suntec REIT and Cache Logistics Trust are listed on the Main Board of SGX-ST, Fortune REIT is listed on the Main Board of both SEHK and SGX-ST, Hui Xian REIT is listed on the Main Board of SEHK, and AmFIRST REIT 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 The Management Corporation Strata Title Plan No. 2197 (Suntec City). Mr. Lim is also an Independent Director of Teckwah Industrial Corporation Limited which is listed on the Main Board of SGX-ST, and Non-executive Director of APN Property Group Limited which is listed in Australia. He is also a council member and the Chairman of the Property Management Committee of the Singapore Chinese Chamber of Commerce and Industry and a member of the Valuation Review Board of the Ministry of Finance of Singapore.

Mr. Lim has more than 30 years of experience in the real estate industry, and has received many notable corporate awards. His recent accolades include the Ernst & Young Entrepreneur of the Year Singapore 2012, Ernst & Young Entrepreneur of the Year — Financial Services 2012 and the Outstanding CEO of the Year 2011 at the Singapore Business Awards 2012. Mr. Lim, along with the Board of Directors of ARA, is also a recipient of the prestigious Best Managed Board (Gold) Award at the Singapore Corporate Awards 2012.

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.

Directors and Senior Management Biographical Information (continued)

WONG Lai Hung, Mavis

Executive Director and Chief Executive Officer

Ms. WONG Lai Hung, Mavis, aged 40, is an Executive Director, the Chief Executive Officer and a Responsible Officer of the REIT Manager. She is also the Chairman of the Disclosures Committee and a member of the Designated (Finance) Committee of the REIT Manager. Ms. Wong has led and/or been a member of the Investment and Asset Management Team of the REIT Manager since Prosperity REIT was listed in December 2005. She was the Director, Investment and Asset Management of the REIT Manager overseeing the business plans of Prosperity REIT's properties including leasing, property management and asset enhancement strategies, and is responsible for investment strategy and policy. Ms. Wong served as Acting Chief Executive Officer from 8 April 2011 to 31 December 2012, at which point she was re-designated as the Chief Executive Officer on 1 January 2013. Ms. Wong has been a Responsible Officer of the REIT Manager since July 2007.

Ms. Wong has close to 20 years of real estate industry experience. Prior to joining the REIT Manager, Ms. Wong worked in the leasing, marketing and asset/property management departments of various developers, management companies and corporations including Cheung Kong, New World Development Company Limited, Jardine Matheson & Co Limited, Goodwill Management Limited (a wholly-owned subsidiary of Henderson Land Development Co. Ltd) and Yaohan Department Store (HK) Limited. Ms. Wong is a Member of The Hong Kong Institute of Directors.

Ms. 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.

MA Lai Chee, Gerald

Non-executive Director

Mr. MA Lai Chee, Gerald, aged 45, is a Non-executive Director of the REIT Manager and a member of the Designated (Finance) Committee. He 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**"), a company listed on the Main Board of SEHK.

Mr. Ma has over 23 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, a member of the President's Circle, the Dean's Advisory Board for the Faculty of Arts and the China Advisory Council for the Sauder School of Business of the University of British Columbia, Canada ("**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

Mr. LAN Hong Tsung, David, aged 72, is an Independent Non-executive Director, the Chairman of the Audit Committee and a member of the Designated (Finance) Committee of the REIT Manager. He is also 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 on the Main Board of both SEHK and SGX-ST). Mr. Lan is also an Independent Non-executive Director of other listed companies in Hong Kong including Cheung Kong Infrastructure Holdings Limited ("**CK Infrastructure**") (in which he is a member of the Audit Committee), HTHKH (in which he is a member of each of the Audit Committee and Remuneration Committee), Hutchison Harbour Ring Limited and SJM Holdings Limited. Mr. Lan is currently the Chairman of David H T Lan Consultants Ltd., Supervisor of Nanyang Commercial Bank (China), Limited and holds a directorship at Nanyang Commercial Bank Ltd. as well as being a 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 and was awarded the Gold Bauhinia Star Medal (GBS) on 1 July 2000. He was appointed to the 10th and 11th sessions of the 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

Mrs. SNG Sow-Mei (alias Poon Sow Mei), aged 71, is an Independent Non-executive Director and a member of the Audit Committee of the REIT Manager. She is also an Independent Non-executive Director and a member of the Audit Committees of CK Infrastructure, Hutchison Port Holdings Management Pte Limited (the manager of Hutchison Port Holdings Trust ("**HPH Trust**")) and ARA Asset Management (Fortune) Limited (the manager of Fortune REIT), and an Independent Director and a member of the Audit Committee of ARA Trust Management (Suntec) Limited (the manager of Suntec REIT). CK Infrastructure is listed on the Main Board of SEHK, Fortune REIT is listed on the Main Board of both SEHK and SGX-ST, and HPH Trust and Suntec REIT are listed on the Main Board of SGX-ST. Since 2001, Mrs. Sng has been a Senior Consultant (International Business) of Singapore Technologies Electronics Ltd. Concurrently she is a Director of INFA Systems Ltd.

Prior to her appointments with Singapore Technologies Pte Ltd, where she was Director of Special Projects (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 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, who holds 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).

WONG Kwai Lam

Independent Non-executive Director

Mr. WONG Kwai Lam, aged 63, is an Independent Non-executive Director and a member of each of the Audit Committee and Designated (Finance) Committee of the REIT Manager. He is also an Independent Non-executive Director and a member of each of the Remuneration and Appraisal Committee and Related-Party Transaction Control Committee of China Merchants Bank Co., Ltd., a company listed on the Main Board of SEHK and Shanghai Stock Exchange, and an Independent Non-executive Director and a member of each of the Remuneration Committee and Nomination Committee of K. Wah International Holdings Limited, a company listed on the Main Board of SEHK. Mr. Wong is currently the Chairman of IncitAdv Consultants Ltd., a director of Opera Hong Kong Limited, a member of the Board of Trustees and a member of the Investment Committee of the Board of Trustees of New Asia College of the Chinese University of Hong Kong, and a member of the Investment Sub-Committee of the Chinese University of Hong Kong. He was formerly a member of the Advisory Committee of the Securities and Futures Commission in Hong Kong, a member of the Real Estate Investment Trust (REIT) Committee of the Securities and Futures Commission in Hong Kong and a member of the China Committee of the Hong Kong Trade Development Council.

Mr. Wong has over 33 years of experience in the commercial and investment banking industry. He worked with Merrill Lynch (Asia Pacific) Ltd. from May 1993 to August 2009 where he served as a Managing Director in the Asia investment banking division since January 1995. He was appointed as a Senior Client Advisor to Merrill Lynch (Asia Pacific) Ltd. in September 2009 and served in that position for one year. Prior to joining Merrill Lynch (Asia Pacific) Ltd., Mr. Wong had been a Director in the investment banking division of CS First Boston (Hong Kong) Ltd. and a Director and the head of primary market in Standard Chartered Asia Limited.

Mr. Wong holds Bachelor of Arts degree from the Chinese University of Hong Kong and a Ph. D from Leicester University, England.

Directors and Senior Management Biographical Information (continued)

Executive Officers

Ms. WONG Lai Hung, Mavis is the Chief Executive Officer of the REIT Manager. Details of her working experience are set out in the sub-section “Directors”.

Ms. Wong is responsible for working with the Board to determine the strategy for Prosperity REIT. She 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, she is responsible for planning the strategic development of Prosperity REIT and the day-to-day operations of the REIT Manager. She supervises the REIT Manager’s management team to ensure that Prosperity REIT operates in accordance with the stated strategy, policies and regulations.

Mr. 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 18 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 SEHK’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 a Certified Tax

Adviser and associate member of the Taxation Institute of Hong Kong. He graduated from Lingnan University with an Honours Diploma in Accountancy in 1993.

Ms. 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, Ms. 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, Ms. 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.

Ms. AU Ka Yee, Irene is the Senior Manager, Legal & Compliance 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 regulations. She is also responsible for overseeing all legal issues arising from the operation of Prosperity REIT and the REIT Manager.

Ms. Au was concurrently the Hong Kong-based Compliance Manager of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT) from March 2010 to April 2012. Prior to joining the REIT Manager in 2007, Ms. 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 of the United Kingdom, East Asia Branch.

Mr. CHAN Kei Kin, Ken is the Senior Manager, Asset Management 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 16 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).

Mr. NG Chi Wah, Kevin is the Asset Manager of the REIT Manager. He is responsible for strategic asset enhancement planning and project management of Prosperity REIT. Mr. Ng has about 14 years of experience in the real estate industry. Prior to joining the REIT Manager, he was the Assistant Technical Manager for Goodwell Property Management Limited responsible for formulating project development strategies, policies and overseeing the renovation projects for various commercial mall, office building and service apartment in Hong Kong and China.

Prior to that, Mr. Ng was the Engineer of Sino Estates Management Limited, responsible for the facility management and asset enhancement activities for various commercial mall and office building. Mr. Ng began his career with Yew Sang Hong Limited as Assistant Engineer.

Mr. Ng is a Registered Professional Engineer and Chartered Engineer. He holds a Master of Science degree in Environmental Engineering from The Hong Kong Polytechnic University and a Bachelor of Engineering degree in Building Services Engineering from The University of Northumbria at Newcastle. He is also a member of The Hong Kong Institution of Engineers, The Chartered Institution of Building Services Engineers and The Institution of Engineering and Technology.

Ms. KWAN Ka Yee, Carey is the Investor Relations Manager of the REIT Manager. She is responsible for communicating and liaising with unitholders and investors of Prosperity REIT.

Prior to joining the REIT Manager, Ms. Kwan was with Shun Tak Holdings Limited, a company listed on the Main Board of SEHK, where she served as the Assistant Investor Relations Manager. During her tenure with Shun Tak Holdings Limited, Ms. Kwan was tasked to maintain an open channel of communication with various stakeholders and hence had developed an extensive network among the investment community. Prior to that, Ms. Kwan was the Associate, Business Development of Fitch Ratings, a global credit rating agency. In this capacity, Ms. Kwan was involved in communicating product and service developments to prospective clients, as well as overseeing the preparation of marketing literature.

Ms. Kwan holds a Master of Business Administration degree from University of Iowa, and a Bachelor of Science degree in Electrical Engineering and Computer Science from University of California, Berkeley.

Responsible Officers

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

Mr. 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".

Mr. NG Chi Wah, Kevin is the Responsible Officer of the REIT Manager. Details of his working experience are set out in the sub-section "Executive Officers".

Corporate Governance

The REIT Manager was established for the purpose of managing Prosperity REIT. 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. During the Reporting Year, both the REIT Manager and Prosperity REIT have in material terms complied with the provisions of the Compliance Manual.

The REIT Manager is committed to the establishment of good corporate governance practices and procedures. It is the firm belief of the Board of Directors of the REIT Manager (the “**Board**”) that transparency, accountability, sound internal control policies and risk management system are the essential elements for winning trust and support from retail and institutional investors. The Board keeps abreast of the latest industry trend and regulation changes in order to maintain its competence in the dynamic market condition, and ultimately upholds the best corporate governance practices. In recognition of the Board’s commitment to the best corporate governance practices, dedicated effort in environmental protection and social responsibilities, the Board was awarded the “Directors Of the Year Awards 2012” presented by The Hong Kong Institute of Directors.

During the Reporting Year, the Compliance Manual was amended to expressly allow, among other things, the use of electronic means and Prosperity REIT’s website for corporate communication to unitholders in order to reflect the amendments made on 29 December 2011 to the Trust Deed in relation to the electronic communication. Besides, the terms of reference of the Audit Committee and the terms of reference of the Board in respect of corporate governance functions as stated in the Compliance Manual were revised by reference to the amendments on the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “**SEHK**”) (the “**Listing Rules**”) in order to further enhance corporate governance practices of the REIT Manager. On 1 January 2013, the Compliance Manual was further updated to adopt the new Information Disclosure Controls and Policy to handle and disseminate confidential information and inside information and to comply with the continuing disclosure requirements as set forth in the new Part XIVA of the Securities and Futures Ordinance (Cap. 571) (the “**SFO**”), the Code on Real Estate Investment Trusts (the “**REIT Code**”), the applicable Listing Rules and other applicable laws and regulations. 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.

Authorization Structure

Prosperity REIT is a collective investment scheme authorized by the Securities and Futures Commission (the “**SFC**”) under section 104 of 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. Ms. Wong Lai Hung, Mavis, the Chief Executive Officer and an Executive Director, Mr. Chan Kei Kin, Ken and Mr. Ng Chi Wah, Kevin 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, HSBC Institutional Trust Services (Asia) Limited, 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 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 which covers 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 (the "**CEO**") shall be a member of the Board; and
- (3) the Board shall comprise Directors with a broad range of educational background, commercial experience including expertise in funds management and the property industry, and diversified in terms of gender, age and cultural background appropriate to the business of Prosperity REIT and the REIT Manager.

Corporate Governance (continued)

The composition is reviewed regularly to ensure that the Board has a balance of skills, expertise, experience and diversity appropriate to the requirements of the business of Prosperity REIT and the REIT Manager.

