



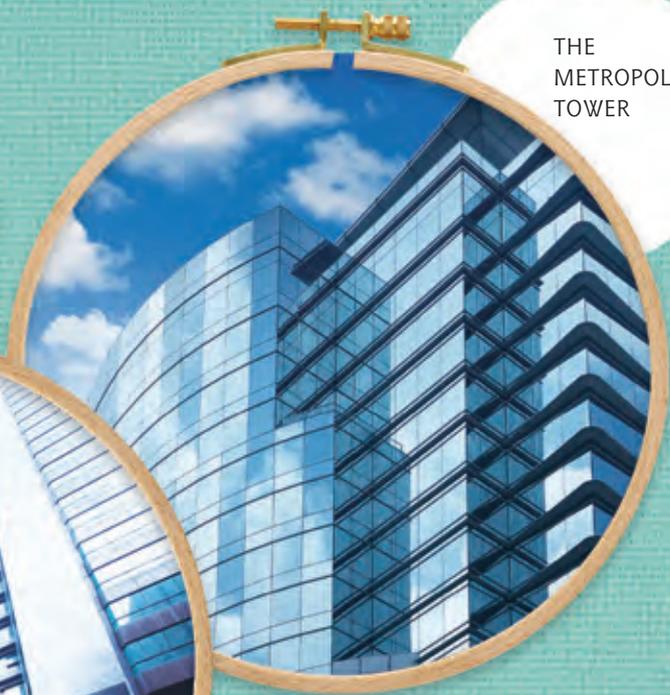
Build for a  
**BRIGHT**  
Annual Report **2018**  
**FUTURE**



PROSPERITY PLACE



THE METROPOLIS TOWER



9 CHONG YIP STREET



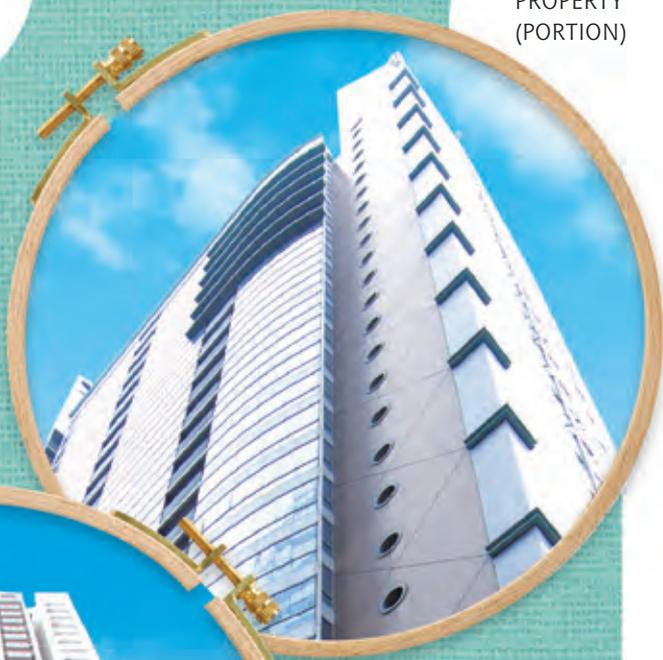
PROSPERITY MILLENNIA PLAZA

# 7 PROSPERITY REIT PORTFOLIO

# TOTAL GROSS RENTABLE AREA OF ABOUT 1.28 MILLION SQ. FT.



TRENDY CENTRE



PROSPERITY CENTER PROPERTY (PORTION)



NEW TREASURE CENTRE PROPERTY (PORTION)





**WE CARE  
FOR**

**STAFF**

**TENANTS**

**COMMUNITY**

**UNITHOLDERS**

**ENVIRONMENT**

## 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 1.28 million sq. ft..

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

## ABOUT THE REIT MANAGER

ARA Asset Management (Prosperity) Limited is a wholly-owned subsidiary of ARA Asset Management Limited (“**ARA**”), a premier global real estate fund manager driven by a vision to be the best-in-class real estate fund management company focused on the management of REITs, private real estate funds and infrastructure.

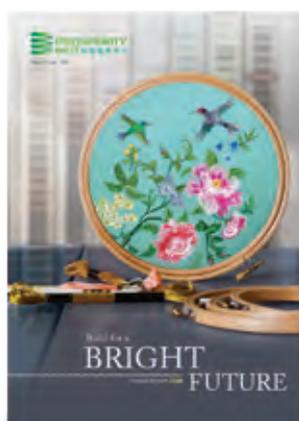
The REIT Manager is responsible for the management and administration of Prosperity REIT, as well as the implementation of Prosperity REIT’s business strategies.

## 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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The prosperous prospect begins with the assembly of efforts: No matter how fine and small an effort is, with its assembly through a long time it will become evident. The splendid policy and measure are the lighthouse to lead the business to go forward.

The craftsmanship requirements of embroidery are: straight, round, neat and tidy, accurate, consistent, fine sewing, and the work should not askew. Through each and every sew the fineness of the art of embroidery is shown. It is the best metaphor for the success of Prosperity REIT: each and every effort done by Prosperity REIT in this long period of time became more and more evident, and with the fine and thorough strategy, the business of the company shall move forward in a steady pace.

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TRIVING  
For Growth



# 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 2018 (the “Reporting Year”).

## RESULTS AND DISTRIBUTION

Despite the slowdown in the global economy, the performance of Prosperity REIT was resilient under the prevailing market conditions. We registered stable growth in both distributable income and distribution per unit (“DPU”). Net asset value per unit and property valuation grew steadily year-on-year (“YoY”) by 4.7% and 4.8% to HK\$5.74 and HK\$10,990 million respectively.

In light of these results, I am pleased to announce that our unitholders will receive a total DPU of HK\$0.1810 for the year ended 31 December 2018, representing a stable yield of 6.0%<sup>1</sup>.

## MARKET REVIEW

Under the uncertainties in the US-China trade conflict, the Hong Kong stock market recorded a correction. GDP growth remained positive but the anticipated headwinds from the impact of trade conflict would unveil gradually.

While there was a slowdown in China economic growth, 2018 GDP continued to record a 6.6% growth. The US economic indicators were positive. The Federal Reserve raised interest rate four times in 2018. However, the Federal Open Market Committee (“FOMC”) meeting in January 2019 indicated that it would adopt a patient and wait-and-see approach in light of the global economic and financial developments. It is expected that interest rate hikes would not be as aggressive as in 2018.

<sup>1</sup> Based on Prosperity REIT's closing unit price of HK\$3.00 as at 31 December 2018.



## OPERATION REVIEW

With solid domestic demand and new transportation connectivity to Mainland China with the newly-opened Express Rail Link and Hong Kong-Zhuhai-Macao Bridge, it is believed that more business opportunities would be brought to the economy. Prosperity REIT achieved stable top-line revenue and net property income at HK\$446.8 million and HK\$350.8 million respectively across the Reporting Year. Positive rental reversion attained, while occupancy rates across the portfolio remained stable amidst volatile market conditions.

## PROSPECTS

Looking ahead, China has strengthened its correlation with the economic growth in Hong Kong through the development of Guangdong-Hong Kong-Macao Greater Bay Area, which pushes forward the economic and infrastructure development in the area.

On the micro perspective, the Kowloon East district is continuing to grow as a mature commercial hub, serving as a priority destination for corporates looking for quality office space in decentralized districts. Decentralization trend continues, while our portfolio's strong presence in Kowloon East remains intact.

We remain cautiously optimistic regarding the challenges and unforeseen circumstances that lie ahead, mainly on the headwinds and pressure brought by the US-China trade conflict on the Hong Kong economy. Our management approach remains prudent and proactive aiming to optimize stable and sustainable returns.

## ACKNOWLEDGEMENTS

I would like to take this opportunity to once again sincerely thank all those who have contributed to our success over the past year. Our staff members, tenants, service providers and business partners have also all played significant roles taking us forward in often challenging times. In particular, my thanks go to my fellow Board members and the management team for their dedication and efforts.

I would like to finish by acknowledging and thanking all our unitholders. Your continuing support and confidence in Prosperity REIT is critical for our sustainable growth.



**Chiu Kwok Hung, Justin**

*Chairman*

**ARA Asset Management (Prosperity) Limited  
as manager of Prosperity REIT**

Hong Kong, 22 March 2019



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OBUST  
Achievements



# PERFORMANCE HIGHLIGHTS IN 2018

## DISTRIBUTION PER UNIT<sup>1</sup>

 **1.7%**

**2018** **HK\$0.1810**



**2017** **HK\$0.1780**



## NET ASSET VALUE PER UNIT<sup>2</sup>

 **4.7%**

**2018** **HK\$5.74**



**2017** **HK\$5.48**



## PROPERTY VALUATION<sup>2</sup>

 **4.8%**

**2018** **HK\$10,990 million**



**2017** **HK\$10,490 million**



## REVENUE<sup>1</sup>

 **0.1%**

**2018** **HK\$446.8 million**



**2017** **HK\$446.2 million**



## AVERAGE EFFECTIVE UNIT RENT<sup>1</sup>

 **1.5%**

**2018** **HK\$24.68 per sq. ft.**



**2017** **HK\$24.31 per sq. ft.**



## OCCUPANCY RATE<sup>2</sup>

 **0.1%**<sup>3</sup>

**2018** **97.6%**



**2017** **97.7%**



*Notes:*

<sup>1</sup> For the year ended 31 December

<sup>2</sup> As at year end

<sup>3</sup> Absolute change

# TRUST REVIEW

## DIVERSIFIED PROPERTY PORTFOLIO

As at 31 December 2018, Prosperity REIT had a diversified portfolio comprising seven high-quality properties in the decentralized business districts of Hong Kong. The portfolio comprised all, or a portion of, three Grade A office buildings, one commercial building, two industrial/office buildings and one industrial building, with total gross rentable area of about 1.28 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 2004. As at 31 December 2018, the appraised value of the portfolio was HK\$10,990 million. Grade A office buildings, commercial building, industrial/office buildings and industrial building accounted for 61.2%, 16.9%, 18.6% and 3.3% of the total appraised value respectively.

	Valuation HK\$ million as at 31 December 2018	Valuation HK\$ million as at 31 December 2017	Percentage change Increase/(Decrease)
<b>Grade A Office</b>			
The Metropolis Tower	3,330	3,220	3.4%
Prosperity Millennia Plaza	2,250	2,140	5.1%
9 Chong Yip Street	1,150	1,100	4.5%
<b>Commercial</b>			
Prosperity Place	1,860	1,760	5.7%
<b>Industrial/Office</b>			
Trendy Centre	1,110	1,050	5.7%
Prosperity Center (portion)	930	880	5.7%
<b>Industrial</b>			
New Treasure Centre (portion)	360	340	5.9%
<b>Total</b>	<b>10,990</b>	10,490	4.8%

## EFFECTIVE LEASE MANAGEMENT

As a result of proactive tenant recruitment efforts by the REIT Manager, the portfolio's occupancy rate was maintained stable at 97.6% as at 31 December 2018. The portfolio's average effective unit rent increased by 1.5% YoY to HK\$24.68 per sq.ft., with a rental reversion rate of 7.2% for the leases successfully renewed in 2018.

As at 31 December 2018, leases expiring in 2019 accounted for 38.0% of the portfolio's gross rental income. Proactive leasing strategies will be continued in 2019 to deliver stable distribution to unitholders.

## LEASE EXPIRY PROFILE BY GROSS RENTAL INCOME (AS AT 31 DECEMBER 2018)

	31 December 2018 & 2019	2020	2021 and Beyond
The Metropolis Tower	37.1%	19.5%	43.4%
Prosperity Millennia Plaza	29.0%	45.2%	25.8%
9 Chong Yip Street	37.4%	40.2%	22.4%
Prosperity Place	40.7%	42.3%	17.0%
Trendy Centre	51.9%	34.7%	13.4%
Prosperity Center (portion)	42.1%	46.7%	11.2%
New Treasure Centre (portion)	33.7%	49.1%	17.2%
Portfolio	38.0%	35.7%	26.3%

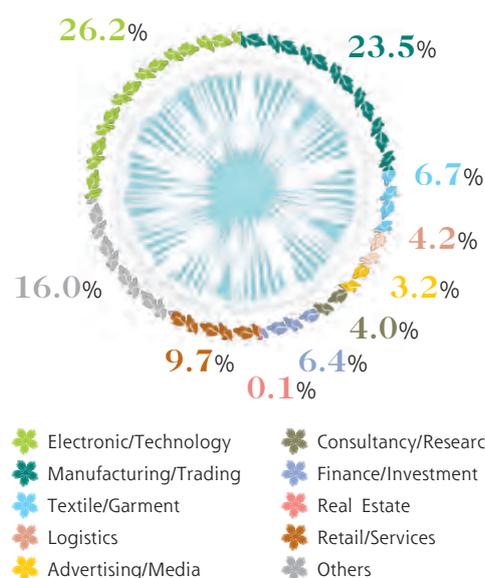
## WELL-BALANCED TENANT MIX

As at 31 December 2018, Prosperity REIT had a total of 607 tenants. Most of these tenants were from business sectors such as electronic, technology, manufacturing, trading, as well as services trade. Following the wholesale conversion approval for Prosperity Place in 2012, the REIT Manager continued to secure retail and services trade tenants during the Reporting Year.

Approximately 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 RENTABLE AREA

(As at 31 December 2018)



## Size of Tenant Premises on Gross Rentable Area

(as at 31 December 2018)

	Percentage
Above 10,000 sq.ft.	11.3%
5,001 sq.ft.–10,000 sq.ft.	16.3%
2,001 sq.ft.–5,000 sq.ft.	31.2%
1,001 sq.ft.–2,000 sq.ft.	27.8%
1,000 sq.ft. and below	13.4%
Total	100.0%

## CLOSE-TO-ZERO RENT DELINQUENCY RATE

During the Reporting Year, Prosperity REIT maintained a close-to-zero rent delinquency rate. This was attributed to its strong tenant base and effective lease management mechanism.

## 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, asset enhancement initiatives have been planned and executed on a continuous basis. During the Reporting Year, a number of asset enhancement works were completed at The Metropolis Tower, Prosperity Place and Prosperity Millennia Plaza. Asset enhancement initiatives will continue in 2019 across the 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 2019 through our proven expertise in professional management.

### THE METROPOLIS TOWER

The typical floor sanitary facilities were reviewed. The executive and common washrooms on all typical floors were renovated. A pantry was built. These initiatives enhanced the workplace environment for our tenants and increased the competitiveness of the building.



### PROSPERITY PLACE AND PROSPERITY MILLENNIA PLAZA

We have replaced one of the chiller sets by a more energy-efficient model in 2014 and 2015 for Prosperity Place and Prosperity Millennia Plaza respectively, and achieved notable energy cost savings. Considering higher maintenance costs for the remaining ageing chiller sets and offset portion of the increment of electricity tariff, we have further replaced another set in these two properties in order to upkeep a reliable and efficient air-conditioning provision.

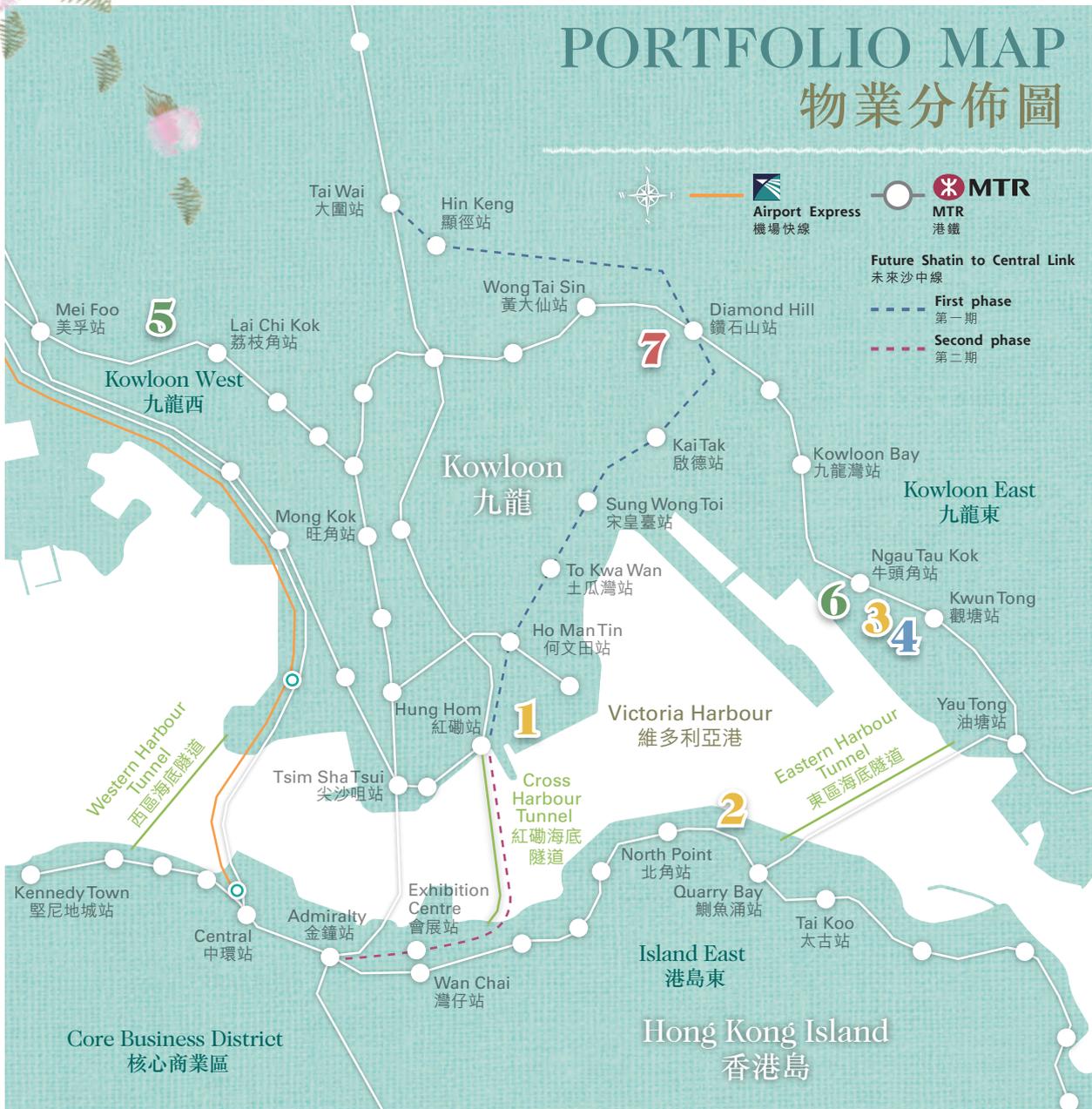
PROSPERITY PLACE



PROSPERITY MILLENNIA PLAZA



# PORTFOLIO MAP 物業分佈圖



**GRADE A OFFICE**



The Metropolis Tower    Prosperity Millennium Plaza    9 Chong Yip Street

**COMMERCIAL**



Prosperity Place

**INDUSTRIAL / OFFICE**



Trendy Centre    Prosperity Center Property (portion)

**INDUSTRIAL**



New Treasure Centre Property (portion)



# T

# OWERING

Performance

# The Metropolis Tower

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)	: 3,330
NUMBER OF TENANTS	: 103



TOP 5 TENANTS<sup>1</sup>

Tenants	Trade	GRA* (sq. ft.)	% of GRA*	% of GRI**
Hutchison Whampoa (China) Limited	Others	18,161	6.7%	6.5%
NEC Hong Kong Limited	Electronic/Technology	18,161	6.7%	6.0%
Sumitomo Mitsui Banking Corporation	Finance/Investment	18,161	6.7%	5.8%
Hong Kong Taiyo Yuden Company Limited	Electronic/Technology	7,768	2.9%	2.9%
Nintendo (Hong Kong) Limited	Electronic/Technology	7,415	2.7%	2.8%

\* Gross rentable area

\*\* Gross rental income

## LEASE EXPIRY PROFILE

(as at 31 December 2018)

## As at 31 December 2018 and 2019



## 2020



## 2021 and Beyond

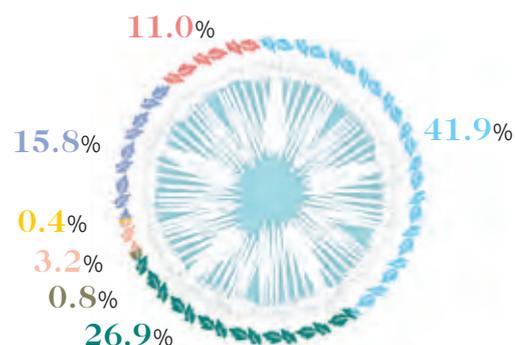


\* By Gross Rental Income \* By Gross Rentable Area

## TRADE MIX

## BY GROSS RENTABLE AREA

(as at 31 December 2018)



✿ Electronic/Technology      ✿ Advertising/Media  
✿ Manufacturing/Trading      ✿ Finance/Investment  
✿ Textile/Garment      ✿ Others  
✿ Logistics

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, 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, a 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 plate, 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.

As at 31 December 2018, the occupancy rate of the property was 99.2%.

<sup>1</sup> Top 5 tenants are measured based on tenant's contribution to the total rental income of the property in December 2018.

# Prosperity Millennia Plaza

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)	: 2,250
NUMBER OF TENANTS	: 78



## TOP 5 TENANTS

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
iClick Interactive Asia Limited & Others	Electronic/Technology	16,132	7.4%	7.5%
Lamex Trading Company Limited	Manufacturing/Trading	16,132	7.4%	6.8%
Excel Technology International (HK) Limited	Electronic/Technology	11,058	5.1%	4.9%
JDB Holdings Limited	Consultancy/Research	8,867	4.1%	4.7%
Uni-Asia Holdings Limited & Others	Logistics	8,314	3.8%	4.1%

## LEASE EXPIRY PROFILE

(as at 31 December 2018)

## As at 31 December 2018 and 2019



## 2020



## 2021 and Beyond

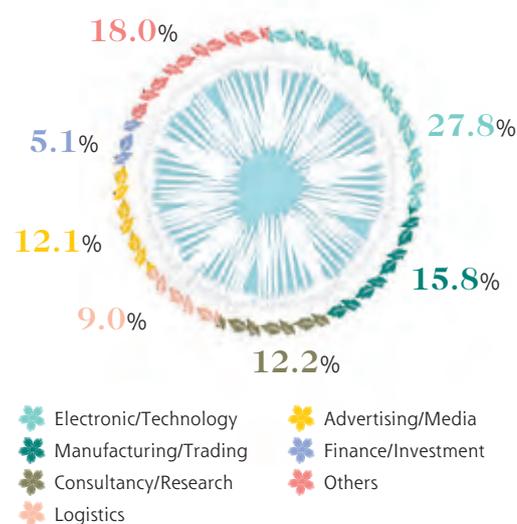


✿ By Gross Rental Income ✿ By Gross Rentable Area

## TRADE MIX

## BY GROSS RENTABLE AREA

(as at 31 December 2018)



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.

As at 31 December 2018, the occupancy rate of the property was 97.6%.

# 9 Chong Yip Street

LOCATION	: 9 Chong Yip Street, Kwun Tong, Kowloon
YEAR OF COMPLETION	: 2004
GROSS RENTABLE AREA (SQ. FT.)	: 136,595
NO. OF CAR PARK SPACES	: 68
APPRAISED VALUE (HK\$ MILLION)	: 1,150
NUMBER OF TENANTS	: 40



## TOP 5 TENANTS

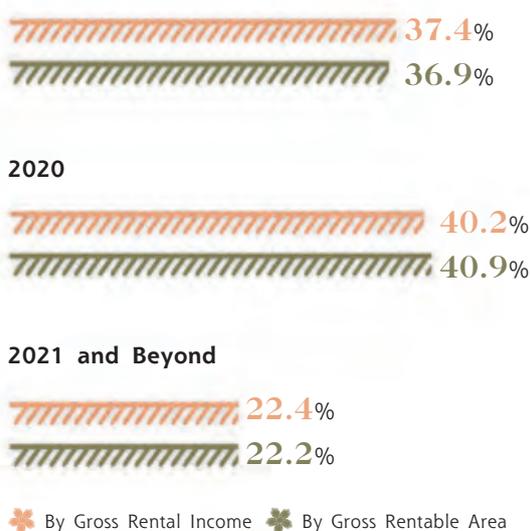
Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Coats China Holdings Limited	Manufacturing/Trading	6,580	4.8%	5.7%
Wing Shing Caisson & Foundation Limited & Others	Consultancy/Research	6,580	4.8%	5.4%
Totes Isotoner Corporation (H.K.) Limited	Manufacturing/Trading	6,580	4.8%	5.3%
Tenant <sup>NOTE</sup>	Others	6,580	4.8%	5.3%
VOXX Hong Kong Limited & Others	Electronic/Technology	6,580	4.8%	5.2%

Note: Tenant requested for anonymity.

## LEASE EXPIRY PROFILE

(as at 31 December 2018)

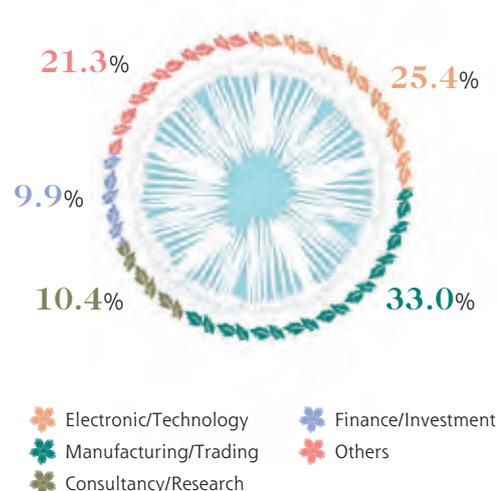
As at 31 December 2018 and 2019



## TRADE MIX

BY GROSS RENTABLE AREA

(as at 31 December 2018)



9 Chong Yip Street is located in the Kwun Tong district of Kowloon East, which is a maturing decentralized business district with many new high specifications office developments. The Hong Kong Government has implemented strategies to develop Kowloon East into another business district in Hong Kong. With the implementation of Kai Tak Development and Kwun Tong Town Centre Renewal Projects and transportation infrastructure including the Shatin-Central-Link connecting Shatin to Central via the Kai Tak Development currently being established, Kowloon East is poised to further leverage on and benefit from these upcoming developments.

9 Chong Yip Street is in close proximity to the Ngau Tau Kok MTR station and is easily accessible by private and public transportation such as taxis and franchised buses. Further, it is adjacent to one of Prosperity REIT's existing properties, namely Prosperity Center, and is only 10 minutes away from another Prosperity REIT's flagship property, being Prosperity Place.

As the community becomes more aware on environmental protections, green facilities have become one of the main features in commercial properties. In 9 Chong Yip Street, a roof garden was set up to provide an environmental friendly workplace for our tenants and to get in-line with the latest design of office buildings in the vicinity.

As at 31 December 2018, the occupancy rate of the property was 92.4%.

# Prosperity Place

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
APPRAISED VALUE (HK\$ MILLION)	: 1,860
NUMBER OF TENANTS	: 123



## TOP 5 TENANTS

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Evlite Electronics Company Limited	Electronic/Technology	11,819	4.9%	4.2%
Dickson Yoga Company Limited	Retail/Services	10,000	4.2%	4.0%
I Dance Enterprise Limited	Retail/Services	10,000	4.2%	4.0%
Bai Communications Limited	Electronic/Technology	7,225	3.0%	3.0%
Gain Long Group Limited	Retail/Services	5,402	2.3%	2.5%

## LEASE EXPIRY PROFILE

(as at 31 December 2018)

As at 31 December 2018 and 2019



2020



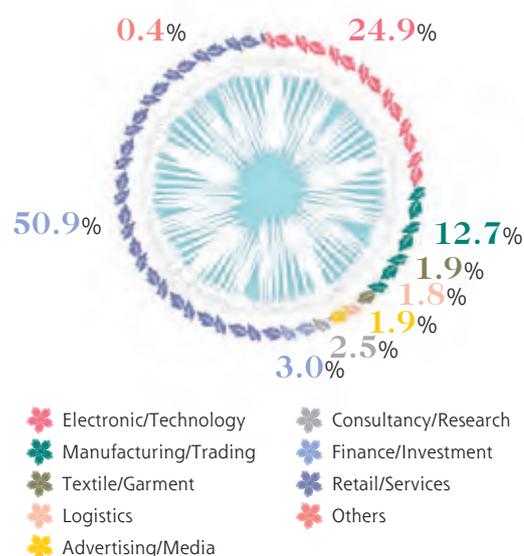
2021 and Beyond



✿ By Gross Rental Income   ✿ By Gross Rentable Area

TRADE MIX  
BY GROSS RENTABLE AREA

(as at 31 December 2018)



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.

Many new Grade A office buildings were newly developed in the past few years, 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 Kwun Tong Town Centre Renewal Projects by the Government, the district is undergoing 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.

Following the execution of the special waiver to convert Prosperity Place from industrial/office use to commercial use at the end of 2012, we have created a commercial outlook, widened our tenant base and continuously recruited commercial tenants to the property.

As at 31 December 2018, the occupancy rate of the property was 99.2%.

# Trendy Centre

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)	: 1,110
NUMBER OF TENANTS	: 145



## TOP 5 TENANTS

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Lush Asia Limited	Manufacturing/Trading	6,849	3.9%	4.0%
CEH Textiles Limited	Textile/Garment	6,849	3.9%	3.6%
Madrid Group Limited & Others	Others	708	0.4%	2.8%
Come In' Living Limited & Others	Manufacturing/Trading	3,268	1.9%	1.7%
Onco Medical Laboratory Limited & Others	Others	2,958	1.7%	1.7%

## LEASE EXPIRY PROFILE

(as at 31 December 2018)

## As at 31 December 2018 and 2019



## 2020



## 2021 and Beyond

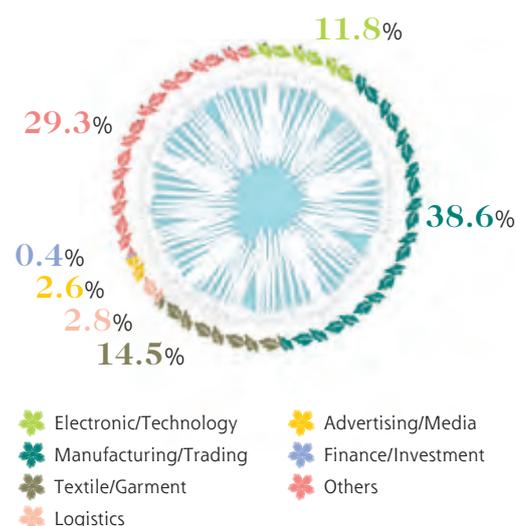


✿ By Gross Rental Income ✿ By Gross Rentable Area

## TRADE MIX

## BY GROSS RENTABLE AREA

(as at 31 December 2018)



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 just a convenient five-minute stroll from Trendy Centre.

As at 31 December 2018, the occupancy rate of the property was 96.0%.

# Prosperity Center Property

(Portion of Prosperity Center)

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)	: 930
NUMBER OF TENANTS	: 68



## TOP 5 TENANTS

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Aurora Fashions Asia Limited	Textile/Garment	13,899	9.3%	10.0%
Senko Advanced Components (Hong Kong) Limited	Electronic/Technology	11,733	7.9%	7.7%
Opsec Delta (HK) Limited	Manufacturing/Trading	10,528	7.1%	7.3%
Barco Limited	Electronic/Technology	4,597	3.1%	3.3%
Taiseimusen (H.K.) Company Limited	Manufacturing/Trading	3,714	2.5%	2.5%

## LEASE EXPIRY PROFILE

(as at 31 December 2018)

As at 31 December 2018 and 2019



2020



2021 and Beyond

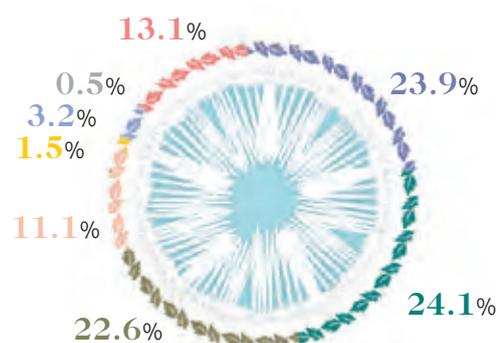


By Gross Rental Income
 By Gross Rentable Area

## TRADE MIX

## BY GROSS RENTABLE AREA

(as at 31 December 2018)



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, 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 2018, the occupancy rate of the property was 97.1%.