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 of the Board and CEO are held by two different persons in order to maintain an effective segregation of duties. The Chairman of the Board is Dr. Chiu Kwok Hung, Justin who is a Non-executive Director. He is responsible for the overall leadership of the Board and the REIT Manager. The CEO is Ms. Wong Lai Hung, Mavis who is an Executive Director and a Responsible Officer of the REIT Manager. She has overall responsibility for the day-to-day operations of the REIT Manager and supervises the REIT Manager’s management team to ensure that Prosperity REIT is operated in accordance with the stated strategy, policies and regulations.

During the Reporting Year, the Board reviewed and monitored Prosperity REIT’s policies and practices on corporate governance, Prosperity REIT’s policies and practices on compliance with the applicable legal and regulatory requirements, the compliance of the Compliance Manual and any other code of conduct applicable to Directors and employees of the REIT Manager, and Prosperity REIT’s compliance with the applicable corporate governance practices and disclosure requirements under the REIT Code and the applicable Listing Rules.

Four full Board meetings of the REIT Manager were held in 2012 and the attendance record of the Board meetings is as follows:

Members of the Board	Attendance
<i>Chairman and Non-executive Director</i> Dr. Chiu Kwok Hung, Justin	4/4
<i>CEO and Executive Director</i> Ms. Wong Lai Hung, Mavis	4/4
<i>Non-executive Directors</i> Mr. Lim Hwee Chiang (attendance by alternate, Ms. Wong Lai Hung, Mavis) Mr. Ma Lai Chee, Gerald	3/4 1/4) 4/4
<i>Independent Non-executive Directors</i> Mr. Lan Hong Tsung, David Mrs. Sng Sow-Mei (alias Poon Sow Mei) Mr. Wong Kwai Lam	4/4 4/4 4/4

Apart from regular Board meetings, the Chairman also held one meeting with the Non-executive Directors (including INEDs) without presence of the Executive Director during the Reporting Year. The REIT Manager believes that contributions from each Director go beyond his/her attendances at Board and board committee meetings.

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.

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.

Directors' Continuous Professional Development

Directors are well aware of their responsibilities as a director of the REIT Manager and the conduct, business activities and development of Prosperity REIT. They are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. In-house briefings for Directors had been arranged by the REIT Manager where appropriate. The management team of the REIT Manager is required to provide timely reports regarding the business operations and performance of Prosperity REIT, market research analysis and the relevant latest government policies to the Board. Directors are also encouraged to participate in appropriate continuous professional development programmes or the relevant training courses organized by professional institutions or conducted by qualified professionals or lawyers to develop and refresh their knowledge and skills and are requested to provide a record to the REIT Manager of any training they received.

During the Reporting Year, in-house briefings were given by the Company Secretary and/or the in-house counsel of the REIT Manager to Directors covering the areas of (i) the Securities and Futures (Amendment) Ordinance in respect of implementation of inside information disclosure regime; (ii) the new Companies Ordinance; and (iii) updates on changes/proposed changes on Listing Rules regarding board diversity, statutory backing of inside information disclosure, trading halts, and environmental, social and governance reporting guide. The external auditors of Prosperity REIT also gave briefings on updates of accounting standards and principles to the members of the Audit Committee.

Apart from in-house briefings, Directors enriched and updated their knowledge by reading relevant materials such as the Guidelines for Directors issued by The Hong Kong Institute of Directors, the SEHK Consultation Papers and Conclusions regarding relevant Listing Rules amendments, etc. During the Reporting Year, Directors also undertook various continuous professional development programmes and training courses as follows:

Members of the Board

Programmes and training courses undertaken

Chairman and Non-executive Director

Dr. Chiu Kwok Hung, Justin

Various seminars conducted by lawyers regarding private merger and acquisition deal and regulatory updates

CEO and Executive Director

Ms. Wong Lai Hung, Mavis

Various conferences/seminars/events organised by the Hong Kong Securities Institute, The Hong Kong Institute of Directors, The Hong Kong Institute of Bankers, etc. regarding property and financial market updates, and investor relations technique

Corporate Governance (continued)

Members of the Board	Programmes and training courses undertaken
<i>Non-executive Directors</i> Mr. Lim Hwee Chiang	Various conferences/events organised by different banks and research houses regarding capital and financial market updates, both as panelist and participant
Mr. Ma Lai Chee, Gerald	Various conferences/seminars conducted/organised by lawyers and other professional bodies regarding regulatory updates and property/financial market updates
<i>Independent Non-executive Directors</i> Mr. Lan Hong Tsung, David	Various conferences/seminars conducted/organised by lawyers, professional accounting firms and corporate services provider regarding regulatory and corporate governance practices updates, in particular from the perspective of an INED
Mrs. Sng Sow-Mei (alias Poon Sow Mei)	Various conferences/seminars conducted/organised by lawyers, banks, research houses and government institutions regarding regulatory updates, capital and financial market updates, and global economics and financial trends
Mr. Wong Kwai Lam	Various conferences/seminars conducted/organised by lawyers, professional accounting firms and corporate services provider regarding regulatory and corporate governance practices updates

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 to assist the Board in reviewing the completeness, accuracy, clarity and fairness of Prosperity REIT's financial statements, recommending for the appointment and reviewing the relationship with the external auditors of Prosperity REIT periodically, as well as reviewing and supervising 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 applicable Listing Rules;
- (3) reviewing all financial statements and all internal audit reports; and
- (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).

The Audit Committee members are appointed by the Board from among the Directors. The Audit Committee presently comprises three INEDs, namely, Mr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Wong Kwai Lam. Mr. Lan Hong Tsung, David is the chairman of the Audit Committee.

The Audit Committee meets on a half yearly basis, and held two meetings in 2012 for considering and reviewing the 2011 final results, 2012 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. Wong Kwai Lam	2/2

The external auditors of Prosperity REIT attended both Audit Committee meetings to report any major audit issues and findings to the Audit Committee. The Audit Committee also met with the external auditors without the presence of the management team of the REIT Manager once during the Reporting Year.

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.

Corporate Governance (continued)

Disclosures Committee

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

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; and
- (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.

The Disclosures Committee members are appointed by the Board from among the Directors. The Disclosures Committee presently consists of three members, namely, Dr. Chiu Kwok Hung, Justin, Chairman and a Non-executive Director, Ms. Wong Lai Hung, Mavis, CEO and an Executive Director, and Mr. Lan Hong Tsung, David, an INED. Ms. Wong Lai Hung, Mavis is the chairman of the Disclosures Committee.

The Disclosures Committee meets on a half yearly basis and otherwise on an as-needed basis. The Disclosures Committee held two meetings in 2012 for considering and reviewing the 2011 final results announcement and 2012 interim results announcement, the 2011 annual report and 2012 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 Reporting Year. The attendance record of the Disclosures Committee meetings is as follows:

Members of the Disclosures Committee	Attendance
Dr. Chiu Kwok Hung, Justin	2/2
Ms. Wong Lai Hung, Mavis	2/2
Mr. Lan Hong Tsung, David	2/2

Designated (Finance) Committee

The REIT Manager has set up a Designated (Finance) Committee 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 presently comprises, among others, four Directors, namely, Ms. Wong Lai Hung, Mavis, CEO and an Executive Director, Mr. Ma Lai Chee, Gerald, a Non-executive Director, Mr. Lan Hong Tsung, David and Mr. Wong Kwai Lam, INEDs. Ms. Wong Lai Hung, Mavis 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 and telephone conferences are also conducted by members of the Designated (Finance) Committee if necessary.

Management of Business Risk

The Board meets quarterly or more often if necessary and reviews the financial performance of Prosperity REIT against a previously approved budget. The Board also reviews any risks to the assets of Prosperity REIT, examines liability management and acts upon any comments from the auditors of Prosperity REIT.

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. The management team provides the Board with monthly updates giving a balanced and understandable assessment of Prosperity REIT's performance and current financial position. In assessing business risk, the Board considers the economic environment and the property industry risk. It reviews management reports and feasibility studies on individual development project 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 does not manage any other real estate investment trust or involve in any other real property business.
- (2) All connected party transactions are managed in accordance with the procedures set out in the Compliance Manual.
- (3) At least one-third of the Board shall comprise INEDs.

In addition, Directors are requested to give general notice to the REIT Manager stating his/her interests in contracts of any description which may subsequently be made by the REIT Manager pursuant to Section 162 of the Companies Ordinance and the articles of association of the REIT Manager.

Communication with Unitholders and Investors

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.

Corporate Governance (continued)

The general meetings of Prosperity REIT provide a forum for direct communication between the Board and the unitholders. Under the Trust Deed, the Trustee or the REIT Manager may respectively (and the REIT Manager shall at the request in writing of not less than two unitholders registered as together holding not less than 10% of the units for the time being in issue and outstanding) at any time convene a meeting of unitholders at such time and place in Hong Kong as the party convening the meeting may think fit and propose resolutions for consideration at such meeting.

The 2012 Annual General Meeting (“**AGM**”) was held on 11 May 2012 and the notice of AGM was sent to unitholders at least 20 clear business days before the AGM. All the Directors (including the Chairman of the Board and chairmen of the respective board committees) as well as the external auditors of Prosperity REIT attended the 2012 AGM and they were available to answer questions.

Prosperity REIT maintains a website at 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. The REIT Manager values suggestions from unitholders on its efforts to promote transparency and foster investor relationships. Comments and suggestions are welcome and they can be addressed to the Investor Relations Manager by mail, phone or email according to the information set out in the Corporate Information section of this annual report.

Reporting and Transparency

Prosperity REIT prepares 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 of 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 2012. 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 executive officers and 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 inside information (as defined in the Listing Rules) must refrain from dealing in the securities of Prosperity REIT as soon as they become aware of them or privy to them until the information has been announced. Management Persons who are privy to relevant negotiations or agreements or any inside information should caution those Management Persons who are not so privy that there may be inside information and that they must not deal in the securities of Prosperity REIT for a similar period.

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, executive officers and other employees of the REIT Manager, 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 the REIT Manager, the Directors and the chief executive of 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.

Corporate Governance (continued)

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 SEHK 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 Director's Information

Subsequent to publication of the Interim Report 2012 of Prosperity REIT, the REIT Manager received notifications regarding the following changes of Directors' information:

1. Dr. Chiu Kwok Hung, Justin became a Member of the Standing Committee of the 12th Shanghai Committee of Chinese People's Political Consultative Conference of The People's Republic of China and was conferred with Doctor of Social Sciences, *honoris causa* by Hong Kong Baptist University.
2. Mr. Ma Lai Chee, Gerald ceased to be a Member of the Finance Committee for The Scout Association of Hong Kong with effect from 7 November 2012 and became a Member of the China Advisory Council for the Sauder School of Business of the University of British Columbia, Canada with effect from 12 November 2012.

Review of Annual Report

The annual report of Prosperity REIT for the Reporting Year 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 2012.

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 2012 HK\$	Rental deposit received as at 31 December 2012 HK\$
Goodwell Property Management Limited	Subsidiary of a significant holder ¹	Tenancy of property of Prosperity REIT ³	1,284,520	400,863
E-Park Parking Management Limited	Subsidiary of a significant holder ¹	Tenancy of property of Prosperity REIT ⁴	130,528	–
Hutchison Telephone Company Limited	Subsidiary of an associate of a significant holder ²	Licence of property of Prosperity REIT ⁵	81,200	24,096
Total			1,496,248	424,959

Notes:

- (1) Significant holder being Cheung Kong (Holdings) Limited (“**Cheung Kong**”).
- (2) The connected parties are the subsidiaries of Hutchison Whampoa Limited (“**HWL**”), an associate of a significant holder of Prosperity REIT, namely Cheung Kong.
- (3) For 2/F, Units 302-3, 306-7 and 703, New Treasure Centre (the lease related to Unit 703 expired during the Reporting Year).
- (4) For Unit 306, Prosperity Place (the lease expired during the Reporting year).
- (5) For installation of micro-transmission station equipment at Prosperity Place and indoor antennae at Harbourfront Landmark.

Connected Party Transactions (continued)

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 2012 HK\$
Goodwell Property Management Limited ¹	Subsidiary of a significant holder ³	Remuneration of DMC Manager	177,447
Goodwell Property Management Limited ²	Subsidiary of a significant holder ³	Remuneration of Carpark Manager	7,098
Citybase Property Management Limited ¹	Subsidiary of a significant holder ³	Remuneration of DMC Manager	265,387
Citybase Property Management Limited ²	Subsidiary of a significant holder ³	Remuneration of Carpark Manager	61,468
Harbourfront Landmark Premium Services Limited ¹	Subsidiary of an associate of a significant holder ⁴	Remuneration of DMC Manager	309,500
Total			820,900

Notes:

- (1) These managers appointed under the respective deeds 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 — 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 2012 HK\$
Goodwell-Prosperity Property Services Ltd	Subsidiary of a significant holder ¹	Property management and lease management fee	6,947,716
Goodwell-Prosperity Property Services Ltd	Subsidiary of a significant holder ¹	Marketing service fee	9,995,210
E-Park Parking Management Limited	Subsidiary of a significant holder ¹	Carpark lease agency fee	1,872,758
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee fee	2,168,374
ARA Asset Management (Prosperity) Limited	REIT Manager	Base fee and variable fees	36,837,420
Cheung Kong Companies ²	Subsidiaries and associates of a significant holder ¹	Back-office support service fee	937,764
Total			58,759,242

Notes:

(1) Significant holder being Cheung Kong.

(2) 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 (continued)

Other Connected Party Transactions

The following companies had provided back-office services, carpark management services and property management services to Prosperity REIT for the Reporting Year and hence amounts due from Prosperity REIT as at 31 December 2012 are as follows:

Name of Connected Party	Amount payable HK\$
Goodwell-Prosperity Property Services Limited	3,316,165
Goodwell Property Management Limited	5,406,947
E-Park Parking Management Limited	318,613
Citybase Property Management Limited	664,065
Harbourfront Landmark Premium Services Limited	538,830
Total	10,244,620

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 67 to 70 of this 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 has been 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 19,424,000 units of Prosperity REIT by the REIT Manager which the REIT Manager received as payment of its management fee, there was no repurchase, 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 in the REIT Code) of Prosperity REIT, held units of Prosperity REIT:

Name	As at 31 December 2012		As at 31 December 2011
	Number of Units	Percentage of Unitholdings ⁵	Number of Units
Total Win Group Limited ¹	176,328,129	12.78%	176,328,129
Wide Option Investments Limited ¹	98,883,559	7.17%	98,883,559
HKSCC Nominees Limited ²	1,018,342,848	73.80%	993,587,385
HSBC ³	250	0.00002%	35,437
ARA Asset Management (Prosperity) Limited ⁴	879	0.00006%	307

Notes:

(1) *Total Win Group Limited ("Total Win") is a connected person of Prosperity REIT as it is a significant holder (as defined in the REIT Code) of Prosperity REIT as at 31 December 2012. 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 2012. 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 in the REIT Code) of Total Win as at 31 December 2012. 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 2012, of which 176,328,129 units were held by Total Win and 98,883,559 units were held by Wide Option.

(2) *HKSCC Nominees Limited is a connected person of Prosperity REIT as it is a significant holder (as defined in the REIT Code) of Prosperity REIT as at 31 December 2012. So far as the REIT Manager is aware of, HKSCC Nominees Limited held such units as a nominee.*

Connected Party Transactions (continued)

- (3) *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 2012 and 31 December 2011. The directors, senior executives, officers and their associates of the Trustee were not beneficially interested in any units as at 31 December 2012 and were beneficially interested in 35,187 units as at 31 December 2011. The controlling entity, holding company, subsidiary or associated company of the Trustee were beneficially interested in 250 units as at 31 December 2012 and 31 December 2011.*
- (4) *ARA Asset Management (Prosperity) Limited is a connected person of Prosperity REIT as it is the management company (as defined in the REIT Code) of Prosperity REIT as at 31 December 2012.*
- (5) *The total number of issued units as at 31 December 2012 is 1,379,867,101.*

Save as disclosed above, the REIT Manager is not aware of any connected persons (as defined in the REIT Code) of Prosperity REIT holding any units of Prosperity REIT as at 31 December 2012.

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

As at 31 December 2012, 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 ²
	Direct Interest	Indirect Interest	
ARA Asset Management (Prosperity) Limited	879		0.00006%
Lim Hwee Chiang ¹		879	0.00006%

Notes:

- (1) *Mr. Lim Hwee Chiang is deemed to be interested in 879 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.*
- (2) *The total number of issued units as at 31 December 2012 is 1,379,867,101.*

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 2012.

Valuation Report

Our Ref: 20505
4 February 2013

The Directors
ARA Asset Management (Prosperity) Limited
(as Manager of Prosperity REIT)
Unit 5508–5510, 55th Floor
The Center
99 Queen's Road Central
Hong Kong

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

Re: Valuation of Various Properties in Relation to Prosperity Real Estate Investment Trust ("Prosperity REIT")

Dear Sirs,

Instructions

With reference to your instruction to conduct a valuation of the various properties in relation to Prosperity REIT, we have prepared a valuation report setting out our opinion of the Market Value of the properties. We confirm that we have independently prepared the report on a fair and unbiased basis and have carried out inspection of the subject properties, made relevant enquiries and obtained such further information as we consider necessary to allow us to provide you with our opinion of value, as at 31 December 2012, for accounting and mortgage security purpose.

Basis of Valuation

Our valuations are on the basis of Market Value, which is defined in the HKIS Valuation Standards as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

Valuation Standards

The valuations have been carried out in accordance with The HKIS Valuation Standards on Properties 2012 Edition published by The Hong Kong Institute of Surveyors; the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; and Chapter 6.8 of The Code on Real Estate Investment Trusts issued by The Securities and Futures Commission in June 2010.

Valuation Report (continued)

Valuation Rationale

We have valued the subject properties on the basis of Income Capitalisation Approach by capitalising supplied net rental income (exclusive of management fees) on a fully leased basis. We have cross-checked by sales evidences available on the market. In the purposes of this valuation, we consider the Income Capitalisation Approach is the most appropriate valuation method for assessing the Market Values of the subject properties, given its income driven nature of the properties.

Income Capitalisation Approach

Income Capitalisation Approach estimates the values of the properties on an open market basis by capitalising net rental income on a fully leased basis having regard to the current passing rental income from existing tenancies and potential future reversionary income at the market level. In calculating the net rental income, no deduction has been made from the net passing rental income which is exclusive of property management fee.

In this valuation method, the total rental income is divided into a current passing rental income over the existing lease term (the Term Income) and a potential future reversionary rental income over the residual land use term (the Reversionary Income). The Term Value involves the capitalisation of the current passing rental income over the existing lease term. The Reversionary Value is taken to be current market rental income upon the expiry of the lease over the residual land use rights term and is capitalised on a fully leased basis. It is then discounted back to the date of valuation.

In this approach, we have considered the Term Yield and Reversionary Yield. The Term Yield is used for capitalisation of the current passing rental income as at the date of valuation whilst the Reversionary Yield is used to convert reversionary rental income.

Direct Comparison Approach

Our valuation has then been cross-checked by the Direct Comparison Approach assuming sales of the properties in their existing state and by making reference to comparable sale transactions as available in the relevant market. By analysing sales which qualify as “arms-length” transactions, between willing buyers and sellers, relevant adjustments are made when comparing such sales against the properties.

Title Investigations

We have not been provided with extracts from title documents relating to the subject properties but have conducted searches at the Land Registry. We have not, however, been provided with the original documents to verify the ownership, nor to ascertain the existence of any amendments which may not appear on our searches. We do not accept any liability for any interpretation which we have placed on such information which is more properly the sphere of your legal advisers.

Sources of Information

All investigations have been conducted independently and without influence from any third parties in any way. We have relied to a considerable extent on the information provided by ARA Asset Management (Prosperity) Limited and have accepted advice given to us on such matters as tenancy schedules, statutory notices, easements, tenure, floor areas, building plans and all other relevant matters. Dimensions, measurements and areas included in the valuation are based on information contained in the documents provided to us and are, therefore, only approximations.

We have also been advised by ARA Asset Management (Prosperity) Limited that no material factors or information have been omitted or withheld from the information supplied and we consider that we have been provided with sufficient information to reach an informed view. We believe that the assumptions used in preparing our valuations are reasonable.

Site Measurement

We have not carried out detailed on-site measurements to verify the correctness of the floor areas in respect of the subject properties but have assumed that the areas shown on the documents and plans provided to us are correct.

Site Inspection

We have inspected the exteriors and the interiors of the subject properties. However, we have not carried out investigations to determine the suitability of ground conditions and services, etc. Our valuations have been prepared on the assumption that these aspects are satisfactory.

Moreover, no structural surveys have been undertaken, but in the course of our inspection, we did not note any serious defects. We are not, however, able to report whether the subject properties are free of rot, infestation or any other structural defects. No tests were carried out on any of the utility services.

Assumptions and Caveats

Our valuations have been made on the assumption that the seller sells the subject properties on the open market without the benefit of deferred terms contracts, leasebacks, joint ventures, or any similar arrangements which would affect their values although they are subject to the lease agreements.

No allowances have been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxes which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the subject properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect its values.

This report is for the use of the Manager and the Trustee of Prosperity REIT and the potential subscribers of units in Prosperity REIT and for the purpose indicated, and no liability to any third party can be accepted for the whole or any part of the contents of the document.

Our Summary of Values, Valuation Certificates and Market Overview are attached hereto.

Yours faithfully,
For and on behalf of
Colliers International (Hong Kong) Ltd

David Faulkner
BSc(Hons) FRICS FHKIS RPS(GP) MAE
Executive Director
Valuation & Advisory Services — Asia

Note: David Faulkner is a Chartered Surveyor and has over 32 years' experience in the valuation of properties of this magnitude and nature, and over 28 years' experience in Hong Kong/China.

Valuation Report (continued)

Valuation Summary

Properties	Approx. Gross Area (sq ft)	No. of CPS (lots)	Market Value in its existing state as at 31 December 2012
1. The Metropolis Tower	271,418	98	HK\$2,773,000,000
2. Prosperity Millennia Plaza	217,955	43	HK\$1,632,000,000
3. Commercial Units of Harbourfront Landmark	77,021	Nil	HK\$436,000,000
4. Prosperity Place	240,000	83	HK\$1,301,000,000
5. Trendy Centre	173,764	79	HK\$818,000,000
6. Portion of Prosperity Center	149,253	105	HK\$726,000,000
7. Portion of New Treasure Centre	86,168	22	HK\$266,000,000
Total	1,215,579	430	HK\$7,952,000,000

Valuation Certificate

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2012	Estimated Net Property Yield
1 The Metropolis Tower, 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 (the "Property") is a 15-storey office building comprising 11th to 28th Floors (13th, 14th and 24th floor numbers are omitted) built over a multi-storey retail/carparking podium on a registered site area of approximately 50,058 sq m (538,824 sq ft). The Property was built in 2001.</p> <p>The Metropolis Tower is office portion of the comprehensive mixed-use complex, called The Metropolis. The Metropolis comprises other components including a shopping centre (Fortune Metropolis), 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 Metropolis Tower with a total gross area of approximately 25,215.35 sq m (271,418 sq ft). The total saleable area 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 expiry in October 2015. Total net monthly rental income is approximately HK\$7,340,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The overall occupancy rate is 97.9% (excluding carparking spaces).</p> <p>The carparking spaces of the Property are let on monthly and hourly basis generating an average gross monthly income of approximately HK\$307,000 from January 2012 to December 2012 exclusive of Government rates and rent, and utility charges but inclusive of management fees.</p>	HK\$2,773,000,000	3.3%

Notes:

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

Floors	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

The Property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.

Valuation Report (continued)

- (2) *The Property lies within an area zoned "Other Specified Uses (For "Commercial Development and Freight Yard" only)" under Hung Hom Outline Zoning Plan S/K9/24.*
- (3) *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.*
- (4) *Estimated net property yield is based on the net monthly rental income for December 2012 and the average gross monthly car parking income for the period of January 2012 to December 2012.*
- (5) *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
2010 & Before	29,879	11.2%	637,900	8.7%	13	15.3%
2011	66,313	25.0%	1,645,100	22.4%	31	36.5%
2012	169,607	63.8%	5,053,850	68.9%	41	48.2%
Total	265,799	100.0%	7,336,850	100.0%	85	100.0%

Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
31 December 2012 & 2013	94,604	35.6%	2,467,650	33.6%	32	37.6%
2014	56,743	21.3%	1,620,300	22.1%	26	30.6%
2015 & Beyond	114,452	43.1%	3,248,900	44.3%	27	31.8%
Total	265,799	100.0%	7,336,850	100.0%	85	100.0%

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	81,876	30.8%	2,422,750	33.0%	19	22.4%
More than 2 years and up to 3 years	183,923	69.2%	4,914,100	67.0%	66	77.6%
More than 3 years	-	-	-	-	-	-
Total	265,799	100.0%	7,336,850	100.0%	85	100.0%

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2012	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 (the "Property") is a 32-storey office building (including 3 mechanical floors and a refuge floor) together with a 2-level basement carport. It is erected on portion of a site with a registered site area of approximately 3,404 sq m (36,641 sq ft). The Property was built in 1999.</p> <p>The 2-level basement of the Property is for carparking and ancillary purposes. The 1st Floor (Ground floor is omitted from floor numbering) is used for lobby and circulation purposes whereas the remaining upper floors from the 2nd to 32nd Floors (4th, 13th, 14th and 24th floor numbers are omitted) are for office uses.</p> <p>The Property comprises the entire office units with a total gross area of approximately 20,248.51 sq m (217,955 sq ft). The total saleable area 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.</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 expiry in April 2016. Total net monthly rental income is approximately HK\$4,680,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The Property is currently 99.6% occupied (excluding carparking spaces).</p> <p>The carparking spaces of the Property are let on monthly and hourly basis generating an average gross monthly income of approximately HK\$249,000 from January 2012 to December 2012 exclusive of Government rates and rent, and utility charges but inclusive of management fees.</p>	HK\$1,632,000,000	3.6%

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.
- (3) The Property lies within an area zoned "Commercial" under North Point Outline Zoning Plan S/H8/24.
- (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 2012 and the average gross monthly car parking income for the period of January 2012 to December 2012.