# New Treasure Centre Property

(Portion of New Treasure Centre)

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)	: 360
NUMBER OF TENANTS	: 50



## TOP 5 TENANTS

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Goodwell Property Management Limited*	Others	12,404	14.4%	12.8%
Reich Pharm Limited	Others	6,522	7.6%	7.4%
Macrotech Security & Management Services Limited & Others	Others	2,496	2.9%	3.0%
Menkin Industrial (China) Limited	Manufacturing/Trading	2,496	2.9%	3.0%
Yim Hong Kee Company Limited	Manufacturing/Trading	2,519	2.9%	2.9%

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

## LEASE EXPIRY PROFILE

(as at 31 December 2018)

## As at 31 December 2018 and 2019



## 2020



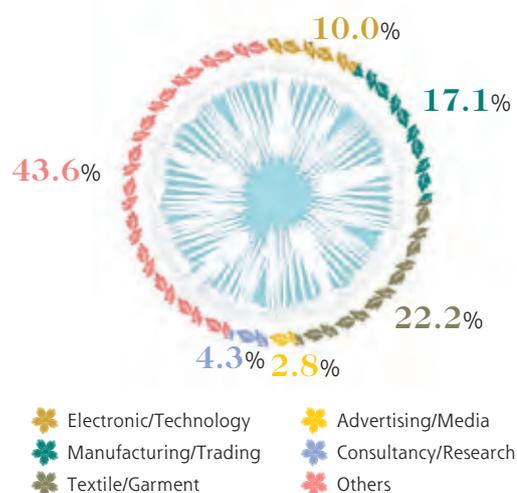
## 2021 and Beyond



✿ By Gross Rental Income ✿ By Gross Rentable Area

TRADE MIX  
BY GROSS RENTABLE AREA

(as at 31 December 2018)



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, 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 2018, the occupancy rate of the property was 100%.

# F

# OCUSED Strategy



# MANAGEMENT DISCUSSION AND ANALYSIS

## PERFORMANCE HIGHLIGHTS

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

	Year ended 31 December 2018	Year ended 31 December 2017	Percentage change Increase/(Decrease)
Distribution per unit	<b>HK\$0.1810</b>	HK\$0.1780	1.7%
Key financial figures	As at 31 December 2018	As at 31 December 2017	Percentage change Increase/(Decrease)
Net asset value per unit	<b>HK\$5.74</b>	HK\$5.48	4.7%
Property valuation	<b>HK\$10,990 million</b>	HK\$10,490 million	4.8%
Gearing ratio <sup>1</sup>	<b>20.6%</b>	21.5%	(0.9%) <sup>2</sup>
Operation data	Year ended 31 December 2018	Year ended 31 December 2017	Percentage change Increase/(Decrease)
Revenue	<b>HK\$446.8 million</b>	HK\$446.2 million	0.1%
Net property income	<b>HK\$350.8 million</b>	HK\$353.6 million	(0.8%)
Average effective unit rent	<b>HK\$24.68 per sq. ft.</b>	HK\$24.31 per sq. ft.	1.5%
Occupancy rate (as at 31 December)	<b>97.6%</b>	97.7%	(0.1%) <sup>2</sup>
Cost-to-revenue ratio	<b>21.5%</b>	20.8%	0.7% <sup>2</sup>

<sup>1</sup> This excludes the bank facility origination fees already paid in cash, and is calculated by dividing total borrowings over total assets.

<sup>2</sup> Absolute change.

## OPERATIONS REVIEW

As at 31 December 2018, Prosperity REIT owned a diverse portfolio of seven properties in the decentralized business districts of Hong Kong, comprising all, or a portion of, three Grade A office buildings, one commercial building, two industrial/office buildings and one industrial building. As at 31 December 2018, the total gross rentable area was 1,275,153 sq. ft., with a total of 498 car park spaces.

Information about the properties in the portfolio, as at 31 December 2018, was as follows:

	Location	Gross rentable area sq. ft.	No. of car park spaces	Valuation HK\$ million	Occupancy rate	
<b>Grade A Office</b>						
	The Metropolis Tower	Hung Hom	271,418	98	3,330	99.2%
	Prosperity Millennia Plaza	North Point	217,955	43	2,250	97.6%
	9 Chong Yip Street	Kwun Tong	136,595	68	1,150	92.4%
<b>Commercial</b>						
	Prosperity Place	Kwun Tong	240,000	83	1,860	99.2%
<b>Industrial/Office</b>						
	Trendy Centre	Lai Chi Kok	173,764	79	1,110	96.0%
	Prosperity Center (portion)	Kwun Tong	149,253	105	930	97.1%
<b>Industrial</b>						
	New Treasure Centre (portion)	San Po Kong	86,168	22	360	100%
<b>Total</b>			1,275,153	498	10,990	97.6%

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain a stable occupancy rate of 97.6% as at 31 December 2018, reflecting the effectiveness of the leasing strategies deployed. With efficient streamlining of operations, the cost-to-revenue ratio was maintained at a relatively low level of 21.5%.

## INVESTMENT REVIEW

The REIT Manager will continue to implement its investment strategy prudently. We shall assess every acquisition target in accordance with our established investment criteria, including the enhancement potential of asset value, organic growth prospects and synergies with existing properties in the portfolio.

## 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
<b>Grade A Office</b>				
The Metropolis Tower	106,140	20,184	126,324	97,986
Prosperity Millennia Plaza	80,333	14,321	94,654	77,641
9 Chong Yip Street	36,355	4,117	40,472	30,727
<b>Commercial</b>				
Prosperity Place	75,425	267	75,692	60,804
<b>Industrial/Office</b>				
Trendy Centre	45,331	7,068	52,399	40,679
Prosperity Center (portion)	37,268	3,412	40,680	30,714
<b>Industrial</b>				
New Treasure Centre (portion)	14,536	2,057	16,593	12,260
<b>Total</b>	<b>395,388</b>	<b>51,426</b>	<b>446,814</b>	<b>350,811</b>

### Revenue

During the Reporting Year, revenue slightly increased to HK\$446.8 million, being HK\$0.6 million or 0.1% higher than that of 2017. The increase was mainly due to the positive rental reversion and stable occupancy rates.

### Net Property Income

For the Reporting Year, the net property income was HK\$350.8 million, being HK\$2.8 million or 0.8% lower than that of 2017. The cost-to-revenue ratio was 21.5%.

### Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$268.9 million, representing a total DPU of HK\$0.1810. 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\$8.0 million (equivalent to HK\$0.0054 per unit), which have been recorded in the consolidated statement of profit or loss and other 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 2018. 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 2018 to 31 December 2018 is HK\$132.6 million, equivalent to a DPU of HK\$0.0890. The interim DPU from 1 January 2018 to 30 June 2018 was HK\$0.0920. The total DPU for the Reporting Year is HK\$0.1810, which represents a distribution yield of 6.0%<sup>3</sup>. The DPU increased by 1.7% YoY.

The distribution for the half year from 1 July 2018 to 31 December 2018 will be paid on Thursday, 18 April 2019.

## Liquidity and Financing

As at 31 December 2018, Prosperity REIT had facilities in aggregate of HK\$2,770 million, comprising:

- (i) A term loan and revolving credit facility of up to an aggregate principal amount of HK\$1,970 million (the "**HK\$1,970 Million Facilities**") comprising a HK\$1,540 million unsecured term loan facility and a HK\$430 million unsecured revolving credit facility, which bear interest at a margin of 0.82% per annum over HIBOR. The term loan facility will mature and become repayable 5 years from 30 November 2017, and the revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity; and
- (ii) A HK\$800 million unsecured term loan bears interest at floating interest rate of 1.05% per annum over HIBOR, and will mature and become repayable 5 years from 31 August 2016 (the "**HK\$800 Million Facility**").

In relation to the HK\$1,970 Million Facilities, the term loan facility of HK\$1,540 million was fully drawn on 30 November 2017. None of the revolving credit facility was drawn as at 31 December 2018.

The HK\$800 Million Facility was fully drawn on 31 August 2016.

As all facilities bear interests at a variable rate, Prosperity REIT has entered into plain vanilla interest rate swap and cap agreements to mitigate the impact of interest rate fluctuations. As at 31 December 2018, the interest costs for approximately 50% (31 December 2017: 90%) of Prosperity REIT's outstanding term loans have been hedged through interest rate swaps and cap.

The total borrowings of Prosperity REIT, excluding the bank facilities origination fees, as a percentage of Prosperity REIT's gross assets was 20.6% as at 31 December 2018, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 25.1% as at 31 December 2018.

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.

<sup>3</sup> Based on Prosperity REIT's closing unit price of HK\$3.00 as at 31 December 2018.

## Investment Properties and Property Valuation

For the Reporting Year, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$487.9 million, based on a professional valuation performed by an independent qualified external valuer, Colliers International (Hong Kong) Limited. The movements of fair values are tabulated below:

	<b>31 December 2018 HK\$'000</b>	31 December 2017 HK\$'000
Fair value at the beginning of the year	<b>10,490,000</b>	10,183,000
Additional expenditure	<b>12,118</b>	11,303
Change in fair value of investment properties	<b>487,882</b>	295,697
Fair value at the end of the year	<b>10,990,000</b>	10,490,000

## Charges on Assets

As at 31 December 2018, all bank loan facilities of Prosperity REIT are unsecured. None of the investment properties of Prosperity REIT were pledged to secure bank loan facilities of the Prosperity REIT's finance companies.

Prosperity REIT has provided guarantees for the HK\$1,970 Million Facilities and the HK\$800 Million 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 Tuesday, 9 April 2019 to Wednesday 10 April 2019, 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 Monday, 8 April 2019. The payment date of the final distribution will be on Thursday, 18 April 2019.

## MAJOR REAL ESTATE AGENTS AND CONTRACTORS

### Top Five Real Estate Agents

The total commission paid to real estate agents to secure new tenants during the Reporting Year was HK\$6,158,000. The commission paid to the top five real estate agents, summarized as follows, was HK\$3,623,000 and accounted for 58.8% of the total commission paid:

Real Estate Agents	Nature of Services	Commission Paid HK\$'000	Percentage of Total Commission Paid
CBRE Limited	Leasing	1,664	27.0%
Centaline Property Agency Limited	Leasing	794	12.9%
Cushman & Wakefield (HK) Limited	Leasing	453	7.4%
Jones Lang LaSalle Limited	Leasing	378	6.1%
Flourish Property Agency (C.I.) Limited	Leasing	334	5.4%
		3,623	58.8%

### Top Five Contractors

The total value of service contracts of contractors engaged by Prosperity REIT during the Reporting Year was HK\$67,025,000. The value of contracts of the top five contractors, summarized as follows, was HK\$58,039,000 and accounted for 86.6% of the total value of contracts:

<b>Contractors</b>	<b>Nature of Services</b>	<b>Value of Contract HK\$'000</b>	<b>Percentage of Total Value of Contracts</b>
Goodwell Property Management Limited	Building management	31,065	46.4%
Citybase Property Management Limited	Building management	11,960	17.8%
Goodwell-Prosperity Property Services Limited	Building management	10,994	16.4%
E-Park Parking Management Limited	Carpark operation	3,330	5.0%
ANW Contracting Company Limited	Repairs and maintenance	690	1.0%
		<b>58,039</b>	<b>86.6%</b>

S

HINING  
Strengths

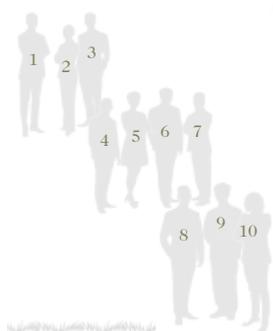


# THE PROPERTY MANAGER

## 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, a subsidiary of CK Asset Holdings Limited, exclusively manages the property portfolio of Prosperity REIT on a dedicated basis.



- |    |                                |  |
|----|--------------------------------|--|
| 1  | <b>NG Chi Wah, Kevin</b>       | <i>Assistant Director, Asset Management</i>        |
| 2  | <b>WONG Lai Hung, Mavis</b>    | <i>Chief Executive Officer</i>                     |
| 3  | <b>SIU Kit Fu, Jeff</b>        | <i>Manager, Asset Management &amp; Investments</i> |
| 4  | <b>DENG Chi Yung, Jonathan</b> | <i>Leasing Manager</i>                             |
| 5  | <b>WONG Ling Fei</b>           | <i>Assistant Chief Manager, Leasing</i>            |
| 6  | <b>CHAN Chun Kwok, Boris</b>   | <i>Leasing Manager</i>                             |
| 7  | <b>YEUNG Tin On, Bruce</b>     | <i>Assistant Leasing Manager</i>                   |
| 8  | <b>CHUI Bok Man, Kelly</b>     | <i>Senior Property Manager</i>                     |
| 9  | <b>SHING Wai Kit, Joe</b>      | <i>Senior Technical Manager</i>                    |
| 10 | <b>WONG Sze Yu, Kitty</b>      | <i>Property Manager</i>                            |

# S

# USTAINABLE Philosophy



# ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”)



## OUR PHILOSOPHY

Prosperity REIT firmly believes that we are more than just a standalone entity; we belong to the larger society, and thus we puts strong emphasis on Environment, Society and Governance (“**ESG**”). Believing that consideration for the ESG leads to long-term growth for stakeholders goes hand-in-hand with our wider commitment to our community, environment, tenants, staff and unitholders, we work with them to display our core values for sustainable development — Respect, Excellence, Integrity and Teamwork.

We have established relevant ESG policies, which give consideration to sustainability in our real estate investment and implement the policies in our properties’ operations. We are committed to growing our business responsibly and sustainably by managing the impact of our business to the environment and society, and creating value for the community. We believe our contribution in Corporate Social Responsibility (“**CSR**”) programs can help us attract and retain talented staff and earn trust from our investors. In future, we will continually execute our concept of corporate citizenship and we hope that our effort can be benefit to the environment and society.

## ABOUT THIS SECTION

This section covers the environmental and social measures taken by Prosperity REIT that contribute to sustainable development. It is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the “**ESG Guide**”) set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (“**Listing Rules**”).

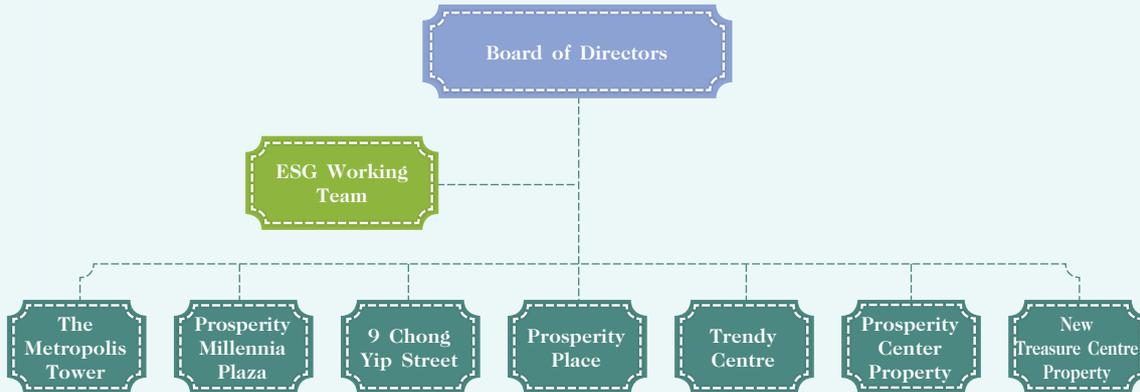
The report focuses on the ESG performance of all properties owned and managed by Prosperity REIT. The seven properties include The Metropolis Tower, Prosperity Millennia Plaza, 9 Chong Yip Street, Prosperity Place, Trendy Centre, Prosperity Center Property and New Treasure Centre Property.

Unless otherwise stated, the report covers our performance within the financial year from 1 January 2018 to 31 December 2018.

For information regarding our corporate governance, please refer to the Corporate Governance Section at page 71.

## OUR ESG GOVERNANCE AND MANAGEMENT

### ESG Management Structure



Prosperity REIT has in place a sound and robust management framework which enables the REIT Manager to mitigate ESG risks effectively. The Board of Directors, REIT Manager and Property Manager are fully committed to delivering value through sustainable development, empowering our employees and giving back to our society. An ESG Working Team is formed to lead and supervise the preparation of the ESG report in the Annual Report. The REIT Manager and Property Manager work closely to identify material issues, complete data collection process, and compile the report.

The Board has the overall responsibility for setting goals, developing strategies with regard to ESG performance and approving the final report.

## Stakeholder Engagement and Materiality Analysis

### Communication with Stakeholders

We recognize that regular engagement with key stakeholders is crucial for the sustainability of our property management business. Insights and opinions gathered from the stakeholders reaffirm our focus on business development as well as sustainability strategies. We have identified our unitholders, tenants, vendors, service providers, suppliers, employees and community as the key stakeholder groups. Being responsive to stakeholders’ concerns allow us to constantly improve our business practice and maintain warm relationship. The REIT Manager’s means of engaging the key stakeholder groups are summarized below:



**Communication with Unitholders**

We strive to promote effective communication with unitholders, and thus we regularly communicate up to date financial performance, as well as the overall ESG performance of Prosperity REIT through different channels, including but not limited to the methods listed above, helping us to build trust with unitholders and upholding the corporate governance.

*Investor Seminars*



*Annual General Meeting (AGM)*



*Property Tour*



*Press Briefing*



*Analysts Briefing*

### Materiality Analysis

Materiality analysis was performed in 2016 which extensively included expectations from representatives across the business. To solicit the views of internal and external stakeholders toward particular ESG issues, they were asked to rank the importance of ESG issues from 1 (not important at all) to 6 (very important) through an online survey. In addition, regular communication on ESG matters and in-depth interviews with stakeholders are also taken into consideration to further understand their opinions.

During the Reporting Year, the result of materiality analysis remained unchanged as there was no significant change in business operations. The following issues were identified and prioritized according to their relevance and significance to Prosperity REIT and its stakeholders:



## CARING FOR COMMUNITY

### Giving Back to the Society

To us, business success is measured beyond monetary value. A successful business is the one which can produce meaningful impact in the society. Therefore, we are determined to share our success with the community, give back to the society, and generate positive effects to people in need. Through actively supporting and participating in CSR activities, we have received the 5 Year Plus Caring Company Award from the Hong Kong Council of Social Service again. The award recognized our continuous contribution in creating a caring society for all walks of life.

Prosperity REIT continuously organizes blood donation activities with Hong Kong Red Cross Blood Transfusion Service. Our staff formed a life-saving team and we keep this blood donation activity on regular basis.



## Involving Our Staff

We encourage our staff to get involved in a variety of community work to give a helping hand to people in need and achieve work-life balance through volunteering. Within the Reporting Year, our staff members dedicated a total of 307 hours to volunteering services such as youth learning program, blood donation activities and workshops with underprivileged families. In recognition of our staff’s contribution to the society, Prosperity REIT was awarded the “Certificate of Appreciation” by the Agency for Volunteer Service (“AVS”), a member agency of the Community Chest, at the International Volunteer Day Recognition Ceremony 2018. Moreover, our volunteering works on various CSR programs during the year have been recognised by the Hong Kong Productivity Council (“HKPC”) and Prosperity REIT was awarded a “Bronze Award” under The 9th Hong Kong Outstanding Corporate Citizenship Awards (SME Category).



Prosperity REIT received a certificate from AVS at “The International Volunteer Day Recognition Ceremony 2018”.



Prosperity REIT received a Bronze Award from HKPC at “The 9th Hong Kong Outstanding Corporate Citizenship Awards Presentation Ceremony”.



### Building a Committed Voluntary Team at Prosperity REIT

In 2018, Prosperity REIT continued to partner with Evangelical Lutheran Church of Hong Kong (“ELCHK”) to support their organization of a variety of community services, with an aim to give a helping hand to the vulnerable groups in the society, including the elderly, children and teenagers to live a better life. The followings are the highlights of CSR activities that we partnered with ELCHK during the year:

In April 2018, we organized a “Balloon Twisting Workshop” for students from low-income families at our property, Prosperity Place. We started off with introducing our greening facilities in our property followed by participating in the balloon twisting workshop training and interactive games with the students. The workshop training was conducted by ELCHK Youth Career Development Center’s well-trained teenagers, who got an opportunity to develop the skill set in balloon twisting to earn a living and to accumulate working experiences.



In the middle of the year, we partnered with ELCHK to launch a new mentorship program for high school students. The mentorship program entailed participation of a three-stage business immersion program.

**Stage 1:** We organized a property tour at Prosperity Place for students and showed them the daily business operation of Prosperity REIT. During the sharing session with our volunteer team from various departments, students were advised on their future academic and career opportunities.



**Stage 2:** Students in two groups formed and presented their business proposals for running a short-term business operation at our property. Our volunteer team acted as mentor to guide the students throughout the presentation and give advice to their proposed business operation.



**Stage3:** Based on their business proposals the students started setting up kiosks to run their business — promotion and sale of healthy and stress relief products. Our volunteer team monitored their business performance on site and from time to time provided instant guidance during their real-life business operation. After completion of the business operation, we presented awards to the students for their endeavours and outstanding performance in this business immersion program.



In December 2018, we hosted and sponsored a “Christmas Party and Cupcake DIY Workshop” for underprivileged families at ELCHK service center to celebrate the festive season. Our volunteer team learned the baking technique, assisted the children to bake and dress the cupcakes in the workshop, followed by a Christmas party to enjoy the joyful games with the children.



## CARING FOR ENVIRONMENT

### Managing Our Environmental Performance

While we strive to expand the existing property base for the benefits of our unitholders, we are devoted to decoupling our environmental footprint with the gross rentable area (GRA). Throughout the years, our Properties have undergone asset enhancement initiatives, with one of the five key objectives being “promote green life to the community”. The initiatives have enabled us to become more sustainable.

Our staff are welcome to offer their comments and recommendations to continuously improve our environmental performance. We stay committed to contributing to a sustainable environment, through promoting efficient use of resources, material conservation, waste management and organizing various green activities.

To this, apart from adhering to the relevant environmental laws and regulations, our environmental protection policy and Environmental Management Committee provide the overarching guidance and management for our work to enhance the overall environmental friendliness. Comprising environmental management handbook, procedure and guidelines for environmental protection, our ISO 14001-accredited environmental management system (EMS) puts our green commitment into practice in the properties’ operations. In addition, the green procurement policy which is written with the industry’s best practices further expands our influence along the supply chain.

### Reducing Energy Consumption and Greenhouse Gas Emissions

Buildings are the largest energy consumer in Hong Kong. The greater the energy demand, the more the greenhouse gas emissions from buildings. These imply that our properties’ environmental performance can be improved significantly by means of minimizing the energy consumption and enhancing energy efficiency.

By adopting more energy-efficient chiller sets and lightings, building management system, insulating glass wall and automatization of the power-off function for non-essential lightings, elevators and other facilities in our properties, unnecessary energy demand has been reduced.

In addition to lowering the energy consumption, some of our properties have made use of small-scale renewable energy-powered equipment to cut our greenhouse gas emissions. Solar panels and wind turbine have been installed on the roof garden of The Metropolis Tower and Prosperity Place to provide essential ambient lighting during evening hours.

During the Reporting Year, the properties consumed a total of 7,333,776 kWh (2017: 7,846,991 kWh) of electricity, with the intensity of 5.75 kWh/GRA (2017: 6.15 kWh/GRA). The figure translates to 4,388.64 tonnes of carbon dioxide equivalent (tCO<sub>2</sub>e) (2017: 4,873.95 tCO<sub>2</sub>e) generated through purchased electricity consumption, or 0.003 tCO<sub>2</sub>e/GRA (2017: 0.004 tCO<sub>2</sub>e/GRA).

## Conserving Water Resources

We continue to identify water-saving opportunities to conserve water resources. With the devices readily available in the market, our properties have adopted some of them, including bathroom basins with auto-sensors, to enhance the water efficiency in daily operation.

To reduce our reliance on municipal water supplies, rainwater collection systems which harvest rainwater for irrigation and cleaning are installed in the rooftop gardens of most of the properties. These measures have alleviated the environmental impact of our properties’ operation.

During the Reporting Year, 9,539 cubic metre (2017: 8,965 cubic metre) of water were consumed by the properties in total, with the water intensity of 0.007 cubic metre/GRA (2017: 0.007 cubic metre/GRA).

## Greening Our Properties

Our properties have incorporated greenery to offer aesthetically pleasant and eco-healthy environment for our tenants and users. They have vertical green walls in the lobbies and gardens on the roof. The vertical green walls have been complemented with an irrigation system to hydrate the plants through sponge soil twice a month with the water pipes running along the top and bottom of the walls behind the vegetation.

For the rooftop garden, greenery is maintained for the tenants’ enjoyment. In addition, organic farm spaces are available for our tenants to apply for gardening; the interested parties will each be provided with a farming box. Seasonal farming activities are also organized, and these measures received positive feedback from the participants.

## Limiting Waste Generation

Through promoting 3Rs — Reduce, Reuse and Recycle, we are determined to manage the amount of waste we generated to landfill from our business operations. Paper, metal and fluorescent light tube recycling were observed across our properties during the year with the clean waste recycling system implemented.

Our properties also took part in the Environmental Protection Department’s (“EPD”) computer recycling program and Hong Kong Environmental Protection Association’s Christmas tree and peach blossom tree recycling scheme to work together with the tenants to recycle their waste to minimize disposal at landfills.

With the implementation of the recycling scheme in our properties’ operation, the results of waste reduction were as follows:

**Paper recycled**

**5,819**



**kilogram**

**Computer waste recycled**

**22**



**pieces**

**Fluorescent light tube recycled**

**295**



**pieces**

## Involving Tenants and External Parties

We involve our tenants and other relevant parties to create synergy in our environmental work. Other than offering useful information and tips by newsletters to promote energy conservation, we invite the tenants to take part in rooftop farming, variety of recycling programs and environmental protection works. They are also welcome to raise comments and green ideas to the properties for continuous improvement.

## CARING FOR TENANT

### Engaging Our Tenants

We prioritize to establish a long-term relationship with our tenants at our properties. This year, we organized the Sport Fun Day, which included dart game activity and golf game competition for our tenants. During the mingling events, our staff listened to our tenants’ needs, communicated and exchanged ideas with them to establish a friendly business relationship.



## Protecting Data and Privacy

Property management business involves the collection of sensitive personal data, and it requires our extra care to protect the information provider’s privacy in our daily operations. Besides being compliant with the Collection of Personal Data (Privacy) Ordinance and other relevant regulations, we have a Personal Data and Classified Data Handling Guideline in place to handle, store and destroy data collected.

During the Reporting Year, no data breach or privacy infringement incidents were recorded.

## CARING FOR STAFF

### Safeguarding Employee’s Rights

Our staff are the building blocks of our business, and we are dedicated to providing them with a workplace that is pleasant, fulfilling and supportive. Apart from being compliant with the employment-related laws and regulations, we have implemented human resources policy. The policy details employee’s rights and duties including compensation, recruitment, promotion, working hours, rest periods, equal opportunity and anti-discrimination. Child and forced labor are strictly prohibited in our operation.



*Tea Appreciation Workshop*



*Seasonal Corporate Events*

## Handling Complaints

To listen to our tenant’s comments and advice, we conduct a yearly customer satisfaction survey. We review the satisfaction rate and provide timely feedback to our customers. According to our annual tenant satisfaction survey, our property management service has been regarded as highly satisfactory.

Still, complaints may arise in our day-to-day operations. To allow effective and efficient resolution to the complaints, we have published a working instruction for handling complaints and enquiries. Tenants can raise their concerns in person, through mail, phone, fax or email. Upon receiving the information, we would contact the tenants in a timely manner to understand the situation and implement corrective and preventive measures accordingly. We would continue to follow up on the incidents until the tenants are satisfied. The entire handling process would be documented for future reference. All personal information obtained during the process is kept in a strictly confidential manner.

When staff are recruited, we adhere to fair employment practices. As such, the recruitment decisions are made based only on the candidates’ skills, experience and competence. We strictly prohibit any form of discrimination against age, race, gender, religion, nationality, sexual orientation, family status, disability and other characteristics. On the other hand, our staff are expected to behave ethically in the workplace as outlined in the Code of Conduct.

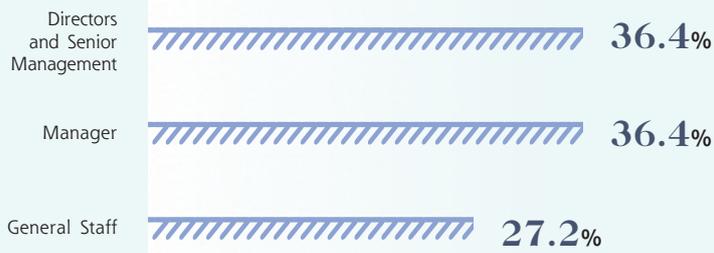


*Staff Health Assessment*



Induction program is conducted for all the new joiners to help them assimilate into the company’s operation and culture. The program introduces them to the history, business, values and mission of the REIT’s operations. In terms of staff engagement and work-life balance, annual spring dinner, team-building activities, leisure interest workshop, health assessment program and subsidized gym membership are offered to them.

TOTAL WORKFORCE BY CATEGORY



0 10 20 30 40 50 60 %



Turnover rate **9%**

## Maintaining Workplace Safety and Health

### Number of Lost Day due to Work-related Injuries in 2018

Days



We emphasize workplace safety and health which is the first step to providing the staff with positive work experience. Other than complying with occupational safety and health-related ordinances, we are committed to a drug-free and sweat-free workplace. We make use of the Health and Safety Policy and ISO 45001-accredited OHS management system. In addition, the Health and Safety Management Committee which consists of different ranks of staff is tasked to facilitate the implementation of the system, promote occupational health and safety matters and enhance the overall workplace conditions.

### Number of People Involved in Fatality Cases in 2018

People



Besides having the committee to regularly review the incident prevention strategy and ensure the preventive measures implemented are effective, we provide safety training through briefing, tool box talk and lecture. Training and drills on safety principles and emergency procedures regarding fire hazard, use of chemical and electrical appliances are held throughout the year. A total of 1,467 training hours were recorded during the year, with courses including first-aid, safety inspector training and metal scaffolds installation and uninstallation training were organized for property management staff.

As another means of staff education, we distribute quarterly newsletters with the latest safety and health practices and trends to staff. We carry out regular safety inspections with independent safety consultant to assess and improve the current measures. The findings are shared in monthly meeting to refresh property management staff's awareness.

With our effort to create a pleasant work environment to staff, our properties namely, The Metropolis Tower, Prosperity Millennia Plaza, 9 Chong Yip Street, Prosperity Place and Trendy Centre have been awarded by EPD the Good Class Certificate in the Indoor Air Quality Certification Scheme. Our workplace safety and health practices extend to our supply chain. As part of our procurement requirement, our suppliers and contractors are required to follow our safety guideline.

### Enriching Career and Personal Experience

Percentage of employees attended training

100 %



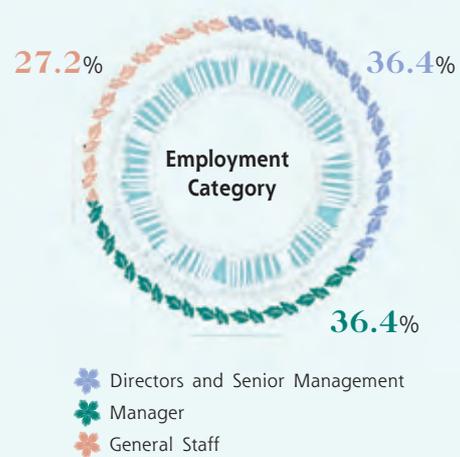
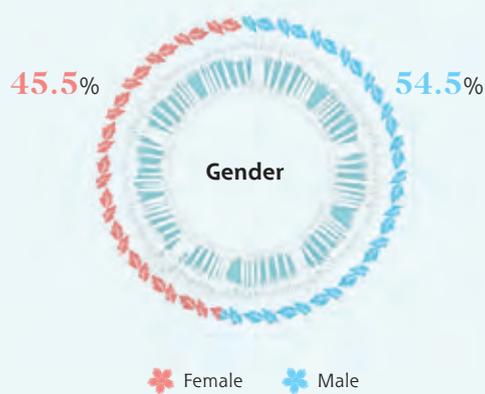
We strive to offer fulfilling experience to staff through giving them learning and development opportunities. In addition to the aforementioned induction and safety training programs, other courses tailored to their everyday work are organized both internally and externally. In an attempt to align the training to the staff’s career aspirations, we make use of goal-setting exercise at the beginning of the year.