Valuation Report (continued)

(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
2010 & Before	27,735	12.8%	450,500	9.6%	9	10.3%
2011	71,489	32.9%	1,466,520	31.4%	42	48.3%
2012	117,966	54.3%	2,762,100	59.0%	36	41.4%
Total	217,190	100.0%	4,679,120	100.0%	87	100.0%

Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
31 December 2012 & 2013	82,907	38.2%	1,549,240	33.1%	40	46.0%
2014	95,086	43.8%	2,188,480	46.8%	39	44.8%
2015 & Beyond	39,197	18.0%	941,400	20.1%	8	9.2%
Total	217,190	100.0%	4,679,120	100.0%	87	100.0%

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	63,041	29.0%	1,377,540	29.4%	31	35.6%
More than 2 years and up to 3 years	144,839	66.7%	3,090,980	66.1%	54	62.1%
More than 3 years	9,310	4.3%	210,600	4.5%	2	2.3%
Total	217,190	100.0%	4,679,120	100.0%	87	100.0%

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2012	Estimated Net Property Yield	
3	Commercial Units on 3rd, 5th and 6th Floors, Harbourfront Landmark, 11 Wan Hoi Street, Hung Hom, Kowloon (the "Property") 7,031/74,479th undivided parts or shares of and in Kowloon Inland Lot No. 11055.	<p>The Property comprises commercial portion on 3rd, 5th and 6th floors within a mixed-use development called Harbourfront Landmark, which comprises three blocks of 50 to 60-storey residential towers built over a level of clubhouse, 3 levels of commercial podium and 2 levels of carparking (including a basement). It is erected on a registered site area of approximately 7,402 sq m (79,675 sq ft), and was built in 2001.</p> <p>The Basement and the Lower 1st Floor of the development are used for carparking purposes whilst the upper 1st Floor is for lobby and circulation purposes. The 3rd to 6th Floors (4th floor number is omitted) are for commercial uses whilst the 7th Floor of the development is for a clubhouse. The remaining upper floors of the 3 residential towers are for domestic uses.</p> <p>The Property comprises the three commercial floors within the development with a total gross area of approximately 7,155.43 sq m (77,021 sq ft). The total saleable area 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. UB12460 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>	<p>The Property is let under four tenancies with the latest expiry in May 2015. Total net monthly rental income is approximately HK\$1,430,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The Property is currently 100% occupied.</p>	HK\$436,000,000	3.9%

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.*
- (3) *The Property lies within an area zoned "Residential (Group A) (Sub-group 3)" under Hung Hom Outline Zoning Plan S/K9/24.*
- (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 2012.*

Valuation Report (continued)

(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
2010 & Before	–	–	–	–	–	–
2011	77,021	100.0%	1,428,530	99.9%	3	75.0%
2012	–	–	1,600*	0.1%	1	25.0%
Total	77,021	100.0%	1,430,130	100.0%	4	100.0%

Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
31 December 2012 & 2013	–	–	–	–	–	–
2014	77,021	100.0%	1,428,530	99.9%	3	75.0%
2015 & Beyond	–	–	1,600*	0.1%	1	25.0%
Total	77,021	100.0%	1,430,130	100.0%	4	100.0%

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	–	–	–	–	–	–
More than 2 years and up to 3 years	77,021	100.0%	1,430,130	100.0%	4	100.0%
More than 3 years	–	–	–	–	–	–
Total	77,021	100.0%	1,430,130	100.0%	4	100.0%

* Remark: Monthly rental for antenna

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2012	Estimated Net Property Yield
4 Prosperity Place, 6 Shing Yip Street, Kwun Tong, Kowloon Kun Tong Inland Lot No. 62.	<p>Prosperity Place (the "Property") is a 27-storey commercial building with ancillary parking and loading/unloading facilities erected on a registered site area of approximately 1,858.06 sq m (20,000 sq ft). The Property was built in 1996.</p> <p>Prosperity Place has been granted a waiver letter in September 2012 with transformation from industrial/office uses to commercial uses under the revitalization of industrial buildings policy by the Government.</p> <p>Ground Floor of the building is for entrance lobby, commercial and loading/unloading purposes; 1st and 2nd Floors of the building are for carparking and/or loading/unloading purposes; whereas the remaining upper floors from the 3rd to 29th Floors (4th, 14th and 24th floor numbers are omitted) are for commercial purposes.</p> <p>The Property comprises the entire commercial units with a total gross area of approximately 22,296.54 sq m (240,000 sq ft). The total saleable area is approximately 14,754.09 sq m (158,813 sq ft).</p> <p>The Property also consists of a total of 83 carparking spaces within the building.</p> <p>Kun 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 commercial portion of the Property is let under various tenancies for various terms with the latest expiry in November 2015. Total net monthly rental income is approximately HK\$2,900,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The overall occupancy rate is approximately 96.8% (including the leasing office but excluding carparking spaces).</p> <p>The carparking spaces of the Property are let on monthly and hourly basis generating an average gross monthly income of approximately HK\$288,000 from January 2012 to December 2012 exclusive of Government rates and rent, and utility charges but inclusive of management fees.</p>	HK\$1,301,000,000	3.0%

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.*
- (3) *The Property lies within an area zoned "Other Specified Uses (For "Business" only)" under Draft Kwun Tong (South) Outline Zoning Plan S/K14S/17.*
- (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 2012 and the average gross monthly car parking income for the period of January 2012 to December 2012.*
- (6) *According to Memorandum (change of name of building) vide Memorandum No. 09071001040025 dated on 12 June 2009, the building name of the Property (i.e. "Modern Warehouse") has been changed to "Prosperity Place".*

Valuation Report (continued)

- (7) *The Property is subject to a waiver letter vide Memorandum No. 12100801240017 dated on 19 September 2012, upon the demolition of the Property/on the 30th day of June 2047/upon the earlier termination of the Lease before the expiry of its term, the Property is permitted to be used as commercial bathhouse/massage establishment, eating place, education institution, exhibition or convention hall, information technology and telecommunications industries, institutional use (excluding social welfare facility), off-course betting centre, office, place of entertainment, place of recreation, sports or culture, private club, public utility installation, radar, telecommunications electronic microwave repeater, television and/or radio transmitter installation, research, design and development centre, school (excluding free-standing purpose-designed building and kindergarten), shop and services, training centre.*
- (8) *Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces and leasing office of 1,762 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
2010 & Before	35,424	15.4%	348,634	11.9%	14	11.3%
2011	74,946	32.5%	901,098	30.8%	35	28.2%
2012	120,291	52.1%	1,674,800	57.3%	75	60.5%
Total	230,661	100.0%	2,924,532	100.0%	124	100.0%

Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
31 December 2012 & 2013	91,454	39.7%	1,046,151	35.8%	47	37.9%
2014	108,704	47.1%	1,464,264	50.0%	61	49.2%
2015 & Beyond	30,503	13.2%	414,117	14.2%	16	12.9%
Total	230,661	100.0%	2,924,532	100.0%	124	100.0%

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	61,057	26.5%	842,593	28.8%	40	32.3%
More than 2 years and up to 3 years	169,604	73.5%	2,081,939	71.2%	84	67.7%
More than 3 years	–	–	–	–	–	–
Total	230,661	100.0%	2,924,532	100.0%	124	100.0%

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2012	Estimated Net Property Yield
5 Trendy Centre, 682 Castle Peak Road, Cheung Sha Wan, Kowloon New Kowloon Inland Lot No. 6224.	<p>Trendy Centre (the "Property") is a 30-storey industrial/office building with ancillary parking and loading/unloading facilities erected on a registered site area of approximately 1,393.50 sq m (15,000 sq ft). The Property was built in 1998.</p> <p>Portion of the Ground Floor, 1st to 3rd Floors are for carparking and/or loading/unloading purposes whereas the remaining portion of the Ground Floor is used for lobby and retail shops. The upper floors from the 5th to 33rd floors (4th, 13th, 14th and 24th floor number is omitted) 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 is approximately 10,934.23 sq m (117,696 sq ft).</p> <p>The Property also consists of 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 expiry in November 2015. Total net monthly rental income of approximately HK\$2,420,000 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 generating an average gross monthly income of approximately HK\$345,000 from January 2012 to December 2012 exclusive of Government rates and rent, and utility charges but inclusive of management fees.</p>	HK\$818,000,000	4.1%

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.*
- (3) *The Property lies within an area zoned "Other Specified Uses (For "Business 1" Only)" under Cheung Sha Wan Outline Zoning Plan S/K5/33.*
- (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 2012 and the average gross monthly car parking income for the period of January 2012 to December 2012.*

Valuation Report (continued)

- (6) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking 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
2010 & Before	19,448	11.3%	213,000	8.8%	14	8.9%
2011	85,505	49.6%	1,117,450	46.1%	71	45.2%
2012	67,399	39.1%	1,093,720	45.1%	72	45.9%
Total	172,352	100.0%	2,424,170	100.0%	157	100.0%

Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
31 December 2012 & 2013	84,011	48.7%	1,089,400	44.9%	64	40.8%
2014	71,016	41.2%	1,008,470	41.6%	77	49.0%
2015 & Beyond	17,325	10.1%	326,300	13.5%	16	10.2%
Total	172,352	100.0%	2,424,170	100.0%	157	100.0%

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	58,529	34.0%	870,700	35.9%	55	35.0%
More than 2 years and up to 3 years	113,823	66.0%	1,553,470	64.1%	102	65.0%
More than 3 years	–	–	–	–	–	–
Total	172,352	100.0%	2,424,170	100.0%	157	100.0%

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2012	Estimated Net Property Yield	
6	<p>Portion of Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon (see note (1))</p> <p>12,014/22,510th undivided parts or shares of and in Kwun Tong Inland Lot No. 729.</p>	<p>The Property comprises various office/workshop units and retained areas within Prosperity Center, which is a 26-storey industrial/office building with ancillary parking and loading/unloading facilities. It is erected on a registered site area of approximately 1,889 sq m (20,333 sq ft), and was built in 1999.</p> <p>Portion of the Ground Floor, 2nd to 5th Floors of the building (1st, and 4th floor numbers are omitted) are for carparking and/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 floor numbers are omitted) are for office/workshop purposes.</p> <p>The Property comprises portion of Prosperity Center with a total gross area of approximately 13,865.94 sq m (149,253 sq ft). The total saleable area is approximately 10,095.60 sq m (108,669 sq ft).</p> <p>The Property also consists 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 expiry in October 2015. Total net monthly rental income of approximately HK\$1,970,000 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 generating an average gross monthly income of approximately HK\$310,000 from January 2012 to December 2012 exclusive of Government rates and rent, and utility charges but inclusive of management fees.</p>	HK\$726,000,000	3.8%

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)

Valuation Report (continued)

- (3) *The Property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation (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)" under Draft Kwun Tong (South) Outline Zoning Plan S/K14S/17.*
- (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 2012 and the average gross monthly car parking income for the period of January 2012 to December 2012.*
- (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
2010 & Before	24,679	16.5%	265,350	13.5%	13	17.8%
2011	55,332	37.1%	743,000	37.7%	21	28.8%
2012	69,242	46.4%	962,500	48.8%	39	53.4%
Total	149,253	100.0%	1,970,850	100.0%	73	100.0%

Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
31 December 2012 & 2013	70,227	47.1%	887,250	45.0%	30	41.1%
2014	47,789	32.0%	655,600	33.3%	24	32.9%
2015 & Beyond	31,237	20.9%	428,000	21.7%	19	26.0%
Total	149,253	100.0%	1,970,850	100.0%	73	100.0%

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	37,879	25.4%	520,800	26.4%	20	27.4%
More than 2 years and up to 3 years	111,374	74.6%	1,450,050	73.6%	53	72.6%
More than 3 years	–	–	–	–	–	–
Total	149,253	100.0%	1,970,850	100.0%	73	100.0%

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2012	Estimated Net Property Yield	
7	<p>Portion of New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon (see note (1))</p> <p>11,163/26,198th undivided parts or shares of and in New Kowloon Inland Lot No. 4864.</p>	<p>The Property comprises various factory units within New Treasure Centre, which is a 30-storey industrial building (including a Mezzanine Floor) with ancillary parking and loading/unloading facilities. It is erected on a registered site area of approximately 1,304.35 sq m (14,040 sq ft), and was built in 1995.</p> <p>Portion of the Ground Floor and Mezzanine of the building are for carparking and/or loading/unloading purposes whereas the remaining upper floors from the 1st to 31st Floors (4th, 14th and 24th floor numbers are omitted) are used for factory purposes.</p> <p>The Property comprises portion of New Treasure Centre, with a total gross area of approximately 8,005.20 sq m (86,168 sq ft). The total saleable area 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 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 expiry in October 2015. Total net monthly rental income of approximately HK\$744,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The Property is currently 98.5% occupied (excluding carparking spaces).</p> <p>The carparking spaces of the Property are let on monthly and hourly basis generating an average gross monthly income of approximately HK\$144,000 from January 2012 to December 2012 exclusive of Government rates and rent, and utility charges but inclusive of management fees.</p>	HK\$266,000,000	4.0%

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.
- (4) The Property lies within an area zoned "Other Specified Uses (For "Business" only)" under Approved Tsz Wan Shan, Diamond Hill and San Po Kong Outline Zoning Plan S/K11/25.
- (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 2012 and the average gross monthly car parking income for the period of January 2012 to December 2012.