Average training hours

17.1 hours

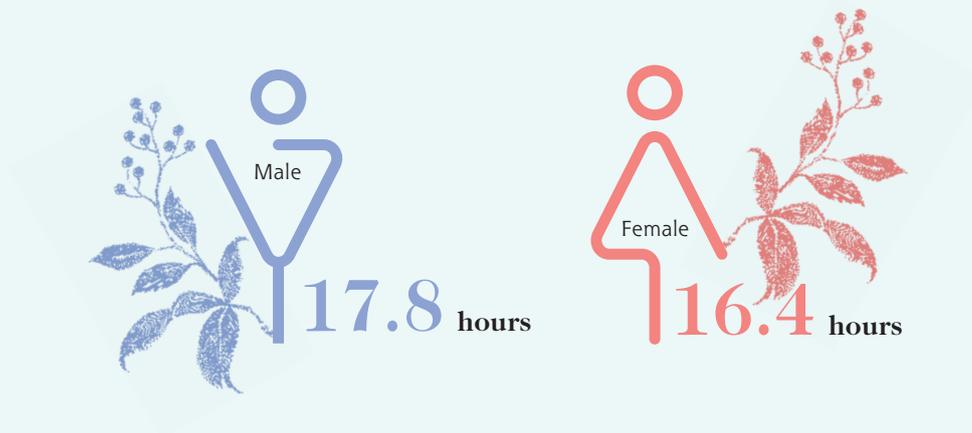


### PERCENTAGE OF EMPLOYEES ATTENDED TRAINING IN 2018 BY CATEGORY

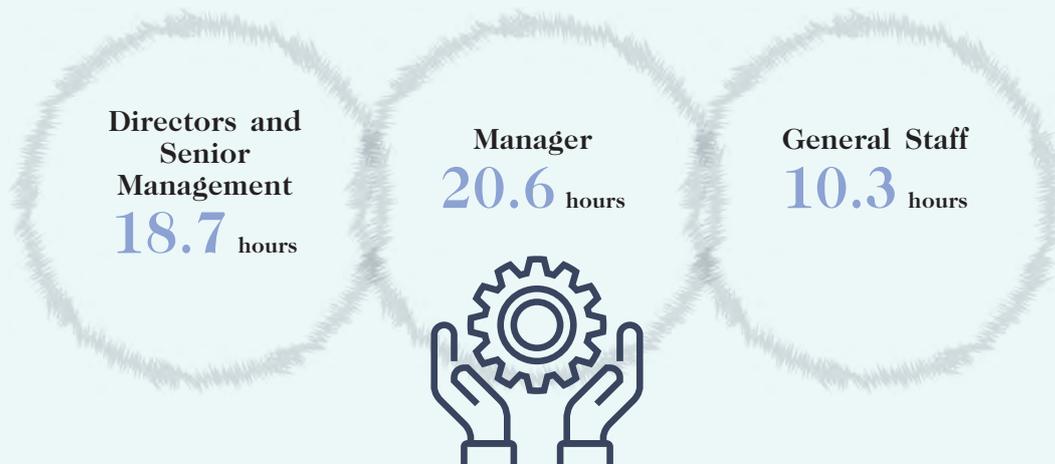


## AVERAGE TRAINING HOURS IN 2018 BY CATEGORY

### GENDER



### EMPLOYMENT CATEGORY



On the other hand, all staff go through annual appraisal with their supervisors. It serves as an open, two-way communication to discuss the employee’s job performance. We recognize the staff’s dedication to work and continue to motivate them by offering those who are competent and experienced promotion and salary raise.

## FULFILLING OTHER DUTIES FOR SUSTAINABILITY

### Supply Chain Management

Being a responsible property business means extending our commitments to suppliers. In our business activities, we continue to ensure that our high ESG standards are upheld by the contracted parties. Suppliers are expected to comply with our guidelines on environmental performance, labor practices and human rights as part of our procurement requirements.

The Prosperity REIT Operation Manual was formulated as a guiding document for illustrating procurement and supplier selection process. We would also review the selected suppliers’ profile to evaluate the suppliers’ capability of delivering project outcomes while upholding the sustainability standards. Furthermore, we regularly assess our contractors against our standards through on-site inspections.

Our principal suppliers are those with outstanding performance and we constantly monitor the quality of their products and services. All our principle suppliers are located in Hong Kong. To comprehensively manage the ESG performance of our operations as a whole, we have set up policies for the projects, including presenting relevant certifications, as well as providing safety training and equipment to contracted workers.

### Anti-corruption

Prosperity REIT’s Code of Conduct governs policies and practices relating to ethics and integrity, and adheres to the Prevention of Bribery Ordinance (Cap. 201). The incorporated anti-corruption policy applies to all of our employees and provides clear guidelines of appropriate behavior when handling gift and encountering other significant risk relating to corruption. We have zero tolerance on any misconduct including bribery, anti-competition, money laundering, fraud and corruption. Our induction training for new hires and regular training for all employees continued to offer information on this matters where an annual declaration of compliance with the policy from all staff is required. No corrupt practices incident was recorded during the Reporting Year.

To reinforce the culture of good business governance, we have established a whistle-blowing mechanism to allow all employees to raise concerns about possible improprieties and suspected misconduct while protecting the whistleblowers from reprisals. Any reported matters would go through independent investigations to validate the claim. The whistle-blowing mechanism helps the business to be ethically conducted.

### Service Responsibility

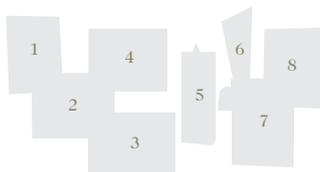
Responsibility for compliance rests with all our people. We only purchase original and licensed software for the office operation.

## APPENDIX — HKEX ESG GUIDE CONTENT INDEX

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# OUR AWARDS

1. **Caring Company • Caring Company 5 year + Logo**  
by *The Hong Kong Council of Social Services*
2. **ARC Awards 2018 • Bronze**  
by *MerComm, Inc.*
3. **BOCHK Corporate Environmental Leadership Awards 2017 • Certificate**  
by *BOCHK*
4. **2017 Vision Awards (Annual Report Competition) • Silver**  
by *League of American Communications Professionals*
5. **HKIRA IR Award 2018 • Best IR in Corporate Transaction Small Cap**  
by *Hong Kong Investor Relations Association*
6. **The 9th Hong Kong Outstanding Corporate Citizenship Awards • Bronze**  
by *Hong Kong Productivity Council*
7. **Excellence in Facility Management Award 2018 • Excellence Award**  
by *The Hong Kong Institute of Facility Management*
8. **International Volunteer Day Recognition 2018 • Certificate**  
by *Agency for Volunteer Service*





- 9. **Asia Pacific Best of the Breeds REITs Awards 2018 • Platinum Award — Office**  
by *The Pinnacle Group International*
- 10. **Charter on External Lighting • Platinum Award**  
by *Environment Bureau*
- 11. **Good Housekeeping Competition • Certificate**  
by *Occupational Safety and Health Council*
- 12. **Kowloon West Best Security Services Awards 2017 • Double-Star Managed Property Award**  
by *Kowloon West Regional Crime Prevention Office*
- 13. **Hong Kong Island Best Security Services Awards • Outstanding Security Services — Industrial/Commercial Property**  
by *Hong Kong Island Regional Crime Prevention Office*
- 14. **Wood Recycling & Tree Conservation Scheme • Certificate 2018**  
by *Hong Kong Environmental Protection Association*
- 15. **Indoor Air Quality Certificate • Certificate (Good Class)**  
by *Environmental Protection Department*

# DIRECTORS AND SENIOR MANAGEMENT

## BIOGRAPHICAL INFORMATION

### DIRECTORS

#### **Chiu Kwok Hung, Justin**

*Chairman and Non-executive Director*

**Dr. CHIU Kwok Hung, Justin**, aged 68, is the Chairman of ARA Asset Management (Prosperity) Limited (the “**REIT Manager**”). He is the Founding Chairman and Director of ARA Asset Management Limited (whose shares were withdrawn from listing on 19 April 2017), the holding company of the REIT Manager. Dr. Chiu is also a Non-executive Director of ARA Asset Management (Fortune) Limited as the manager of Fortune REIT (listed in Hong Kong and Singapore), and a Director of ARA Fund Management (Asia Dragon) Limited as the manager of the ARA Asia Dragon Fund. Dr. Chiu joined the CK Group in 1997 and is an Executive Director, an Executive Committee Member and a member of the Nomination Committee of CK Asset Holdings Limited (listed in Hong Kong), heading the real estate sales, marketing and property management teams.



**Chiu Kwok Hung, Justin**

*Chairman and  
Non-executive Director*

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. He was 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 Council Member and a Fellow of The Hong Kong Institute of Directors, a Fellow of Hong Kong Institute of Real Estate Administrators, a Fellow of the Royal Institution of Chartered Surveyors, a Vice Chairman of the Board of Governors of Hong Kong Baptist University Foundation, an Honorary Associate Member of Business of Trent University, Canada, a member of the Singapore Management University International Advisory Council in China, a Senior Visiting Fellow of the Department of Land Economy at University of Cambridge, an Honorary Professor of School of Pharmaceutical Sciences of Sun Yat-Sen University and an Adjunct Professor in the School of Business of Hong Kong Baptist University.

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

#### **Lim Hwee Chiang**

*Non-executive Director*

**Mr. Lim Hwee Chiang**, aged 62, is a Non-executive Director of the REIT Manager. He is Co-Founder, Group Chief Executive Officer and Executive Director of ARA Asset Management Limited, the holding company of the REIT Manager. Mr. Lim is also a Non-executive Director of Hui Xian Asset Management Limited as the manager of Hui Xian REIT (listed in Hong Kong), ARA Asset Management (Fortune) Limited as the manager of Fortune REIT (listed in Hong Kong and Singapore), ARA Trust Management (Suntec) Limited as the manager of Suntec REIT (listed in Singapore), and also an Independent Director of Teckwah Industrial Corporation Limited (listed in Singapore).



**Lim Hwee Chiang**

*Non-executive Director*

Mr. Lim is the Chairman of APM Property Management Pte. Ltd., Suntec Singapore International Convention & Exhibition Services Pte. Ltd., the Asia Pacific Real Estate Association (“APREA”), the Consultative Committee to the Department of Real Estate, National University of Singapore, Straits Real Estate and Lim Hoon Foundation. He is a Patron of Jurong Spring Citizens’ Consultative Committee and the Securities Investors Association of Singapore (“SIAS”). He is also a board member of Singapore Chinese Chamber of Commerce and Industry.

Mr. Lim has more than 30 years of experience in the real estate industry, and has received many notable corporate awards. These include the PERE Global Awards 2016 Industry Figure of the Year: Asia, Ernst & Young Entrepreneur Of the Year Singapore 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. In 2017, he was conferred the Public Service Medal (PBM) by the President of Singapore in recognition of his contribution to the community.

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.

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### Wong Lai Hung, Mavis

*Executive Director and Chief Executive Officer*



**WONG Lai Hung, Mavis**

*Executive Director and  
Chief Executive Officer*

**Ms. Wong Lai Hung, Mavis**, aged 46, 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 key 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 was responsible for investment strategy and policy. She was then promoted as Acting Chief Executive Officer and 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 over 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 (Holdings) Limited, New World Development Company Limited, Jardine Matheson & Co., Limited, Goodwill Management Limited (a wholly-owned subsidiary of Henderson Land Development Company Limited) 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 51, is a Non-executive Director of the REIT Manager and a member of the Designated (Finance) Committee. He is a Non-executive Director of ARA Asset Management (Fortune) Limited as the manager of Fortune REIT (listed in Hong Kong and Singapore) and an Alternate Director to Mr. Lai Kai Ming, Dominic, Non-executive Director of Hutchison Telecommunications Hong Kong Holdings Limited (listed in Hong Kong). Mr. Ma joined the CK Group in 1996 and is currently an Executive Committee Member & General Manager, Corporate Business Development Department of CK Asset Holdings Limited (listed in Hong Kong). He is also a Director of aircraft leasing companies, Accipiter Holdings Designated Activity Company, Accipiter Investments Holdings Designated Activity Company and Vermillion Aviation Holdings Limited, members of CK Asset Holdings Limited.



**Ma Lai Chee, Gerald**

*Non-executive Director*

Mr. Ma has over 29 years of experience in finance, 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. He is also a member of the President's Circle, the Dean's Advisory Board for the Faculty of Arts and the Faculty Advisory Board of the UBC Sauder School of Business of the University of British Columbia, Canada. He holds a Bachelor of Commerce degree in Finance and a Master of Arts degree in Global Business Management.

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### Lan Hong Tsung, David

*Independent Non-executive Director*

**Dr. Lan Hong Tsung, David**, aged 78, is an Independent Non-executive Director, Chairman of the Audit Committee and a member of each of the Disclosures Committee and Designated (Finance) Committee of the REIT Manager. He is an Independent Non-executive Director of CK Infrastructure Holdings Limited (listed in Hong Kong), Hutchison Telecommunications Hong Kong Holdings Limited (listed in Hong Kong) and SJM Holdings Limited (listed in Hong Kong). Dr. Lan is currently the Chairman of David H T Lan Consultants Ltd., Supervisor of Nanyang Commercial Bank (China), Limited, an Independent Non-executive Director of Cinda Financial Holdings Co., Limited and holds a directorship at Nanyang Commercial Bank Ltd. Dr. Lan is the President of the International Institute of Management. He is also a Chartered Secretary and a Fellow Member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.



**Lan Hong Tsung, David**

*Independent Non-executive Director*

Dr. 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. Dr. Lan was previously an Independent Non-executive Director of ARA Asset Management (Fortune) Limited as the manager of Fortune REIT (listed in Hong Kong and Singapore), China Oceanwide Holdings Limited (formerly known as "Hutchison Harbour Ring Limited") (listed in Hong Kong) and a Non-executive Director and Co-Chairman of Aurum Pacific (China) Group Limited (listed in Hong Kong).

Dr. 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). Dr. Lan was conferred with Honorary Degree of Doctor of Business Administration by University of the West of England (UWE Bristol), Doctor of Humanities, *honoris causa* by Don Honorio Ventura Technological State University, and holder of Visiting Professorship Awards of Bulacan State University and Tarlac State University.

### **Sng Sow-Mei (alias Poon Sow Mei)**

*Independent Non-Executive Director*



**Sng Sow-Mei (alias Poon Sow Mei)**

*Independent Non-Executive Director*

**Mrs. Sng Sow-Mei (alias Poon Sow Mei)**, aged 77, is an Independent Non-executive Director and a member of the Audit Committee of the REIT Manager. She is an Independent Non-executive Director of CK Infrastructure Holdings Limited (listed in Hong Kong), and an Independent Non-executive Director and the Lead Independent Director of Hutchison Port Holdings Management Pte. Limited as the trustee-manager of Hutchison Port Holdings Trust (listed in Singapore).

Mrs. Sng was an Independent Non-executive Director of ARA Asset Management (Fortune) Limited as the manager of Fortune REIT (listed in Hong Kong and Singapore) from 2003 to 2016, and an Independent Non-executive Director of ARA Trust Management (Suntec) Limited as the manager of Suntec REIT (listed in Singapore) from 2004 to 2013. Prior to her appointments with Singapore Technologies Pte. Ltd. where she was

Director of Special Projects (North East Asia) in 2000, and Senior Consultant (International Business) of Singapore Technologies Electronics Limited from 2001 to 2013, 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, Mrs. Sng was a Director of INFA Systems Ltd. from 2007 to 2013, the Centre Director and then Regional Director of the Singapore Economic Development Board and Trade Development Board respectively from 1983 to 1997. 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 69, 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 an Independent Non-executive Director of K. Wah International Holdings Limited (listed in Hong Kong), Langham Hospitality Investments Limited (a company which together with Langham Hospitality Investments listed in Hong Kong) and LHIL Manager Ltd. as the trustee-manager of Langham Hospitality Investments, and Hutchison Port Holdings Management Pte. Limited as the trustee-manager of Hutchison Port Holdings Trust (listed in Singapore). Mr. Wong is currently the Chairman of IncitAdv Consultants Ltd., Vice Chairman 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, a member of Hospital Governing Committee of the Prince of Wales Hospital, a member of the Board of Directors of CUHK Medical Centre Ltd and a member of the Advisory Board of Continuing and Professional Studies of The Chinese University of Hong Kong. He was formerly a member of each of the Advisory Committee and 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. He was an Independent Non-executive Director of China Merchants Bank Co., Ltd. (listed in Hong Kong and Shanghai) from 2011 to 2018.



**Wong Kwai Lam**

*Independent Non-executive Director*

Mr. Wong has over 33 years of experience in the commercial and investment banking industry. Mr. Wong 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 a Bachelor of Arts degree from the Chinese University of Hong Kong and a Ph. D from Leicester University, England. He was conferred with honorary fellowship by the Chinese University of Hong Kong.

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### *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.

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**Mr. CHEUNG Kin Wah, Samuel** is the Assistant Director, Finance of the REIT Manager. He is responsible for the financial management of Prosperity REIT. He has over 20 years of experience in audit and finance areas.