Valuation Report (continued)

(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
2010 & Before	7,369	8.7%	59,000	7.9%	5	9.8%
2011	26,068	30.7%	231,700	31.1%	18	35.3%
2012	51,466	60.6%	453,531	61.0%	28	54.9%
Total	84,903	100.0%	744,231	100.0%	51	100.0%

Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of total	Monthly Rental (HK\$)	% of total	No. of Tenancy	% of total
31 December 2012 & 2013	29,411	34.6%	241,601	32.5%	22	43.1%
2014	39,471	46.5%	370,030	49.7%	26	51.0%
2015 & Beyond	16,021	18.9%	132,600	17.8%	3	5.9%
Total	84,903	100.0%	744,231	100.0%	51	100.0%

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	45,346	53.4%	398,431	53.5%	33	64.7%
More than 2 years and up to 3 years	39,557	46.6%	345,800	46.5%	18	35.3%
More than 3 years	–	–	–	–	–	–
Total	84,903	100.0%	744,231	100.0%	51	100.0%

Grade A Office Market Overview

1. Introduction

Hong Kong has succeeded in transforming itself from a small industrial-based city into a regional financial hub by capitalising on its centralised geographical location in the region, well-established legal system and simple tax regime. The open-door policy adopted by Mainland China and the continued economic development in the Pearl River Delta (PRD) region has further solidified the role of Hong Kong as the financial and business centre in the region. Given its strategic location and transparency, Financing, Insurance, Real Estate (the “FIRE”), Service and Trading related companies have been the key market players in the Hong Kong office market.

2. Grade A Office Stock

Grade A office stock in Hong Kong has continuously increased over the past decades with a long-term average supply of 2.2 million sq ft per year. According to the Hong Kong Rating and Valuation Department (“RVD”), the total Grade A office stock in Hong Kong was recorded at 73.38 million sq ft at the end of 2011, which accounted for 63% of the total office stock. Grade A office stock marginally increased to 74.51 million sq ft by the end of 2012 through the addition of about 1.13 million sq ft of net floor area during the year. As per Colliers International (“Colliers”) research, there will be an additional 1.5 million sq ft of Grade A office supply in 2013.

According to the RVD, the majority of Grade A office stock is concentrated in Central with about 17.31 million sq ft (23.6% of the total Grade A office stock). In terms of other sub-districts, Tsim Sha Tsui had Grade A office stock of 8.52 million sq ft (11.6%), Island East (North Point/Quarry Bay) had 7.95 million sq ft (10.8%), Kwun Tong had 11.42 million sq ft (15.6%) and Kwai Tsing/Tsuen Wan had 2.16 million sq ft (2.9%) at the end of 2011.

3. Grade A Office Supply, Take up and Vacancy

There will be no significant easing of the current tight supply situation with only seven new office developments with about 1.5 million sq ft of net floor area due for completion in 2013. New Grade A office supply in 2013 includes Kowloon Commerce Centre-Tower B (Kwai Chung) with about 414,800 sq ft, 181 Hoi Bun Road (Kwun Tong) with about 262,650 sq ft, Rykadan Capital Tower (Kwun Tong) with about 189,765 sq ft, 10 Shing Yip Street (Kwun Tong) with about 209,368 sq ft, 49 King Yip Street (Kwun Tong) with 150,000 sq ft, 6 Wang Kwong Road (Kowloon Bay) with about 224,900 sq ft and 8 Connaught Place (Central) with about 40,700 sq ft.

From 2013 to 2015, the sub-district of Kowloon East (Kwun Tong/Kowloon Bay) will be the major source of new supply, providing a total of 3.0 million sq ft of Grade A office space. Another 1.7 million sq ft on Island East is expected from the redevelopment of Taikoo Place after 2016. As there is no new supply in Tsim Sha Tsui, no serious competition is expected in the district during the next few years.

Due to strong rent increases over the years, Hong Kong has observed decentralised relocation trends, as some of the cost-sensitive tenants have been looking for alternative office accommodations away from the core districts. As a result, decentralised business districts, particularly for Kowloon East, witnessed strong net take-up in 2012.

According to Colliers, the overall vacancy rate for the Grade A office market was recorded at 4.3% in 4Q 2012, a decline from 4.7% in 3Q 2012. This was largely underpinned by new set-ups or expansions of legal and small to medium size finance companies. Vacancy levels in Island East, Sheung Wan and Kowloon East continued to trend downwards, while the relocation of cost-sensitive tenants from Tsim Sha Tsui and Wan Chai/Causeway Bay to other districts led to rising vacancy in these two areas in 4Q 2012.

Valuation Report (continued)

Due to the limited supply of Grade A office buildings available for lease in 2013, especially on Hong Kong Island, and the anticipated completion of several office developments across Hong Kong in 2013, the average vacancy level of the whole market will hover at around 4–5% in 2013.

4. Grade A Office Rentals

According to Colliers, regardless of increasing take-up and falling vacancy, overall Grade A office rents saw a downward correction of 2.3% in 4Q 2012. This was largely due to softening demand for premium Grade A office space in Central, with a rent decrease of 13.2% YoY. Premium office buildings in Central experienced increasing downward pressure on rents, as some landlords felt the pressure of increasing vacancy rates. The trend of relocation to buildings with lower rents within Central also continued during the quarter.

Benefitting from relocation demand, Island East displayed the strongest rent growth of 4.8% QoQ in 4Q 2012, followed by a 4.3% QoQ increase in Kowloon East, reaffirming the trend of decentralisation. Falling vacancy prompted landlords to adopt a stronger stance in rent negotiations, thereby lifting overall rent growth in these districts.

The overall Grade A office market rent decreased 2.6% YoY during 2012. However, there was still rent increase observed in decentralised districts. The largest increase in 2012 was seen in Kowloon East at 9.8% YoY, followed by Western Corridor (9.7% YoY) and Tsim Sha Tsui (9.6% YoY).

5. Forecast

The Hong Kong Grade A office market, especially in the Central sub-market, has seen a softening trend since mid-2011. However, recent signs of increasing leasing activities show the overall office market is set to regain growth momentum. The improved business conditions will encourage business expansion plans, and an increasing number of companies in hiring will progressively support office leasing demand.

The overall Grade A office rent is predicted to rebound by 4% in 2013. Rent performance in Central and Kowloon East will outperform the overall market slightly, as stabilised economic conditions will be the driver of the Grade A office market.

Industrial Market Overview

1. Introduction

According to the Census and Statistics Department, the value of Hong Kong's total exports increased 10.5% YoY to HK\$307.8 billion in November 2012, mainly led by a better performance of the Mainland market. Of this total, the value of re-exports increased 10.7% YoY to HK\$302.6 billion in November 2012. However, the external environment has been consistently challenged by advanced markets, in particular those in the United States and the European Union.

Given the overall favourable external trading performance, the Hong Kong industrial property market showed remarkable performance during 2012. Hong Kong industrial properties can be classified into three types, such as Flatted Factories, I-O Buildings and Warehouses. In this report, we will mainly cover the Flatted Factory and I-O Building sectors, which are relevant to the subject properties.

2. Industrial Stock

According to the RVD, the total Flatted Factory stock was recorded at 185.0 million sq ft at the end of 2011. Flatted Factory stock has increased with a long-term average annual supply of 2.7 million sq ft (on an internal floor area basis) per year since the late 80's. The largest amount of stock is located in Kwai Tsing (19.2%) and Kwun Tong (18.9%).

On the other hand, I-O Building stock reached 6.4 million sq ft at the end of 2011 with a long-term average annual supply of 0.3 million sq ft since 1994. About 38.8% of the total I-O Building stock was concentrated in Kwun Tong, followed by stock in Sham Shui Po (22.2%) and Kwai Tsing (15.2%) at the end of 2011.

3. Industrial Supply and Vacancy

New supply for both the Flatted Factory and I-O Building sectors has been significantly reduced since 2001. As per the RVD, new supply of 348,754 sq ft and 518,825 sq ft (on an internal floor area basis) have been added to the Flatted Factory market in 2011 and 2012 respectively. It is expected that approximately 288,000 sq ft (on an internal floor area basis) mainly from Kwai Tsing will be supplied in 2013. These figures are below the long-term average of 2.7 million sq ft per year. According to the RVD, vacancy rate of Flatted Factory at the end of 2011 recorded at 6.0%, which decreased from 6.7% in 2010.

According to the RVD, there was no new supply of I-O Buildings from 2009 to 2012, and new completions are not expected in 2013. Vacancy rate of I-O Building at the end of 2011 reached 8.2%, which decreased from 9.2% in 2010.

Valuation Report (continued)

4. Industrial Rental

The overall industrial market continued to enjoy positive overflow from the traditional office sector as a result of the sustained increase of rentals in the office market. In addition, the successful sales performance of the newly completed prime office developments in Kowloon East together with the government's industrial revitalisation policies positively affected the overall industrial market.

The relocation activity due to wholesale conversion of industrial buildings continued stimulating leasing market activity and the rent performance in 4Q 2012. In addition, the positive spill-over effect from the sustained rent growth in decentralised office premises continued to support I-O building rent performance. Rental growth of Flatted Factory and I-O buildings accelerated to 3.0-3.2% QoQ in 4Q 2012, whereas the average rental of I-O Buildings increased 7.8% YoY during the term.

5. Forecast

The changes in economic performance of Hong Kong's major trading partners over the past months, including the Mainland China, the US and the Eurozone, led to volatility in Hong Kong's external trade performance. Nevertheless, the Hong Kong external trade performance improved during the three-month period ending in November 2012. The total value of re-exports increased by 7.4% YoY to HK\$903 billion, compared to a YoY decline of 2.4% recorded during June–August 2012.

In addition to external trade performance, local consumption also plays an important role in demand for industrial premises. The change in retail sales performance reflects the local consumption demand. During the three-month period ending in November 2012, the total value of retail sales increased 7.5% YoY to HK\$106 billion, compared to growth of 6.3% YoY in the preceding three-month period. Due to the active retail market, trading companies and retail brands back offices are currently expanding and looking for good quality office spaces within the traditional industrial districts.

Due to the above positive demand drivers, the Flatted Factory and I-O Building rents are predicted to continuously show an upward trend under current sentiment. Furthermore, the government's plan to transform Kowloon East into a vibrant, new business hub has already gradually moved the overall industrial market in the area upward over the long-term.

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 and the fifth supplemental deed dated 29 December 2011, for the financial year ended 31 December 2012.

HSBC Institutional Trust Services (Asia) Limited

In its capacity as the trustee of Prosperity Real Estate Investment Trust
Hong Kong, 28 February 2013

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 98 to 130, which comprise the consolidated statement of financial position as at 31 December 2012, 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 "REIT 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 REIT 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 about 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 REIT 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.

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 2012 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

28 February 2013

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	Note	2012 HK\$'000	2011 HK\$'000 (restated)
Revenue	5	308,366	275,627
Property management fees		(6,948)	(6,351)
Property operating expenses	6	(61,947)	(57,764)
Total property operating expenses		(68,895)	(64,115)
Net property income		239,471	211,512
Interest income		84	2,782
Manager's fee		(36,837)	(32,569)
Trust and other expenses	7	(7,060)	(6,728)
Increase in fair value of investment properties		947,720	1,044,054
Finance costs	8	(43,590)	(46,202)
Profit before taxation and transactions with unitholders		1,099,788	1,172,849
Taxation	9	(25,073)	(21,358)
Profit for the year, before transactions with unitholders		1,074,715	1,151,491
Distribution to unitholders		(186,868)	(163,518)
Profit for the year, after transactions with unitholders		887,847	987,973
Other comprehensive income			
Change in fair value of cashflow hedge		(10,881)	11,133
Total other comprehensive income		(10,881)	11,133
Total comprehensive income for the year, after transactions with unitholders		876,966	999,106
Income available for distribution to unitholders		186,868	163,518
Basic earnings per unit (HK\$)	10	0.78	0.85

Distribution Statement

For the year ended 31 December 2012

	2012 HK\$'000	2011 HK\$'000 (restated)
Profit for the year, before transactions with unitholders	1,074,715	1,151,491
Adjustments:		
Manager's fee	36,774	32,514
Increase in fair value of investment properties	(947,720)	(1,044,054)
Finance costs	10,153	10,137
Deferred tax	12,946	13,430
Income available for distribution (note (i))	186,868	163,518
Distributions to unitholders:		
HK\$0.0660 (2011: HK\$0.0595) per unit for the six months ended 30 June (note (ii))	90,844	80,593
HK\$0.0694 (2011: HK\$0.0607) per unit for the six months ended 31 December (note (iii))	96,024	82,925
	186,868	163,518
Total distribution per unit (HK\$)	0.1354	0.1202

Notes:

- (i) 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 ARA Asset Management (Prosperity) Limited (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.

These adjustments for the current year comprise:

- (a) manager's fee paid in units of HK\$36,774,000 (2011: HK\$32,514,000) out of the total manager's fee of HK\$36,837,000 (2011: HK\$32,569,000) (the difference of HK\$63,000 (2011: HK\$55,000) are paid in cash);
- (b) increase in fair value of investment properties of HK\$947,720,000 (2011: HK\$1,044,054,000);
- (c) adjustment in respect of the difference between the accounting finance cost of HK\$43,590,000 (2011: HK\$46,202,000) less cash finance cost of HK\$33,437,000 (2011: HK\$36,065,000); and
- (d) deferred tax provision of HK\$12,946,000 (2011 (restated): HK\$13,430,000).
- (ii) The distribution per unit of HK\$0.0660 for the six months ended 30 June 2012 (six months ended 30 June 2011: HK\$0.0595) is calculated based on Prosperity REIT's income available for distribution of HK\$90,844,000 (six months ended 30 June 2011: HK\$80,593,000) over 1,375,762,318 units (30 June 2011: 1,355,008,050 units), representing units in issue as at 30 June 2012 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 2012. The distribution was paid to unitholders on 18 September 2012.
- (iii) The distribution per unit of HK\$0.0694 for the six months ended 31 December 2012 (six months ended 31 December 2011: HK\$0.0607) is calculated based on Prosperity REIT's income available for distribution of HK\$96,024,000 (six months ended 31 December 2011: HK\$82,925,000) over 1,383,838,170 units (31 December 2011: 1,365,888,233 units), representing units in issue as at 31 December 2012 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 2012

	Note	2012 HK\$'000	2011 HK\$'000 (restated)	2010 HK\$'000 (restated)
ASSETS AND LIABILITIES				
Non-current assets				
Investment properties	11	7,952,000	6,991,000	5,934,000
Current assets				
Trade and other receivables	12	7,672	8,265	8,002
Tax recoverable		–	44	261
Bank balances and cash	13	44,305	52,945	29,832
Total current assets		51,977	61,254	38,095
Total assets		8,003,977	7,052,254	5,972,095
Non-current liabilities, excluding net assets attributable to unitholders				
Derivative financial instruments	14	32,059	21,178	32,311
Secured term loan	15	1,743,423	1,733,270	1,723,933
Deferred tax liabilities	16	132,723	119,777	106,347
Total non-current liabilities, excluding net assets attributable to unitholders		1,908,205	1,874,225	1,862,591
Current liabilities				
Trade and other payables	17	137,365	133,038	115,095
Amount due to related companies	18	10,245	11,431	8,113
Secured revolving loan	15	20,000	35,000	26,000
Provision for taxation		3,081	320	3,069
Manager's fee payable		9,875	8,640	7,577
Distribution payable		96,024	82,925	73,534
Total current liabilities		276,590	271,354	233,388
Total liabilities, excluding net assets attributable to unitholders		2,184,795	2,145,579	2,095,979
Net assets attributable to unitholders		5,819,182	4,906,675	3,876,116
Units in issue ('000)	19	1,379,867	1,360,443	1,342,637
Net asset value per unit (HK\$) attributable to unitholders	20	4.24	3.62	2.91

The consolidated financial statements on pages 98 to 130 were approved and authorised for issue by ARA Asset Management (Prosperity) Limited on 28 February 2013 and were signed on its behalf by:

Chiu Kwok Hung, Justin

Wong Lai Hung, Mavis

Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 31 December 2012

	Issued units HK\$'000	Unit issue costs HK\$'000	Hedging reserve HK\$'000	Retained profits HK\$'000 (restated)	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2012, as restated	2,858,584	(91,278)	(21,178)	2,160,547	4,906,675
OPERATIONS					
Profit for the year, before transactions with unitholders	-	-	-	1,074,715	1,074,715
Distribution paid and payable	-	-	-	(186,868)	(186,868)
	-	-	-	887,847	887,847
Change in fair value of cashflow hedge	-	-	(10,881)	-	(10,881)
Total comprehensive income for the year	-	-	(10,881)	887,847	876,966
UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS					
Units issued to REIT Manager	35,541	-	-	-	35,541
Net assets attributable to unitholders as at 31 December 2012	2,894,125	(91,278)	(32,059)	3,048,394	5,819,182

For the year ended 31 December 2011

	Issued units HK\$'000	Unit issue costs HK\$'000	Hedging reserve HK\$'000	Retained profits HK\$'000 (restated)	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2011, as previously reported	2,827,131	(91,278)	(32,311)	890,581	3,594,123
Prior year adjustments in respect of change in accounting policy	-	-	-	281,993	281,993
Net assets attributable to unitholders as at 1 January 2011, as restated	2,827,131	(91,278)	(32,311)	1,172,574	3,876,116
OPERATIONS					
Profit for the year, before transactions with unitholders	-	-	-	1,151,491	1,151,491
Distribution paid and payable	-	-	-	(163,518)	(163,518)
	-	-	-	987,973	987,973
Change in fair value of cashflow hedge	-	-	11,133	-	11,133
Total comprehensive income for the year	-	-	11,133	987,973	999,106
UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS					
Units issued to REIT Manager	31,453	-	-	-	31,453
Net assets attributable to unitholders as at 31 December 2011	2,858,584	(91,278)	(21,178)	2,160,547	4,906,675

Consolidated Statement of Cash Flows

For the year ended 31 December 2012

	2012 HK\$'000	2011 HK\$'000
Operating activities		
Profit before taxation and transactions with unitholders	1,099,788	1,172,849
Adjustments for:		
(Reversal) allowance for doubtful debts	(106)	108
Manager's fees paid/payable in units	36,774	32,514
Increase in fair value of investment properties	(947,720)	(1,044,054)
Interest income	(84)	(2,782)
Finance costs	43,590	46,202
Operating cashflow before working capital changes	232,242	204,837
(Decrease) increase in amount due to related companies	(1,186)	3,318
Decrease (increase) in trade and other receivables	699	(371)
Increase in trade and other payables	4,327	17,943
Increase in Manager's fee payable	2	2
Cash generated from operations	236,084	225,729
Income tax paid	(9,322)	(10,460)
Net cash from operating activities	226,762	215,269
Investing activities		
Interest received	84	2,782
Additional expenditure to investment properties	(13,280)	(12,946)
Net cash used in investing activities	(13,196)	(10,164)
Financing activities		
Origination fees	-	(800)
Drawdown of secured revolving loan	92,000	756,000
Repayment of secured revolving loan	(107,000)	(747,000)
Interest payment of term loan and revolving loan	(33,437)	(36,065)
Distribution to unitholders	(173,769)	(154,127)
Net cash used in financing activities	(222,206)	(181,992)
Net (decrease) increase in cash and cash equivalents	(8,640)	23,113
Cash and cash equivalents at beginning of the year	52,945	29,832
Cash and cash equivalents at end of year, represented by bank balances and cash	44,305	52,945

Notes to the Financial Statements

For the year ended 31 December 2012

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 "REIT 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 of Hong Kong.

The principal activity of Prosperity REIT and its subsidiaries (the "Group") is to own and invest in a portfolio of commercial properties, comprising office, commercial, industrial/office and industrial buildings 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 REIT 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 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.

(d) Manager's fees

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

Base fee

The REIT 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 REIT Manager may elect whether the base fee is to be paid in cash or in units.

Notes to the Financial Statements (continued)
For the year ended 31 December 2012

1 General *(continued)*

(d) Manager's fees *(continued)*

Variable fee

The REIT 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 REIT 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 HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Amendments to HKAS 1	As part of the Annual Improvements to HKFRSs 2009-2011 Cycle issued in 2012
Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets
Amendments to HKFRS 7	Financial Instruments: Disclosures — Transfers of Financial Assets

Except as described below, the application of the amendments to HKFRSs has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 12 Deferred Tax: Recovery of Underlying Assets

The Group has applied for the first time the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets* in the current year. Under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 *Investment Property* are presumed to be recovered entirely through sale for the purposes of measuring deferred taxes, unless the presumption is rebutted in certain circumstances.

The Group measures its investment properties using the fair value model. As a result of the application of the amendments to HKAS 12, the REIT Manager reviewed the Group's investment property portfolios and concluded that none of the Group's investment properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time, rather than through sale. Therefore, the REIT Manager have determined that the 'sale' presumption set out in the amendments to HKAS 12 is not rebutted.

The application of the amendments to HKAS 12 has resulted in the Group not recognising any deferred taxes on changes in fair value of the investment properties. Previously, the Group recognised deferred taxes on changes in fair value of investment properties on the basis that the entire carrying amounts of the properties were recovered through use.

The amendments to HKAS 12 have been applied retrospectively, resulting in the Group's deferred tax liabilities being decreased by HK\$281,993,000, HK\$454,392,000 and HK\$610,766,000 as at 1 January 2011, 31 December 2011 and 31 December 2012, respectively, with the corresponding adjustment being recognised in retained profits. In addition, the application has resulted in the Group's taxation for the year ended 31 December 2011 being reduced by HK\$172,399,000 and profit for the year, before transactions with unitholders for the year ended 31 December 2011 being increased by the same amount.

In the current year, no deferred taxes have been provided for changes in fair value of the Group's investment properties. The application of the amendments has resulted in the Group's taxation for the year ended 31 December 2012 being reduced by HK\$156,374,000 and profit for the year, before transactions with unitholders for the year ended 31 December 2012 being increased by the same amount.

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

Amendments to HKAS 1 Presentation of Financial Statements (as part of the Annual Improvements to HKFRSs 2009-2011 Cycle issued in June 2012)

Various amendments to HKFRSs were issued in June 2012, the title of which is Annual Improvements to HKFRSs (2009–2011 Cycle). The effective date of these amendments is annual periods beginning on or after 1 January 2013.

In current year, the Group has applied for the first time the amendments to HKAS 1 in advance of the effective date (annual periods beginning on or after 1 January 2013).

HKAS 1 requires an entity that changes accounting policies retrospectively, or makes a retrospective restatement or reclassification to present a statement of financial position as at the beginning of the preceding period (third statement of financial position). The amendments to HKAS 1 clarify that an entity is required to present a third statement of financial position only when the retrospective application, restatement or reclassification has a material effect on the information in the third statement of financial position and that related notes are not required to accompany the third statement of financial position.

In the current year, the Group has applied the amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets* for the first time, which has resulted in a material effect on the information in the consolidated statement of financial position as at 1 January 2011. In accordance with the amendments to HKAS 1, the Group has therefore presented a third statement of financial position as at 1 January 2011 without the related notes.

Summary of the effect of the above change in accounting policy

The effect of the change in accounting policy described above on the results for the current and prior year by line items are as follows:

	2012 HK\$'000	2011 HK\$'000
Decrease in taxation and corresponding increase in profit for the year, before transactions with unitholders	156,374	172,399

	2012 HK\$'000	2011 HK\$'000
<i>Impact on basic earnings per unit</i>		
Basic earnings per unit before adjustment	0.67	0.72
Adjustment in relation to application of amendments of HKAS 12	0.11	0.13
Reported basic earnings per unit	0.78	0.85

Notes to the Financial Statements (continued)
For the year ended 31 December 2012

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

Summary of the effect of the above change in accounting policy *(continued)*

The effect of the change in accounting policy described above on the financial positions of the Group as at 1 January 2011 and 31 December 2011 are as follows:

	As at 31 December 2011 (originally stated) HK\$'000	Adjustment HK\$'000	As at 31 December 2011 (restated) HK\$'000
Total effects on net assets attributable to unitholders			
Deferred tax liabilities	574,169	(454,392)	119,777

	As at 1 January 2011 (originally stated) HK\$'000	Adjustment HK\$'000	As at 1 January 2011 (restated) HK\$'000
Total effects on net assets attributable to unitholders			
Deferred tax liabilities	388,340	(281,993)	106,347

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle, except for the amendments HKAS 1 ¹
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Financial Liabilities ¹
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance ¹
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities ²
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ¹
HKFRS 11	Joint Arrangements ¹
HKFRS 12	Disclosure of Interests in Other Entities ¹
HKFRS 13	Fair Value Measurement ¹
HKAS 19 (as revised in 2011)	Employee Benefits ¹
HKAS 27 (as revised in 2011)	Separate Financial Statements ¹
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ¹
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income ⁴
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ²
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine ¹

¹ Effective for annual periods beginning on or after 1 January 2013

² Effective for annual periods beginning on or after 1 January 2014

³ Effective for annual periods beginning on or after 1 January 2015

⁴ Effective for annual periods beginning on or after 1 July 2012

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

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at 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.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The REIT Manager anticipates that HKFRS 9 will be adopted in the Group’s financial statements for the annual period beginning 1 January 2015 but that the application of HKFRS 9 may not have significant impact on amounts reported in respect of the Group’s financial assets and financial liabilities.

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures were issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these standards that are applicable to the Group are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. SIC-12 *Consolidation – Special Purpose Entities* has been withdrawn upon the issuance of HKFRS 10. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

In June 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these HKFRSs for the first time.

These standards together with the amendments regarding the transitional guidance are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these standards are applied early at the same time.

The REIT Manager anticipates that these standards will be adopted in the Group’s consolidated financial statements for the annual period beginning 1 January 2013. However, the application of these standards may not have significant impact on amounts reported in the consolidated financial statements.

Notes to the Financial Statements (continued)
For the year ended 31 December 2012

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

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those required in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 *Financial Instruments: Disclosures* will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The REIT Manager anticipates that HKFRS 13 will be adopted in the Group’s financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the financial statements and result in more extensive disclosures in the financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income* introduce new terminology for the statement of comprehensive income. Under the amendments to HKAS 1, a “statement of comprehensive income” is renamed as a “statement of profit or loss and other comprehensive income”. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require items of other comprehensive income to be grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis — the amendments do not change the option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The REIT Manager anticipates that the application of other amendments and interpretations, based on the current business operation, will have no material financial impact on the financial information and the disclosure in the consolidated financial statements.