From 2000 to 2006, Mr. Cheung was the Chief Financial Controller and Company Secretary of Joinn Holdings Limited (“**Joinn**”) (subsequently named as Chinasing Investment Holdings Limited), a company previously listed on the Main Board of SGX-ST (delisted from 5 December 2016). 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 Joinn’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 Joinn, Mr. Cheung served as an auditor with Messrs. Ernst & Young (Hong Kong) from 1995 to 2000 and also with Messrs. Kwan, Wong, Tan & Fong (which has merged with Deloitte Touche Tohmatsu) from 1993 to 1994.

Mr. Cheung is a Certified Public Accountant in Hong Kong and a fellow of the Association of Chartered Certified Accountants. He is also an associate of the Hong Kong Institute of Certified Public Accountants, and of the Taxation Institute of Hong Kong.

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**Mr. CHUNG Meng Him, Vicho** is the Manager, Investments and Investor Relations of the REIT Manager. He is responsible for conducting market research and feasibility studies, performing financial due diligence and analysis, and participating in financial models for potential acquisition target. In terms of asset management, he is responsible for performing financial analysis for asset enhancement projects, thereby providing financial analysis support for budgeting rental projection and leasing strategy. In terms of investor relations, he is responsible for communicating and liaising with unitholders and investors of Prosperity REIT.

Mr. Chung has about 8 years of experience in the account and audit field, covering the areas of general accounting, marketing, financial analysis and auditing. From 2004 to 2008, he worked with Ernst and Young as Senior Auditor – Global Financial Services.

Mr. Chung holds a Bachelor degree in Commerce (Accounting and Information System) from Curtin University of Technology, Australia.

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**Ms. CHIN Wai Yan, Ally** is the Manager, Internal Audit 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 worked for 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 of Lotus International Limited.

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 Director, 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. 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.

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**Mr. NG Chi Wah, Kevin** is the Assistant Director, Asset Management of the REIT Manager. He is responsible for strategic asset enhancement planning and asset management of Prosperity REIT. 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.

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 Northumbria University in UK. 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.

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**Mr. Siu Kit Fu, Jeff** is the Manager, Asset Management & Investments of the REIT Manager. He is responsible for overseeing and supervising the asset management and operating performance of the Prosperity REIT's portfolio including directing the leasing and marketing strategy, property management and carpark operation. He is also responsible for identifying and evaluating potential acquisition opportunities, performing financial analysis and modeling in feasibility studies of acquisition target and conducting market study and research.

Mr. Siu has over 10 years of real estate asset management experience including marketing, leasing and property management. Prior to joining the REIT Manager, Mr. Siu was the Leasing Manager and Assistant Leasing Manager of ATL Logistics Centre Hong Kong Limited and Henderson Sunlight Property Management Limited respectively. He also served as an asset management associate of Sniper Capital which was a fund manager of a real estate investment fund listed on London Stock Exchange and worked in Sino Group which is one of the major developers in Hong Kong. He is a professional member of the Royal Institution of Chartered Surveyors and holds Bachelor of Business Administration degree from The Chinese University of Hong Kong.

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#### *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. 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".

**Mr. CHUNG Meng Him, Vicho** 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 systems 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. 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.

During the Reporting Year, the Compliance Manual was amended to enhance the independence criteria of independent non-executive directors (“**INEDs**”), in order to comply with the updated Corporate Governance Code under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”) which has been effective on 1 January 2019.

Also, the Trust Deed has been amended for (i) changing the distribution formula to reflect the minimum annual distribution requirement under the Code on Real Estate Investment Trusts (the “**REIT Code**”); (ii) empowering the chairman of a meeting of unitholders to allow a resolution which relates purely to procedural or administrative matter to be decided by way of a show of hands; (iii) fixing the maximum number of proxies appointed by a unitholder to be two; (iv) changing the timing of despatch of circular; (v) defining “business day”; (vi) changing the calculation of the 20% threshold for non-pro rata issue of units; and (vii) clarifying the trustee’s liability for any act or omission of an agent, nominee or custodian acting for the trust.

## AUTHORIZATION STRUCTURE

Prosperity REIT is a collective investment scheme authorized by the Securities and Futures Commission (the “**SFC**”) under section 104 of the Securities and Futures Ordinance (Cap. 571) (the “**SFO**”) and regulated by the provisions of the REIT Code. The REIT Manager has been licensed by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. Ms. Wong Lai Hung, Mavis, the Chief Executive Officer (the “**CEO**”) and an Executive Director, Mr. Ng Chi Wah, Kevin and Mr. Chung Meng Him, Vicho 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 asset management 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 and 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 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.

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 INEDs. According to the articles of association of the REIT Manager, all directors of the REIT Manager (the “**Directors**”) (including INEDs) shall retire from office at every annual general meeting of the REIT Manager but shall be eligible for re-election. Further, if an INED has held office for more than nine years, his/her continuation of office shall be subject to the approval of unitholders at the next annual general meeting of unitholders and at every third annual general meeting of the unitholders thereafter.

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 during the Reporting Year and the attendance record of the Board meetings is as follows:

<b>Members of the Board</b>	<b>Attendance</b>
<i>Chairman and Non-executive Director</i>	
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	4/4
Mr. Ma Lai Chee, Gerald	4/4
<i>Independent Non-executive Directors</i>	
Dr. Lan Hong Tsung, David	4/4
Mrs. Sng Sow-Mei (alias Poon Sow Mei)	4/4
Mr. Wong Kwai Lam	4/4

Apart from full 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” set out in the Compliance Manual, taking into account the new requirements that have come into effect on 1 January 2019. Such confirmations were tabled before the Board Meeting of the REIT Manager for the full Board’s review and consideration. All the INEDs contribute objective advice and independent guidance to the Board and the management team of the REIT Manager, and possess the required integrity, independence, experience and expertise.

## 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 and the articles of association of the REIT Manager. 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 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 are 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 legal counsels to develop and refresh their knowledge and skills. In addition, they also enriched and updated their knowledge by reading materials relevant to directors' duties and responsibilities. All Directors have provided the REIT Manager with their records of continuous professional development programmes during the Reporting Year.

During the Reporting Year, in-house briefings/reports were given to Directors in respect of the new requirements for keeping significant controllers register under the Companies (Amendment) Ordinance 2018 and amendments of the Corporate Governance Code and the related Listing Rules. Besides, the external auditor of Prosperity REIT also gave briefings on updates of accounting standards and principles to the members of the Audit Committee.

Records of Directors' continuous professional development programmes during the Reporting Year are as follows:

<b>Members of the Board</b>	<b>In-house briefings/reports</b>	<b>Other continuous professional development programmes</b>
<i>Chairman and Non-executive Director</i>		
Dr. Chiu Kwok Hung, Justin	√	√
<i>CEO and Executive Director</i>		
Ms. Wong Lai Hung, Mavis	√	√
<i>Non-executive Directors</i>		
Mr. Lim Hwee Chiang	√	√
Mr. Ma Lai Chee, Gerald	√	√
<i>Independent Non-executive Directors</i>		
Dr. Lan Hong Tsung, David	√	√
Mrs. Sng Sow-Mei (alias Poon Sow Mei)	√	√
Mr. Wong Kwai Lam	√	√

## RISK MANAGEMENT AND INTERNAL CONTROLS

The REIT Manager acknowledges its responsibility for the risk management and internal control systems, which are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The REIT Manager has an internal audit function in place to provide an independent assessment of the REIT Manager's risk management and 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 risk management and internal control systems, and also compliance procedures. Besides, the REIT Manager had adopted the Information Disclosure Controls and Policy in the Compliance Manual which set out the controls and policies in handling and dissemination of inside information (as defined in the SFO).

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

The Board is of the view that effective risk management and internal control systems are in place.

## 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 auditor of Prosperity REIT periodically, as well as reviewing the effectiveness of financial reporting system, risk management and internal control systems and the internal audit function.

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, Dr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Wong Kwai Lam. Dr. Lan Hong Tsung, David is the chairman of the Audit Committee.

The Audit Committee meets on a half yearly basis and otherwise on an as-needed basis. The Audit Committee held two meetings during the Reporting Year for considering and reviewing, among others, the 2017 final results, 2018 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
Dr. Lan Hong Tsung, David	2/2
Mrs. Sng Sow-Mei (alias Poon Sow Mei)	2/2
Mr. Wong Kwai Lam	2/2

The external auditor of Prosperity REIT attended both Audit Committee meetings to report any major audit issues and findings, and provide its opinion on the accounting issues to the Audit Committee. The Audit Committee also met with the external auditor without 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.

## DISCLOSURES COMMITTEE

The REIT Manager has also established 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 information 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 Dr. 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 during the Reporting Year for considering and reviewing, among others, the 2017 final results announcement and 2018 interim results announcement, the 2017 annual report and 2018 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:

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

## DESIGNATED (FINANCE) COMMITTEE

The REIT Manager has also established 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, Dr. 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 are convened as and when necessary. No meeting of the Designated (Finance) Committee was held during the Reporting Year.

## 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 auditor 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 transactions, arrangements or contracts of any description which may subsequently be made by the REIT Manager pursuant to sections 536 to 542 under Part 11 – Division 5 of the Companies Ordinance (Cap. 622) 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.

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 2018 Annual General Meeting ("AGM") was held on 11 May 2018 and the notice of AGM was sent to unitholders at least 20 clear business days before the AGM. The attendance record of the AGM is as follows:

<b>Members of the Board</b>	<b>Attendance</b>
<i>Chairman and Non-executive Director</i>	
Dr. Chiu Kwok Hung, Justin	1/1
<i>CEO and Executive Director</i>	
Ms. Wong Lai Hung, Mavis	1/1
<i>Non-executive Directors</i>	
Mr. Lim Hwee Chiang	0/1
Mr. Ma Lai Chee, Gerald	1/1
<i>Independent Non-executive Directors</i>	
Dr. Lan Hong Tsung, David	1/1
Mrs. Sng Sow-Mei (alias Poon Sow Mei)	1/1
Mr. Wong Kwai Lam	1/1

The Chairman of the Board and chairmen of the respective board committees, as well as the external auditor and legal adviser of Prosperity REIT had attended the AGM and were available to answer questions from unitholders.

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

## 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 are 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 Hong Kong Exchanges and Clearing Limited (the "HKEx") 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 2018. 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 auditor of Prosperity REIT about its reporting responsibilities on the financial statements is set out in the Independent Auditor's 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 market misconduct and insider dealing, 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 SFO) 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.

The Trust Deed contains provisions to deem the application of Part XV of the SFO. Accordingly, unitholders with a holding of 5% or more of the units in issue have a notifiable interest and will be required to notify the HKEx and the REIT Manager of their holdings in Prosperity REIT. The REIT Manager shall then send copies of such notifications received by it to the Trustee. The REIT Manager keeps a register for the purposes of maintaining disclosure of interests in units of Prosperity REIT, which 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 auditor and appoint other auditor 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.

## CHANGES OF DIRECTORS' INFORMATION

Subsequent to publication of the 2018 Interim Report of Prosperity REIT, the REIT Manager received notifications regarding the following changes of Directors' information:

- (1) Dr. Chiu Kwok Hung, Justin was appointed as a member of the Nomination Committee of CK Asset Holdings Limited, a company listed in Hong Kong, with effect from 1 January 2019.
- (2) Mr. Lim Hwee Chiang ceased to be a Non-executive Director of ARA Trust Management (Cache) Limited (the manager of Cache Logistics Trust which is listed in Singapore) with effect from 1 January 2019. Mr. Lim also ceased to be the Chairman of the management council of The Management Corporation Strata Title Plan No.2197 (Suntec City) and was appointed as a Patron of Jurong Spring Citizens' Consultative Committee and the Securities Investors Association of Singapore.
- (3) Mr. Wong Kwai Lam has ceased to be an INED of China Merchants Bank Co., Ltd., a company listed in Hong Kong and Shanghai with effect from 30 November 2018, and discontinued to be a director and Chairman of Opera Hong Kong Limited with effect from 14 March 2019.

## 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 of, more than 25% of the issued units of Prosperity REIT were held in public hands as of 31 December 2018.

# 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 during the Reporting Year:

## 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 Person	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 2018 HK\$	Rental deposit received as at 31 December 2018 HK\$
Goodwell Property Management Limited	Subsidiary of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>2</sup>	1,896,896	500,172
Gama Aviation Hutchison (Hong Kong) Limited	Associated company of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>3</sup>	345,521	350,188
Hutchison Hain Organic (Hong Kong) Limited	Associated company of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>4</sup>	789,952	—
Hutchison Telephone Company Limited	Associated company of a significant holder <sup>1</sup>	Licence of property of Prosperity REIT <sup>5</sup>	76,800	20,244
Hutchison Whampoa (China) Limited	Associated company of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>6</sup>	3,747,611	2,310,666
<b>Total</b>			<b>6,856,780</b>	<b>3,181,270</b>

Notes:

1. Significant holder being CK Asset Holdings Limited ("CK Asset").
2. For Whole of 2/F, Units 302–3 and 306–7, New Treasure Centre.
3. For Units 1102–6, Prosperity Millennia Plaza.
4. For Units 1703A, 1703B and 1704, 9 Chong Yip Street. Tenancy terminated on 21 October 2018.
5. For installation of micro-transmission station equipment at Prosperity Place.
6. For Whole of 18/F, The Metropolis Tower.

## CONNECTED PARTY TRANSACTIONS — BUILDING MANAGEMENT SERVICES

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

Name of Connected Person	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Payment received/ receivable for the year ended 31 December 2018 HK\$
Goodwell Property Management Limited <sup>1</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of DMC Manager	386,785
Goodwell Property Management Limited <sup>2</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of Carpark Manager	29,357
Citybase Property Management Limited <sup>1</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of DMC Manager	157,370
Citybase Property Management Limited <sup>2</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of Carpark Manager	56,779
<b>Total</b>			<b>630,291</b>

## Notes:

1. They are the managers appointed under the respective deeds of mutual covenant of the properties of Prosperity REIT (the "**DMC Manager**").
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 CK Asset.

## 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 Person	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Expenses for the year ended 31 December 2018 HK\$
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder <sup>2</sup>	Property management and lease management fee	10,993,844
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder <sup>2</sup>	Marketing service fee	12,366,527
E-Park Parking Management Limited	Subsidiary of a significant holder <sup>2</sup>	Carpark lease agency fee	3,329,569
CK Asset Companies <sup>1</sup>	Subsidiaries of a significant holder <sup>2</sup>	Back-office support service fee	34,869
Colliers International (Hong Kong) Limited	Principal Valuer	Leasing commission and consultancy service fee	268,400
<b>Total</b>			<b>26,993,209</b>

*Notes:*

1. CK Asset Companies include Harbour Plaza North Point Catering Limited, Harbour Plaza Metropolis Limited and Hutchison Hotel Hong Kong Limited.
2. Significant holder being CK Asset.

## 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 Reporting 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).

## OTHER CONNECTED PARTY TRANSACTIONS

The following companies had provided carpark management services and property management services to Prosperity REIT during the Reporting Year and hence amounts due from Prosperity REIT as at 31 December 2018 were as follows:

Name of Connected Person	Amount payable HK\$
Goodwell-Prosperity Property Services Limited	4,908,751
Goodwell Property Management Limited	5,051,967
E-Park Parking Management Limited	561,717
Citybase Property Management Limited	938,034
Total	11,460,469

## OTHER TRANSACTIONS

The following table sets forth information in relation to services provided by the REIT Manager, the Trustee and the Principal Valuer to Prosperity REIT during the Reporting Year:

Name of Connected Person	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Expenses for the year ended 31 December 2018 HK\$
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee fee	3,206,367
ARA Asset Management (Prosperity) Limited	REIT Manager	Base fee and variable fees	53,610,149
Colliers International (Hong Kong) Limited	Principal Valuer	Valuation fees	199,000
Total			57,015,516

## 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 Prosperity REIT and its subsidiaries' continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "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 Prosperity REIT and its subsidiaries from pages 82 to 86 of the Annual Report in accordance with the waiver from strict compliance with disclosure requirements under Chapter 8 of the REIT Code granted by the SFC. A copy of auditor's letter 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 was 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 3,742,000 units of Prosperity REIT by the REIT Manager which the REIT Manager had 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 under the REIT Code) of Prosperity REIT, held units of Prosperity REIT:

Name	As at 31 December 2018		As at 31 December 2017
	Number of Units	Percentage of Unitholdings <sup>6</sup>	Number of Units
Total Win Group Limited <sup>1</sup>	176,328,129	11.87%	176,328,129
Wide Option Investments Limited <sup>1</sup>	98,883,559	6.65%	98,883,559
HKSCC Nominees Limited <sup>2</sup>	1,087,144,628	73.17%	1,071,404,326
HSBC <sup>3</sup>	37,250	0.003%	1,217,250
ARA Asset Management (Prosperity) Limited <sup>4</sup>	12,723,743	0.86%	225
Lan Hong Tsung, David <sup>5</sup>	350,000	0.02%	350,000

Notes:

- Total Win Group Limited ("**Total Win**") was a connected person of Prosperity REIT as it was a significant holder (as defined under the REIT Code) of Prosperity REIT as at 31 December 2018. Total Win was an indirect wholly-owned subsidiary of CK Asset, which was therefore deemed to hold 176,328,129 units held by Total Win as at 31 December 2018.