3 Significant Accounting Policies

(a) Basis of preparation of financial statements

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

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements are drawn up in accordance with the relevant provisions of the Trust Deed and include the relevant disclosure requirements set out in Appendix C of the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission of Hong Kong.

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.

3 Significant Accounting Policies *(continued)*

(a) Basis of preparation of financial statements *(continued)*

The REIT Manager is of the opinion that, taking into account the fair value of investment properties, presently available banking facilities and internal financial resources, Prosperity REIT 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. 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. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. 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.

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 and points 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 debt instrument, 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 considered to be 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.

Notes to the Financial Statements (continued)
For the year ended 31 December 2012

3 Significant Accounting Policies *(continued)*

(d) Financial instruments *(continued)*

Impairment of financial assets *(continued)*

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, 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

Debt is 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.

Accordingly, the unitholders' funds are compound instruments in accordance with Hong Kong Accounting Standard 32: *Financial Instruments: 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.

3 Significant Accounting Policies *(continued)*

(d) Financial instruments *(continued)*

Derivative financial instruments and hedging *(continued)*

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, in the same line of the consolidated statement of comprehensive income as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and 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.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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.

The Group derecognises financial liabilities when, and only when, the Group's obligations are 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.

Notes to the Financial Statements (continued)
For the year ended 31 December 2012

3 Significant Accounting Policies *(continued)*

(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 income 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.

All other borrowing cost are recognised as an expense in the consolidated 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 before taxation and transactions with unitholders" 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.

3 Significant Accounting Policies *(continued)*

(i) Taxation *(continued)*

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.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax is recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

4 Financial Instruments

(a) Categories of financial instruments

	2012 HK\$'000	2011 HK\$'000 (restated)
Loans and receivables		
Trade receivables	244	96
Bank balances and cash	44,305	52,945
	44,549	53,041
Financial liabilities		
<i>Derivative instruments in designated hedge accounting relationships</i>		
Interest rate swap	32,059	21,178
Financial liabilities at amortised costs		
Trade payables	723	2,468
Amount due to related companies	10,245	11,431
Secured term loan	1,743,423	1,733,270
Secured revolving loan	20,000	35,000
Manager's fee payable	9,875	8,640
Distribution payable	96,024	82,925
	1,880,290	1,873,734
Unitholders' funds	5,819,182	4,906,675

Details of the financial instruments are disclosed in respective notes.

Notes to the Financial Statements (continued)
For the year ended 31 December 2012

4 Financial Instruments *(continued)*

(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 primarily exposed to cash flow interest rate risk in relation to variable-rate secured term loan (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 14 for details).

If the interest rates have been higher by 50 basis points and all other variables were held constant, the profit for the year would decrease and other comprehensive income recognised in equity would increase by approximately HK\$1,770,000 (2011: HK\$1,770,000) and HK\$18,000,000 (2011: HK\$25,000,000) respectively arising from unhedged portion of secured term loan and the fair value of interest rate swap, respectively. If the interest rates have been lower by 50 basis points and all other variable were held constant, there would be an equal and opposite impact on the profit and other comprehensive income.

The above sensitivity analysis has been determined based on the exposure to interest rates for variable rate secured term loan and derivative instruments at the end of reporting period. For variable rate secured term loan, 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 reasonably possible change in interest rates.

(ii) **Credit risk**

As the end of reporting period, 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 REIT 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.

4 Financial Instruments *(continued)*

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

(iii) *Liquidity risk management*

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

As at 31 December 2012, the Group has a bank loan facility of HK\$2,200,000,000, (2011: HK\$2,200,000,000) comprising a HK\$1,770,000,000 (2011: HK\$1,770,000,000) term loan and a HK\$430,000,000 (2011: HK\$430,000,000) revolving credit facility. The term loan facility was fully drawn on 16 December 2010 and revolving credit facility of HK\$20,000,000 (2011: HK\$35,000,000) was drawn as at the end of reporting period. 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. Certain investment properties, with aggregate carrying value of HK\$7,885,000,000 (2011: HK\$6,933,000,000) have been pledged to secure the banking credit facilities granted to the Group. The Group, with a cash balance of HK\$44,305,000 (2011: HK\$52,945,000) and available unutilised revolving credit facility of approximately HK\$410,000,000 (2011: HK\$395,000,000) as at 31 December 2012, has sufficient financial resources and facilities to satisfy its commitments and working capital requirements.

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.

Notes to the Financial Statements (continued)
For the year ended 31 December 2012

4 Financial Instruments (continued)

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

(iii) Liquidity risk management (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	2 to 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31/12/2012 HK\$'000
2012							
Non-derivative							
Trade payables	-	723	-	-	-	723	723
Tenants' deposits	-	2,345	3,452	63,695	29,338	98,830	98,830
Amount due to related companies	-	10,245	-	-	-	10,245	10,245
Secured term loan	1.19%	1,819	3,462	16,136	1,804,854	1,826,271	1,743,423
Secured revolving loan	1.09%	20,020	-	-	-	20,020	20,000
Manager's fee payable	-	9,875	-	-	-	9,875	9,875
Distribution payable	-	-	-	96,024	-	96,024	96,024
Cash outflow		45,027	6,914	175,855	1,834,192	2,061,988	1,979,120
Derivatives – net settlement							
Interest rate swap, cash outflow		1,125	2,149	10,130	19,322	32,726	32,059

	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	2 to 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31/12/2011 HK\$'000
2011							
Non-derivative							
Trade payables	-	2,468	-	-	-	2,468	2,468
Tenants' deposits	-	5,747	3,502	30,237	54,852	94,338	94,338
Amount due to related companies	-	11,431	-	-	-	11,431	11,431
Secured term loan	1.17%	1,699	3,233	15,194	1,824,876	1,845,002	1,733,270
Secured revolving loan	1.08%	35,034	-	-	-	35,034	35,000
Manager's fee payable	-	8,640	-	-	-	8,640	8,640
Distribution payable	-	-	-	82,925	-	82,925	82,925
Cash outflow		65,019	6,735	128,356	1,879,728	2,079,838	1,968,072
Derivatives – net settlement							
Interest rate swap, cash outflow		1,221	2,323	10,728	33,618	47,890	21,178

4 Financial Instruments *(continued)*

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

5 Revenue

	2012 HK\$'000	2011 HK\$'000
Gross rental from investment properties		
Rental income	241,440	214,291
Car park income	19,680	18,226
	261,120	232,517
Rental related income	47,246	43,110
	308,366	275,627

6 Property Operating Expenses

	2012 HK\$'000	2011 HK\$'000
Building management fees	30,477	27,775
Utilities	7,914	6,506
Government rent and rates	150	163
Car park operating expenses	3,909	4,137
Marketing service fee	9,995	8,665
Lease commission	1,572	2,606
Repairs and maintenance	2,872	2,522
Legal cost and stamp duty	1,152	1,374
Secretarial fee	552	619
Valuation fees (paid to principal valuer)	229	168
Audit fee	1,107	1,074
Tax fees	193	193
Back-office support service fee	907	832
Others	918	1,130
	61,947	57,764

Notes to the Financial Statements (continued)
For the year ended 31 December 2012

7 Trust and Other Expenses

	2012 HK\$'000	2011 HK\$'000
Audit fee	249	193
Trustee's fee	2,168	1,915
Bank charges	1,314	847
Legal and professional fees	357	608
Registrar fee	600	600
Back-office support service fee	31	58
Public relations-related expenses	242	356
Trust administrative expenses	2,099	2,151
	7,060	6,728

8 Finance Costs

	2012 HK\$'000	2011 HK\$'000
Interest expense on:		
Secured term loan	29,976	29,441
Equalisation of interest expense through cashflow hedges	13,401	14,898
	43,377	44,339
Secured revolving loan	213	1,863
	43,590	46,202

9 Taxation

	2012 HK\$'000	2011 HK\$'000 (restated)
Current tax	12,127	7,928
Deferred tax (note 16)	12,946	13,430
	25,073	21,358

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

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. 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:

	2012 HK\$'000	2011 HK\$'000 (restated)
Income tax expense at statutory rate of 16.5%	181,465	193,520
Tax effect of non-taxable income	(156,388)	(172,728)
Tax effect of non-deductible expenses	1,921	1,833
Tax effect of tax loss not recognised	-	216
Tax effect of utilisation of tax losses previously not recognised	(139)	-
Tax effect of utilisation of deductible temporary differences previously not recognised	(1,559)	(1,321)
Others	(227)	(162)
Taxation for the year	25,073	21,358

10 Earnings Per Unit

The basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$1,074,715,000 (2011 (restated): HK\$1,151,491,000) by the weighted average of 1,375,404,049 (2011: 1,352,423,464) units in issue during the year, taking into account the units issuable as manager's fee for its service in the last quarter of the relevant distribution year.

No diluted earnings per unit has been presented as there were no potential units in issue.

11 Investment Properties

	2012 HK\$'000	2011 HK\$'000
FAIR VALUE		
At beginning of the year	6,991,000	5,934,000
Additional expenditure	13,280	12,946
Increase in fair value of investment properties	947,720	1,044,054
At end of the year	7,952,000	6,991,000

On 31 December 2012, an independent valuation on the investment properties was undertaken by Colliers International (Hong Kong) Limited. The firm is an independent qualified professional valuer not connected to the Group and has 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 and cross-checked by sales evidences available on the market. 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.

Notes to the Financial Statements (continued)
For the year ended 31 December 2012

11 Investment Properties *(continued)*

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 2012, with aggregate carrying value of HK\$7,885,000,000 (2011: HK\$6,933,000,000), have been pledged to secure banking facilities granted to the Group.

12 Trade and Other Receivables

	2012 HK\$'000	2011 HK\$'000
Trade receivables	246	204
Less: allowance for doubtful debts	(2)	(108)
	244	96
Deposit and prepayments	7,428	8,169
	7,672	8,265

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

	2012 HK\$'000	2011 HK\$'000
Current-1 month	188	96
2-3 months	56	-
	244	96

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:

	2012 HK\$'000	2011 HK\$'000
Balance at beginning of the year	108	-
Impairment losses (reversed) recognised on receivables	(106)	108
Balance at the end of the year	2	108

13 Bank Balances and Cash

	2012 HK\$'000	2011 HK\$'000
Cash at bank	44,305	50,945
Fixed deposits with financial institutions with original maturity within 3 months	–	2,000
	44,305	52,945

Fixed deposits with financial institutions at the end of the 2011 consist of deposits bearing interest at approximately 0.15% per annum.

Fixed deposits and cash at bank, with aggregate value of HK\$44,305,000 (2011: HK\$52,945,000) are placed with The Hongkong and Shanghai Banking Corporation Limited, a related company of the Trustee.

14 Derivative Financial Instruments

	2012 HK\$'000	2011 HK\$'000
Cash flow hedges — interest rate swaps		
Non-current liabilities	32,059	21,178

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.

Contract with notional amount of HK\$1,416,000,000 entered in 2010 will mature on 16 June 2015. This contract has fixed interest payments at 1.34% per annum and has floating interest receipts at three months HIBOR for periods until 16 June 2015. The REIT 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 (continued)
For the year ended 31 December 2012

15 Borrowings

	2012 HK\$'000	2011 HK\$'000
Secured term loan	1,770,000	1,770,000
Origination fees	(26,577)	(36,730)
	1,743,423	1,733,270
Secured revolving loan	20,000	35,000
	1,763,423	1,768,270
Carrying amount repayable:		
Within one year	20,000	35,000
More than two years, but not exceeding five years	1,743,423	1,733,270
	1,763,423	1,768,270

Under the 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.

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 included in measuring the borrowings 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:

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000 (restated)
As at 31 December 2010, as restated	116,836	(10,489)	106,347
Charge to profit or loss	11,022	2,408	13,430
As at 31 December 2011, as restated	127,858	(8,081)	119,777
Charge to profit or loss	11,278	1,668	12,946
As at 31 December 2012	139,136	(6,413)	132,723

At the end of the reporting period, tax loss amounting to approximately HK\$3,757,000 (31 December 2011: HK\$4,599,000) 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\$20,157,000 (2011: HK\$18,224,000). 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

	2012 HK\$'000	2011 HK\$'000
Trade payables	723	2,468
Tenants' deposits		
— Outside parties	98,405	93,927
— Related parties	425	411
Rental received in advance		
— Outside parties	2,017	3,062
Other payables	35,795	33,170
	137,365	133,038

Notes to the Financial Statements (continued)
For the year ended 31 December 2012

17 Trade and Other Payables *(continued)*

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

	2012 HK\$'000	2011 HK\$'000
Current-1 month	210	2,217
2-3 months	301	134
Over 3 months	212	117
	723	2,468

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\$29,338,000 (2011: HK\$54,852,000)

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.