Wide Option Investments Limited ("**Wide Option**") was a connected person of Prosperity REIT as it was an indirect wholly-owned subsidiary of CK Asset, which was therefore deemed to hold 98,883,559 units held by Wide Option as at 31 December 2018.

Therefore, CK Asset was deemed to hold 275,211,688 units as at 31 December 2018, 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 was a connected person of Prosperity REIT as it was a significant holder (as defined under the REIT Code) of Prosperity REIT as at 31 December 2018. So far as the REIT Manager is aware of, HKSCC Nominees Limited held such units as a nominee.
3. HSBC Holdings plc. and other members of its group ("**HSBC**") were connected persons of Prosperity REIT as HSBC Institutional Trust Services (Asia) Limited, the Trustee, was 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 2018 and 31 December 2017. The Trustee's directors, senior executives, officers and their associates had no beneficial interest in any units as at 31 December 2018 and 31 December 2017. The controlling entity, holding company, subsidiary or associated company of the Trustee were beneficially interested in 37,250 units and 1,217,250 units as at 31 December 2018 and 31 December 2017 respectively.
4. ARA Asset Management (Prosperity) Limited was a connected person of Prosperity REIT as it was the management company (as defined under the REIT Code) of Prosperity REIT as at 31 December 2018.
5. Dr. Lan Hong Tsung, David was a connected person of Prosperity REIT as he was a director of the management company (as defined under the REIT Code) of Prosperity REIT as at 31 December 2018.
6. The total number of issued units as at 31 December 2018 was 1,485,860,965.

Save as disclosed above, the REIT Manager is not aware of any connected persons (as defined under the REIT Code) of Prosperity REIT holding any units of Prosperity REIT as at 31 December 2018.

## HOLDINGS OF THE REIT MANAGER, DIRECTORS AND CHIEF EXECUTIVE OF THE REIT MANAGER IN THE UNITS OF PROSPERITY REIT

As at 31 December 2018, 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 were as follows:

Name	Number of Units	Percentage of Unitholdings <sup>Note</sup>
ARA Asset Management (Prosperity) Limited	12,723,743	0.86%
Lan Hong Tsung, David	350,000	0.02%

*Note:*

The total number of issued units as at 31 December 2018 was 1,485,860,965.

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 2018.

# VALUATION REPORT

OUR REF: 18-13877  
15 February 2019

**ARA Asset Management (Prosperity) Limited**  
(As Manager of Prosperity Real Estate Investment Trust)  
Units 5508-5510, 55/F,  
The Center,  
99 Queen's Road Central,  
Hong Kong

**HSBC Institutional Trust Services (Asia) Limited**  
(As Trustee of Prosperity Real Estate Investment Trust)  
17/F, Towers 2 and 3,  
HSBC Centre,  
1 Sham Mong Road,  
Kowloon,  
Hong Kong

## **Re: Valuation of a Property Portfolio in Relation to Prosperity Real Estate Investment Trust**

Dear Sirs,

### **INSTRUCTIONS, PURPOSE AND VALUATION DATE**

We refer to the instruction from ARA Asset Management (Prosperity) Limited (the "**Manager**"), acting as the manager of Prosperity Real Estate Investment Trust ("**Prosperity REIT**"), and HSBC Institutional Trust Services (Asia) Limited (the "**Trustee**") to conduct a property valuation for the Prosperity REIT's property portfolio (the "**Portfolio**") for the Annual Report of Prosperity REIT for the financial year ending on 31 December 2018. We confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Market Value (as defined hereunder) of the Portfolio, with the benefit of existing tenancies, as at 31 December 2018 (the "**Valuation Date**") for accounting, mortgage security and testing financial covenants purposes.

## THE PORTFOLIO

The Portfolio comprises the following property interests:

1. The Metropolis Tower, 10 Metropolis Drive, Hung Hom, Kowloon, Hong Kong
2. Prosperity Millennia Plaza, 633 King's Road, North Point, Hong Kong
3. 9 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong
4. Prosperity Place, 6 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong
5. Trendy Centre, 682 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong
6. Portion of Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong
7. Portion of New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon, Hong Kong

## VALUATION STANDARDS

The valuation has been carried out in accordance with the RICS Valuation — Global Standards 2017 published by the Royal Institution of Chartered Surveyors ("**RICS**"), the HKIS Valuation Standards 2017 published by The Hong Kong Institute of Surveyors ("**HKIS**") with reference to the International Valuation Standards (2017) published by the International Valuation Standards Council ("**IVSC**"), and Chapter 6 of the Code on Real Estate Investment Trusts ("**REIT Code**") issued by The Securities and Futures Commission in August 2014.

## VALUATION BASIS

Our valuation has been made on the basis of Market Value as defined by IVSC and adopted by HKIS and RICS, set out 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 knowledgeable, prudently and without compulsion".

Our valuation presented in the report would represent 100% interest of the Portfolio and not the shareholdings of the company holding the property interest hereof.

## VALUATION ASSUMPTIONS

Our valuation has been made on the assumption that the seller sells the Portfolio on the open market without the benefit of deferred terms contracts, leasebacks, joint ventures, or any similar arrangements which would affect the value of the Portfolio.

No allowances have been made in our valuation for any charges, mortgages or amounts owing on the Portfolio nor for any expenses or taxes which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the Portfolio is free from and clear of any and all charges, liens and encumbrances of an onerous nature likely to affect value, whether existing or otherwise, unless otherwise stated.

As the Portfolio is held under long term leasehold interests, we have assumed that the owner has free and uninterrupted rights to use the Portfolio for the whole of the unexpired term of the land tenure.

We have assumed that the areas shown on the documents and/or official plans handed to us by the Manager are correct. All documents and contracts have been used as reference only and all dimensions, measurements and areas are approximations. No on-site measurement has been taken.

## VALUATION METHODOLOGIES

In conducting the valuation, we have made use of the Income Approach — Term and Reversion Method, cross-checked with the Market Approach. We consider the Income Approach — Term and Reversion Method as the most appropriate valuation method for assessing the Market Value of the Portfolio given its income driven nature.

**Income Approach — Term and Reversion Method** estimates the value of properties or assets on a market basis by capitalising rental income on a fully leased basis. This method is used when a property or asset is leased out for a specific term. This technique considers both the current passing rental income from existing tenancies and the potential future reversionary income at market level, by capitalising both at appropriate rates.

**Market Approach** provides an indication of value by comparing the subject asset with identical or similar assets for which price information is available. By analysing such sales, which qualify as 'arms-length' transactions, between willing buyers and sellers, adjustments are made for size, location, time, amenities and other relevant factors when comparing such sales prices to assess the value of the subject asset. This approach is commonly used to value assets where reliable sales evidence of assets of a similar nature is available.

## SOURCES OF INFORMATION

We have relied to a considerable extent on the information and documents provided by the Manager, in particular but not limited to the identification of the Portfolio, tenancy schedules, particulars of occupancy, carparking incomes and expenses, floor plans, floor areas and all other relevant matters.

We have sought confirmation from the Manager that no material factors or information have been omitted or withheld. We consider that we have been provided with sufficient information to reach an informed view and we have no reason to suspect any material information has been withheld.

## TITLE INVESTIGATION

We have made enquires and relevant searches at the Hong Kong Land Registry. However, we have not searched the original documents nor verified the existence of any amendments which do not appear in the documents available to us. All documents have been used for reference only.

## SITE INSPECTION

We have inspected the exterior, and where possible, the interior of the Portfolio on 19 December 2018 and 20 December 2018.

We have not conducted a formal site and structural survey and we cannot report that the Portfolio is free from rot, infestation or any other structural defects. We have not carried out a building survey or inspected those parts of the Portfolio which are covered, unexposed or inaccessible. Such parts have been assumed to be in good repair and conditions and this report should not be taken as making any implied representation or statement about such parts. No tests have been carried out to any of the services.

Whilst we have inspected the Portfolio, we have seen no evidence of environmental concerns such as contamination or other hazards. Our inspection did not include investigation into this type of issues, and we are not qualified to assess such environmental concerns. No investigation has been carried out to determine the suitability of ground conditions for any future developments and we have assumed that these aspects are satisfactory. However, should it be established subsequently that such concerns exist at the Portfolio or on any neighbouring land, we reserve the right to adjust the values reported herein.

## PLANT AND MACHINERY

Our valuation normally includes all plant and machinery that form part of the building services installations. However, process plant, machinery and equipment which may have been installed wholly in connection with the occupiers' commercial processes, together with the furnishings, furniture, fixtures and fittings are excluded in our valuation.

## TELECOMMUNICATION FACILITIES

We have assumed that all telecommunication facilities at the Portfolio are permitted and that all necessary approvals have been obtained from the relevant authorities.

## CURRENCY

Unless otherwise stated, all monetary figures stated in this report are in Hong Kong Dollar ("HK\$").

## SATISFACTION OF PROPERTY VALUER CRITERIA IN REIT CODE

Colliers International and the qualifications of directors of our firm are in a position to fulfil and comply fully with paragraphs 6.4, 6.5, 6.6 and 6.7 of the REIT Code.

## CONFIDENTIALITY AND NON-DISCLOSURE

This report is confidential and should be used by the Manager, the Trustee, the unitholders of Prosperity REIT, the banks, financial institutions and creditors (and their agents) that have or will provide financing of Prosperity REIT only and not for any other purposes. No liability to any third party can be accepted for the whole or any part of the contents of the document.

## DISCLOSURE OF INTEREST

We are unaware of any of our business, relationship or interest is in real, potential or apparent conflict with the performance required for the above-mentioned assignment.

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

Yours faithfully,

For and on behalf of

**Colliers International (Hong Kong) Ltd**

**Hannah Jeong**

*MSc (Real Estate) MRICS MHKIS RPS(GP)*

Head of Valuation and Advisory Services

## VALUATION SUMMARY

Properties	Approx. Gross Area (sq ft)	No. of Carparking Space (lots)	Market Value as at 31 December 2018
1. The Metropolis Tower	271,418	98	HK\$3,330,000,000
2. Prosperity Millennia Plaza	217,955	43	HK\$2,250,000,000
3. 9 Chong Yip Street	136,595	68	HK\$1,150,000,000
4. Prosperity Place	240,000	83	HK\$1,860,000,000
5. Trendy Centre	173,764	79	HK\$1,110,000,000
6. Portion of Prosperity Center	149,253	105	HK\$930,000,000
7. Portion of New Treasure Centre	86,168	22	HK\$360,000,000
<b>Total</b>	<b>1,275,153</b>	<b>498</b>	<b>HK\$10,990,000,000</b>

## VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2018
1. The Metropolis Tower, 10 Metropolis Drive, Hung Hom, Kowloon, Hong Kong  24,734/247,769th equal and undivided parts or shares of and in Kowloon Inland Lot No. 11077	<p>The Metropolis Tower is a 15-storey office building comprising 11th to 28th Floors (13th, 14th and 24th 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 building was built in 2001.</p> <p>The Metropolis Tower is the 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 Metropolis Tower comprises the entire office units from the 11th to 28th Floors with a total gross area of approximately 25,215 sq m (271,418 sq ft). The total saleable area is approximately 18,833 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. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The office portion of the property was let under various tenancies for various terms with the latest expiry in November 2021, yielding a total monthly rental income of approximately HK\$9,411,800, exclusive of Government Rates, Government Rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 99.2%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$350,000 during the period from January 2018 to December 2018.</p>	<p>HK\$3,330,000,000</p> <p>(HONG KONG DOLLARS THREE BILLION THREE HUNDRED AND THIRTY MILLION)</p> <p>Estimated net property yield was approximately 3.5%.</p>

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

- (2) The property is currently zoned for "Other Specified Uses (Commercial Development and Freight Yard)" purposes under the Approved Hung Hom Outline Zoning Plan No. S/K9/26 gazetted on 10 November 2017.
- (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) The estimated net property yield is based on the net monthly rental income for December 2018 and average net monthly car parking income for the period of January 2018 to December 2018.
- (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
2016 and before	70,228	26.1%	2,504,700	26.6%	26	24.3%
2017	50,326	18.7%	1,837,200	19.5%	31	29.0%
2018	148,781	55.2%	5,069,900	53.9%	50	46.7%
<b>Total</b>	<b>269,335</b>	<b>100.0%</b>	<b>9,411,800</b>	<b>100.0%</b>	<b>107</b>	<b>100.0%</b>

#### Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2018 and 2019	97,326	36.1%	3,489,500	37.1%	42	39.3%
2020	51,226	19.0%	1,837,400	19.5%	29	27.1%
2021 and beyond	120,783	44.9%	4,084,900	43.4%	36	33.6%
<b>Total</b>	<b>269,335</b>	<b>100.0%</b>	<b>9,411,800</b>	<b>100.0%</b>	<b>107</b>	<b>100.0%</b>

#### Tenancy Duration Profile

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2 years and below	31,550	11.7%	1,113,800	11.8%	16	15.0%
More than 2 years and up to 3 years	219,624	81.5%	7,753,000	82.4%	90	84.1%
More than 3 years	18,161	6.8%	545,000	5.8%	1	0.9%
<b>Total</b>	<b>269,335</b>	<b>100.0%</b>	<b>9,411,800</b>	<b>100.0%</b>	<b>107</b>	<b>100.0%</b>

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2018
2. Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong  3,741/10,000th equal and undivided parts or shares of and in Inland Lot No. 8885	<p>Prosperity Millennia Plaza is a 32-storey office building (including 3 mechanical floors and a refuge floor) 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 building 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 20,249 sq m (217,955 sq ft). The total saleable area is approximately 14,551 sq m (156,630 sq ft).</p> <p>The property also consists of 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. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The office portion of the property was let under various tenancies for various terms with the latest expiry in December 2021, yielding a total monthly rental income of approximately HK\$6,507,900, exclusive of Government Rates, Government Rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 97.6%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$324,000 during the period from January 2018 to December 2018.</p>	<p>HK\$2,250,000,000</p> <p>(HONG KONG DOLLARS TWO BILLION TWO HUNDRED AND FIFTY MILLION)</p> <p>Estimated net property yield was approximately 3.6%.</p>

## Notes:

- (1) The registered owner of the property is Conestoga Limited.
- (2) The property is currently zoned for "Commercial" purposes under the Approved North Point Outline Zoning Plan No. S/H8/26 gazetted on 25 August 2017.
- (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) The estimated net property yield is based on the net monthly rental income for December 2018 and average net monthly car parking income for the period of January 2018 to December 2018.
- (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
2016 and before	43,982	20.7%	1,364,700	21.0%	14	17.1%
2017	75,256	35.4%	2,304,500	35.4%	42	51.2%
2018	93,516	43.9%	2,838,700	43.6%	26	31.7%
<b>Total</b>	<b>212,754</b>	<b>100.0%</b>	<b>6,507,900</b>	<b>100.0%</b>	<b>82</b>	<b>100.0%</b>

**Tenancy Expiry Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2018 and 2019	61,647	29.0%	1,886,600	29.0%	33	40.2%
2020	95,110	44.7%	2,941,700	45.2%	37	45.1%
2021 and beyond	55,997	26.3%	1,679,600	25.8%	12	14.7%
<b>Total</b>	<b>212,754</b>	<b>100.0%</b>	<b>6,507,900</b>	<b>100.0%</b>	<b>82</b>	<b>100.0%</b>

**Tenancy Duration Profile**

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2 years and below	40,421	19.0%	1,256,700	19.3%	20	24.4%
More than 2 years and up to 3 years	132,057	62.1%	4,016,500	61.7%	55	67.1%
More than 3 years	40,276	18.9%	1,234,700	19.0%	7	8.5%
<b>Total</b>	<b>212,754</b>	<b>100.0%</b>	<b>6,507,900</b>	<b>100.0%</b>	<b>82</b>	<b>100.0%</b>