19 Units in Issue

	Number of units	HK\$'000
Balance as at 1 January 2011	1,342,636,682	2,827,131
Payment of manager's base fee and variable fee through issuance of new units during the year	17,805,847	31,453
Balance as at 31 December 2011	1,360,442,529	2,858,584
Payment of manager's base fee and variable fee through issuance of new units during the year	19,424,572	35,541
Balance as at 31 December 2012	1,379,867,101	2,894,125

Subsequent to the end of the reporting period, 3,971,069 units (2011: 5,445,704 units) at HK\$2.4824 (2011: HK\$1.5838) per unit were issued to the REIT Manager as partial settlement of base fee and variable fee for the period from 1 October 2012 to 31 December 2012. The unitholders' fund per unit, based on the closing market price of Prosperity REIT as at 31 December 2012 was HK\$2.35 (30 December 2011: HK\$1.50).

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, amounting to HK\$32,059,000 (2011: HK\$21,178,000), and the total number of 1,379,867,101 units in issue as at 31 December 2012 (1,360,442,529 units in issue as at 31 December 2011).

21 Major Non-Cash Transaction

During the year, the REIT Manager earned a fee of HK\$36,837,000 (2011: HK\$32,569,000) of which HK\$36,774,000 (2011: HK\$32,514,000) was paid or payable through the issuance of units to the REIT Manager. An amount of HK\$26,916,000 (2011: HK\$23,889,000) had been settled through the issuance of units to the REIT Manager while the balance of HK\$9,858,000 (2011: HK\$8,625,000) were paid in units subsequent to the year end.

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 REIT Manager has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions.

As described in note 14, 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 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\$224,613,000 (2011: HK\$210,100,000). Other than certain investment properties, with aggregate carrying value of HK\$7,885,000,000 (2011: HK\$6,933,000,000), 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\$7,727,387,000 (2011: HK\$6,780,900,000).

Notes to the Financial Statements (continued)

For the year ended 31 December 2012

25 Segmental Reporting

Prosperity REIT is currently investing in seven office, commercial, industrial/office and industrial buildings 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 REIT 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 2012

	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
Segment revenue in Hong Kong	102,634	64,596	20,866	43,544	37,058	27,901	11,767	308,366
Segment profit	81,943	50,789	16,225	32,836	28,177	20,934	8,567	239,471
Interest income								84
Manager's fee								(36,837)
Trust and other expenses								(7,060)
Increase in fair value of investment properties								947,720
Finance costs								(43,590)
Profit before taxation and transactions with unitholders								1,099,788

For the year ended 31 December 2011

	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
Segment revenue in Hong Kong	88,631	57,855	18,223	39,924	34,358	25,810	10,826	275,627
Segment profit	69,276	44,557	13,995	29,741	27,123	19,181	7,639	211,512
Interest income								2,782
Manager's fee								(32,569)
Trust and other expenses								(6,728)
Increase in fair value of investment properties								1,044,054
Finance costs								(46,202)
Profit before taxation and transactions with unitholders								1,172,849

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 REIT Manager.

25 Segmental Reporting *(continued)*

Segment assets

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

	2012 HK\$'000	2011 HK\$'000
The Metropolis Tower	2,773,000	2,508,000
Prosperity Millennia Plaza	1,632,000	1,480,000
Portion of Harbourfront Landmark	436,000	397,000
Prosperity Place	1,301,000	1,006,000
Trendy Centre	818,000	732,000
Portion of Prosperity Center	726,000	636,000
Portion of New Treasure Centre	266,000	232,000
Total segment assets	7,952,000	6,991,000
Other assets	51,977	61,254
Consolidated assets	8,003,977	7,052,254

For the purposes of monitoring segment performances and allocating resources, 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

	2012 HK\$'000	2011 HK\$'000
Minimum lease income under operating leases included in the consolidated statement of comprehensive income	241,440	214,291

	2012 HK\$'000	2011 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	219,691	163,609
In the second to fifth year inclusive	155,417	108,997
Total	375,108	272,606

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 (continued)
For the year ended 31 December 2012

27 Connected and Related Party Transactions

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

	Note	2012 HK\$'000	2011 HK\$'000
Rent and rental related income from			
E-Park Parking Management Limited	(a)	131	233
Goodwell Property Management Limited	(a)	1,284	1,254
Hutchison Telephone Company Limited	(b)	81	48
Tremayne Investments Limited	(b)	–	14,438
Carpark lease agency fee for the operations of the Group's carpark			
E-Park Parking Management Limited	(a)	1,873	1,461
Property management fee			
Goodwell-Prosperity Property Services Limited	(a)	6,948	6,351
Marketing service fee			
Goodwell-Prosperity Property Services Limited	(a)	9,995	8,665
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited		2,168	1,915
Manager's fee			
ARA Asset Management (Prosperity) Limited		36,837	32,569
Back-office support service fee			
Cheung Kong Companies	(c)	938	890
Balances as at year end with connected and related parties are as follows:			
Amount due to			
Cheung Kong (Holdings) Limited	(a)	–	2
Citybase Property Management Limited	(a)	664	1,136
Goodwell-Prosperity Property Services Limited	(a)	3,316	3,262
Goodwell Property Management Limited	(a)	5,407	6,067
Harbourfront Landmark Premium Services Limited	(b)	539	705
E-Park Parking Management Limited	(a)	319	259
Deposits placed with the Group for the lease of the Group's properties			
E-Park Parking Management Limited	(a)	–	61
Goodwell Property Management Limited	(a)	401	335
Hutchison Telephone Company Limited	(b)	24	15

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 Code on Real Estate Investment Trusts 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 significant unitholder of Prosperity REIT.*
- (c) *These companies are the subsidiaries, an associate and a jointly controlled entity of CKH 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, the deed of mutual covenant which binds the REIT 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\$821,000 (2011: HK\$601,000).

List of Subsidiaries

As at 31 December 2012 and 31 December 2011

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 for the year ended 31 December

	Year ended 31 December 2012 HK\$'000	Year ended 31 December 2011 HK\$'000	Year ended 31 December 2010 HK\$'000	Year ended 31 December 2009 HK\$'000	Year ended 31 December 2008 HK\$'000
Gross rental from investment properties	261,120	232,517	226,889	222,444	221,870
Net property income	239,471	211,512	212,531	206,900	208,677
Profit/(loss) for the year, before transactions with unitholders (restated)	1,074,715	1,151,491	762,714	481,236	(326,812)
Distribution to unitholders	186,868	163,518	147,831	145,365	164,516
Earnings/(loss) per unit (HK\$) (restated)	0.78	0.85	0.57	0.37	(0.25)
Distribution per unit (HK\$)	0.1354	0.1202	0.1101	0.1098	0.1268

Performance Table (continued)

Major assets and liabilities of Prosperity REIT as at 31 December

	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000
Investment properties	7,952,000	6,991,000	5,934,000	5,256,000	4,839,000
Secured bank loans, excluding origination fees	(1,790,000)	(1,805,000)	(1,796,000)	(1,770,000)	(1,770,000)
Net asset value (restated)	5,819,182	4,906,675	3,876,116	3,221,067	2,837,340
Net asset value per unit ⁽²⁾ (HK\$) (restated)	4.24	3.62	2.91	2.47	2.24
Other Information					
The highest traded price during the year (HK\$)	2.42	2.00	1.77	1.38	1.72
The highest (discount)/premium of the traded price to net asset value (restated)	(42.9%)	(44.8%)	(39.2%)	(44.1%)	(23.2%)
The lowest traded price during the year (HK\$)	1.52	1.33	1.31	0.84	0.59
The lowest discount of the traded price to net asset value (restated)	(64.2%)	(63.3%)	(55.0%)	(66.0%)	(73.7%)
The net yield per unit based on market price at the end of year	5.8%⁽¹⁾	8.0%	6.3%	8.3%	14.1%

¹ Based on the distribution per unit of HK\$0.1354 for the year ended 31 December 2012 and the closing market price of HK\$2.35 as at 31 December 2012.

² The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve and the total number of units in issue as at year ended date.

Investment Properties Portfolio

As at 31 December 2012

Property	Type	Lease term	Lease expiry date	Location	Valuation 2012 HK\$ million
The Metropolis Tower	O	Medium-term lease	30 June 2047	10 Metropolis Drive Hung Hom Kowloon Hong Kong	2,773
Prosperity Millennia Plaza	O	Medium-term lease	30 June 2047	663 King's Road North Point Hong Kong	1,632
Harbourfront Landmark (portion)	C	Medium-term lease	30 June 2047	11 Wan Hoi Street Hung Hom Kowloon Hong Kong	436
Prosperity Place	C	Medium-term lease	30 June 2047	6 Shing Yip Street Kwun Tong Kowloon Hong Kong	1,301
Trendy Centre	I/O	Medium-term lease	30 June 2047	682 Castle Peak Road Lai Chi Kok Kowloon Hong Kong	818
Prosperity Center (portion)	I/O	Medium-term lease	30 June 2047	25 Chong Yip Street Kwun Tong Kowloon Hong Kong	726
New Treasure Centre (portion)	I	Medium-term lease	30 June 2047	10 Ng Fong Street San Po Kong Kowloon Hong Kong	266
Total					7,952

Notes: Type of properties: O-Office, C-Commercial, 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 2012:

Consolidated Statements of Comprehensive Income

	Year ended 31 December 2012 HK\$'000	Year ended 31 December 2011 HK\$'000	Year ended 31 December 2010 HK\$'000	Year ended 31 December 2009 HK\$'000	Year ended 31 December 2008 HK\$'000
Revenue	308,366	275,627	270,094	263,624	263,146
Profit/(loss) before taxation and transactions with unitholders	1,099,788	1,172,849	781,839	497,266	(315,930)
Taxation (restated)	(25,073)	(21,358)	(19,125)	(16,030)	(10,882)
Profit/(loss) for the years, before transactions with unitholders (restated)	1,074,715	1,151,491	762,714	481,236	(326,812)
Distribution to unitholders	186,868	163,518	147,831	145,365	164,516
Distribution per unit (HK\$)	0.1354	0.1202	0.1101	0.1098	0.1268

Consolidated Statement of Financial Positions

	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000	2008 HK\$'000
Non-current assets	7,952,000	6,991,000	5,934,000	5,256,000	4,839,000
Current assets	51,977	61,254	38,095	62,001	76,326
Current liabilities	276,590	271,354	233,388	2,003,485	204,303
Net assets attributable to unitholders (restated)	5,819,182	4,906,675	3,876,116	3,221,067	2,837,340

Corporate Information

Board of Directors of the REIT Manager

Chiu Kwok Hung, Justin
Chairman and Non-executive Director

Lim Hwee Chiang
Non-executive Director

Wong Lai Hung, Mavis
Executive Director and Chief Executive Officer

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

Wong Kwai Lam
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

Colliers International (Hong Kong) 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

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, Wanchai
Hong Kong

Stock Code

The Stock Exchange of Hong Kong Limited: 808

Investor Relations

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Website

www.prosperityreit.com

Key Dates

Annual Results Announcement	28 February 2013
Closure of Register of Unitholders for final distribution	5 to 10 April 2013 (both days inclusive)
Payment of Final Distribution	16 April 2013
Closure of Register of Unitholders for Annual General Meeting	7 to 10 May 2013 (both days inclusive)
Annual General Meeting	10 May 2013

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 9/F Auditorium, The Hong Kong Federation of Youth Groups Building, 21 Pak Fuk Road, North Point, Hong Kong on Friday, 10 May 2013 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 2012; 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, 22 March 2013

Notes:

- (a) *The Register of Unitholders of Prosperity REIT will be closed from Tuesday, 7 May 2013 to Friday, 10 May 2013, 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 Monday, 6 May 2013.*
- (b) *Reference is made to the announcement made by ARA Asset Management (Prosperity) Limited as manager of Prosperity REIT (the “REIT Manager”) on 28 February 2013. The Register of Unitholders of Prosperity REIT will be closed from Friday, 5 April 2013 to Wednesday, 10 April 2013, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution per unit of HK\$0.0694 payable to unitholders on Tuesday, 16 April 2013, 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 Wednesday, 3 April 2013.*
- (c) *Any unitholder entitled to attend 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 2012 (“Annual Report”) is available in both English and Chinese versions. Unitholders who have received either the English or the Chinese version of the Annual Report may request a copy on the other language 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, or email to prosperityreit.ecom@computershare.com.hk.

The Annual Report (in both English and Chinese versions) has been posted on Prosperity REIT’s website at www.prosperityreit.com and the website of The Stock Exchange of Hong Kong Limited at www.hkexnews.hk. Unitholders who have chosen (or are deemed to have consented) to receive Prosperity REIT’s Corporate Communication (including but not limited to annual report, interim report, notice of meeting, listing documents, circular and proxy form) by electronic means through Prosperity REIT’s website and who for any reason have difficulty in receiving or gaining access to the Annual Report posted on Prosperity REIT’s website may request a printed copy of the Annual Report free of charge.

Unitholders may at any time change the choice of means of receipt (i.e. in printed form or by electronic means through Prosperity REIT’s website) and/or language of Prosperity REIT’s Corporate Communication by reasonable prior notice in writing to Prosperity REIT’s unit registrar, Computershare Hong Kong Investor Services Limited, either by post or by email to prosperityreit.ecom@computershare.com.hk.





Stock Code: 808

Manager



ARA Asset Management (Prosperity) Limited

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



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