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2018
3. 9 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong  Kwun Tong Inland Lot No. 444	<p>9 Chong Yip Street is a 25-storey Grade A office building with ancillary parking erected on a registered site area of approximately 966 sq m (10,394 sq ft). The building was built in 2004.</p> <p>Portion of the Ground Floor and 1st to 3rd Floors are for carparking and mechanical plant room whereas the remaining portion of the Ground Floor is used for a lobby. The upper floors from the 5th to 27th Floors (4th, 14th and 24th floor numbers are omitted) are designed for office purposes.</p> <p>The total gross area of the property (excluding parking lots) is approximately 12,690 sq m (136,595 sq ft). The total saleable area is approximately 9,230 sq m (99,349 sq ft).</p> <p>The property also consists of 64 carparking spaces, 4 loading/unloading spaces and 5 motor cycle parking spaces.</p> <p>Kwun Tong Inland Lot No. 444 is held under a Government Lease for a term of 99 years less the last 3 days thereof commencing from 1 July 1898. The lease has been extended to expire on 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The office portion of the property was let under various tenancies for various terms with the latest expiry in November 2021, yielding a total monthly rental income of approximately HK\$2,760,612, exclusive of Government Rates, Government Rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 92.4%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$174,000 during the period from January 2018 to December 2018.</p>	<p>HK\$1,150,000,000</p> <p>(HONG KONG DOLLARS ONE BILLION ONE HUNDRED AND FIFTY MILLION)</p> <p>Estimated net property yield was approximately 3.1%.</p>

## Notes:

- (1) The registered owner of the property is Clifton Properties Limited.
- (2) The property is currently zoned for "Other Specified Uses (Business)" purposes under the Approved Kwun Tong (South) Outline Zoning Plan No. S/K14S/22 gazetted on 9 November 2018.
- (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) The estimated net property yield is based on the net monthly rental income for December 2018 and average net monthly car parking income for the period of January 2018 to December 2018.
- (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
2016 and before	29,071	23.0%	652,612	23.6%	8	19.5%
2017	54,256	43.0%	1,156,800	41.9%	18	43.9%
2018	42,926	34.0%	951,200	34.5%	15	36.6%
<b>Total</b>	<b>126,253</b>	<b>100.0%</b>	<b>2,760,612</b>	<b>100.0%</b>	<b>41</b>	<b>100.0%</b>

**Tenancy Expiry Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2018 and 2019	46,535	36.9%	1,032,912	37.4%	16	39.0%
2020	51,745	40.9%	1,110,800	40.2%	14	34.1%
2021 and beyond	27,973	22.2%	616,900	22.4%	11	26.9%
<b>Total</b>	<b>126,253</b>	<b>100.0%</b>	<b>2,760,612</b>	<b>100.0%</b>	<b>41</b>	<b>100.0%</b>

**Tenancy Duration Profile**

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2 years and below	19,706	15.6%	439,300	15.9%	8	19.5%
More than 2 years and up to 3 years	99,967	79.2%	2,163,312	78.4%	32	78.0%
More than 3 years	6,580	5.2%	158,000	5.7%	1	2.5%
<b>Total</b>	<b>126,253</b>	<b>100.0%</b>	<b>2,760,612</b>	<b>100.0%</b>	<b>41</b>	<b>100.0%</b>

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2018
4. Prosperity Place, 6 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong  Kun Tong Inland Lot No. 62	<p>Prosperity Place is a 27-storey commercial building with ancillary parking and loading/unloading facilities erected on a registered site area of approximately 1,858 sq m (20,000 sq ft). The building was built in 1996.</p> <p>Prosperity Place has been granted a waiver letter in September 2012 with conversion 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 22,297 sq m (240,000 sq ft). The total saleable area is approximately 14,754 sq m (158,813 sq ft).</p> <p>The property also consists of a total of 83 carparking spaces.</p> <p>Kun Tong Inland Lot No. 62 is held under a Government Lease for a term of 21 years and renewable for another 21 years commencing from 1 July 1955. The lease has been extended to expire on 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The commercial portion of the property was let under various tenancies for various terms with the latest expiry in October 2022, yielding a total monthly rental income of approximately HK\$5,755,000 exclusive of Government Rates, Government Rent, management fees and utility charges.</p> <p>The property was also subject to various licences yielding a total monthly licence fee of approximately HK\$122,600.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 99.2%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$505,000 during the period from January 2018 to December 2018.</p>	<p>HK\$1,860,000,000</p> <p>(HONG KONG DOLLARS ONE BILLION EIGHT HUNDRED AND SIXTY MILLION)</p> <p>Estimated net property yield was approximately 4.1%.</p>

## Notes:

- (1) The registered owner of the property is Bandick Limited.
- (2) The following encumbrance is registered against the property upon our recent Land Registry search:
  - Relaxation Letter from District Lands Office/Kowloon East vide Memorial No. 16082300790081, dated 8 August 2016.
- (3) The property is currently zoned for "Other Specified Uses (Business)" purposes under the Approved Kwun Tong (South) Outline Zoning Plan No. S/K14S/22 gazetted on 9 November 2018.
- (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) The estimated net property yield is based on the net monthly rental income for December 2018 and average net monthly car parking income for the period of January 2018 to December 2018.
- (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
2016 and before	37,612	15.8%	903,700	15.7%	16	12.6%
2017	113,824	47.8%	2,731,600	47.5%	61	48.0%
2018	86,568	36.4%	2,119,700	36.8%	50	39.4%
<b>Total</b>	<b>238,004</b>	<b>100.0%</b>	<b>5,755,000</b>	<b>100.0%</b>	<b>127</b>	<b>100.0%</b>

**Tenancy Expiry Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2018 and 2019	96,496	40.5%	2,342,100	40.7%	57	44.9%
2020	100,902	42.4%	2,433,500	42.3%	53	41.7%
2021 and beyond	40,606	17.1%	979,400	17.0%	17	13.4%
<b>Total</b>	<b>238,004</b>	<b>100.0%</b>	<b>5,755,000</b>	<b>100.0%</b>	<b>127</b>	<b>100.0%</b>

**Tenancy Duration Profile**

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2 years and below	79,714	33.5%	1,972,000	34.3%	55	43.3%
More than 2 years and up to 3 years	138,290	58.1%	3,303,100	57.4%	69	54.3%
More than 3 years	20,000	8.4%	479,900	8.3%	3	2.4%
<b>Total</b>	<b>238,004</b>	<b>100.0%</b>	<b>5,755,000</b>	<b>100.0%</b>	<b>127</b>	<b>100.0%</b>

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2018
5. Trendy Centre, 682 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong  New Kowloon Inland Lot No. 6224	<p>Trendy Centre is a 30-storey industrial/office building with ancillary parking and loading/unloading facilities erected on a registered site area of approximately 1,394 sq m (15,000 sq ft). The building was built in 1998.</p> <p>Portion of the Ground Floor and 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 sq m (173,764 sq ft). The total saleable area is approximately 10,934 sq m (117,696 sq ft).</p> <p>The property also consists of 79 carparking spaces.</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. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The industrial/office portion of the property was let under various tenancies for various terms with the latest expiry in November 2021, yielding a total monthly rental income of approximately HK\$3,387,550, exclusive of Government Rates, Government Rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 96.0%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$423,000 during the period from January 2018 to December 2018.</p>	<p>HK\$1,110,000,000</p> <p>(HONG KONG DOLLARS ONE BILLION ONE HUNDRED AND TEN MILLION)</p> <p>Estimated net property yield was approximately 4.1%.</p>

## Notes:

- (1) The registered owner of the property is Top Easy Profits Limited.
- (2) The property is currently zoned for "Other Specified Uses (Business 1)" purposes under the Approved Cheung Sha Wan Outline Zoning Plan No. S/K5/37 gazetted on 16 December 2016.
- (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) The estimated net property yield is based on the net monthly rental income for December 2018 and average net monthly car parking income for the period of January 2018 to December 2018.
- (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
2016 and before	36,339	21.8%	711,300	21.0%	28	18.9%
2017	78,577	47.1%	1,667,600	49.2%	67	45.3%
2018	51,984	31.1%	1,008,650	29.8%	53	35.8%
<b>Total</b>	<b>166,900</b>	<b>100.0%</b>	<b>3,387,550</b>	<b>100.0%</b>	<b>148</b>	<b>100.0%</b>

**Tenancy Expiry Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2018 and 2019	87,029	52.1%	1,758,600	51.9%	74	50.0%
2020	56,769	34.0%	1,175,850	34.7%	53	35.8%
2021 and beyond	23,102	13.9%	453,100	13.4%	21	14.2%
<b>Total</b>	<b>166,900</b>	<b>100.0%</b>	<b>3,387,550</b>	<b>100.0%</b>	<b>148</b>	<b>100.0%</b>

**Tenancy Duration Profile**

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2 years and below	41,214	24.7%	794,750	23.5%	32	21.6%
More than 2 years and up to 3 years	125,686	75.3%	2,592,800	76.5%	116	78.4%
More than 3 years	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>166,900</b>	<b>100.0%</b>	<b>3,387,550</b>	<b>100.0%</b>	<b>148</b>	<b>100.0%</b>

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2018
6. Portion of Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong (see note(1))  12,014/22,510th equal and undivided parts or shares of and in Kwun Tong Inland Lot No. 729	<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 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 13,866 sq m (149,253 sq ft). The total saleable area is approximately 10,096 sq m (108,669 sq ft).</p> <p>The property also consists of 91 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. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The office/workshop portion of the property was let under various tenancies for various terms with the latest expiry in August 2021, yielding a total monthly rental income of approximately HK\$2,734,100, exclusive of Government Rates, Government Rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 97.1%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$421,000 during the period from January 2018 to December 2018.</p>	<p>HK\$930,000,000</p> <p>(HONG KONG DOLLARS NINE HUNDRED AND THIRTY MILLION)</p> <p>Estimated net property yield was approximately 4.1%.</p>

## Notes:

(1) The property comprises Units G01-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, 2601-2605 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 on 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 as follows:

Property	Registered Owner
Units 1001-1003 and 1005-1010 on 10th Floor and Units 2601-2603 and 2605 on 26th Floor	Winrise Champion Limited
The remainder of the property	Prodes Company Limited

(3) The property is currently zoned for "Other Specified Uses (Business)" purposes under the Approved Kwun Tong (South) Outline Zoning Plan No. S/K14S/22 gazetted on 9 November 2018.

(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) The estimated net property yield is based on the net monthly rental income for December 2018 and average net monthly car parking income for the period of January 2018 to December 2018.

(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
2016 and before	17,276	11.9%	309,200	11.3%	7	9.9%
2017	69,096	47.7%	1,293,400	47.3%	33	46.4%
2018	58,546	40.4%	1,131,500	41.4%	31	43.7%
<b>Total</b>	<b>144,918</b>	<b>100.0%</b>	<b>2,734,100</b>	<b>100.0%</b>	<b>71</b>	<b>100.0%</b>

**Tenancy Expiry Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2018 and 2019	61,759	42.6%	1,151,700	42.1%	34	47.9%
2020	67,478	46.6%	1,277,100	46.7%	29	40.8%
2021 and beyond	15,681	10.8%	305,300	11.2%	8	11.3%
<b>Total</b>	<b>144,918</b>	<b>100.0%</b>	<b>2,734,100</b>	<b>100.0%</b>	<b>71</b>	<b>100.0%</b>

**Tenancy Duration Profile**

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2 years and below	43,853	30.3%	862,200	31.5%	25	35.2%
More than 2 years and up to 3 years	101,065	69.7%	1,871,900	68.5%	46	64.8%
More than 3 years	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>144,918</b>	<b>100.0%</b>	<b>2,734,100</b>	<b>100.0%</b>	<b>71</b>	<b>100.0%</b>

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2018
7. Portion of New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon, Hong Kong (see note(1))  11,163/26,198th equal and undivided parts or shares of and in New Kowloon Inland Lot No. 4864	<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 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 has a total gross area of approximately 8,005 sq m (86,168 sq ft). The total saleable area is approximately 5,948 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 402 sq m (4,327 sq ft) and 22 carparking spaces within the building.</p> <p>New Kowloon Inland Lot No. 4864 is held under a Government Lease for a term of 99 years less the last 3 days thereof commencing from 1 July 1898. The lease has been extended to expire on 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The factory portion of the property was let under various tenancies for various terms with the latest expiry in October 2021, yielding a total monthly rental income of approximately HK\$1,084,900, exclusive of Government Rates, Government Rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 100.0%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$161,000 during the period from January 2018 to December 2018.</p>	<p>HK\$360,000,000</p> <p>(HONG KONG DOLLARS THREE HUNDRED AND SIXTY MILLION)</p> <p>Estimated net property yield was approximately 4.2%.</p>

## 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, 201–207 on 2nd Floor, 301–303 and 306–307 on 3rd Floor, 501–507 on 5th Floor, 603 and 606–607 on 6th Floor, 703 on 7th Floor, 801–803 and 806–807 on 8th Floor, 1005 on 10th Floor, 1201–1205 and 1207 on 12th Floor, 1302–1303 and 1306 on 13th Floor, 1506–1507 on 15th Floor, 1602–1605 and 1607 on 16th Floor, 1702–1707 on 17th Floor, 1801–1807 on 18th Floor, 2202–2205 on 22nd Floor, 2301–2303 and 2306–2307 on 23rd Floor, 2706–2707 on 27th Floor, 2803 on 28th Floor, 2903 and 2906–2907 on 29th Floor (Unit No. 04 is omitted on each 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 currently zoned for "Other Specified Uses (Business)" purposes under the Approved Tsz Wan Shan, Diamond Hill & San Po Kong Outline Zoning Plan No. S/K11/29 gazetted on 16 December 2016.
- (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) The estimated net property yield is based on the net monthly rental income for December 2018 and average net monthly car parking income for the period of January 2018 to December 2018.
- (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
2016 and before	7,333	8.5%	88,600	8.2%	5	9.4%
2017	35,008	40.6%	450,400	41.5%	23	43.4%
2018	43,827	50.9%	545,900	50.3%	25	47.2%
<b>Total</b>	<b>86,168</b>	<b>100.0%</b>	<b>1,084,900</b>	<b>100.0%</b>	<b>53</b>	<b>100.0%</b>

**Tenancy Expiry Profile**

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2018 and 2019	28,418	33.0%	366,000	33.7%	21	39.6%
2020	41,740	48.4%	532,900	49.1%	28	52.8%
2021 and beyond	16,010	18.6%	186,000	17.2%	4	7.6%
<b>Total</b>	<b>86,168</b>	<b>100.0%</b>	<b>1,084,900</b>	<b>100.0%</b>	<b>53</b>	<b>100.0%</b>

**Tenancy Duration Profile**

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2 years and below	36,235	42.1%	474,300	43.7%	28	52.8%
More than 2 years and up to 3 years	49,933	57.9%	610,600	56.3%	25	47.2%
More than 3 years	0	0.0%	0	0.0%	0	0.0%
<b>Total</b>	<b>86,168</b>	<b>100.0%</b>	<b>1,084,900</b>	<b>100.0%</b>	<b>53</b>	<b>100.0%</b>

## OFFICE MARKET OVERVIEW

### 1. Introduction

Companies adopted a more cautious approach for expansion plans. Although the US and China suspended new trade tariffs for 90 days, it does not reduce market uncertainties and the possibility of slower growth for major economies in 2019.

Given mainland Chinese companies are slowing their office expansion, we expect CBD rents to recalibrate, declining 3.8% in 2019. However, given low vacancy rates and the ongoing decentralisation trend, rents in other districts are likely to stay firm.

### 2. Office Demand

The US-China trade war and slowing economic forecasts were affecting Grade A demand and rental growth. After a robust Q3, the Grade A office market started to lose momentum in Q4 2018. Overall Grade A office rents was almost flat, down 0.2% QOQ. The drop was due to weakening demand with negative net take-up of 91,143 sq feet, the first negative quarterly net take-up since Q2 2016. A negative net take-up reflected on a slight increase of vacancy rate to 4.1%, from a year-low of 3.9% in Q3 2018.

Landlords in Central/Admiralty have felt the pressure of softening demand from financial institutions and mainland Chinese companies. With softer demand, CBD Grade A office rents decreased 0.3% qoq, ending the consecutive quarterly growth since Q3 2017. Vacancy rates edged up by 0.7% to 2.1%, still very low, with -163,064 sq feet of net take-up.

### 3. Office Supply

Thanks to the ongoing decentralisation trend rents increased elsewhere on Hong Kong Island, supported by vacancy rates below 2%, confounding new tenants interested in this area. One Taikoo Place, a new building in Quarry Bay, opened in Q3 and has quickly achieved full occupancy, indicating supply remained short in the area. With a supply shortage and quick absorption rate, newly completed quality office buildings did not push up the average vacancy rate in their district, but the average rent instead.

Similarly, South Island Place, in Wong Chuk Hang, was over 90% leased one quarter after completion. As such, the district's vacancy rates declined to single digits for the first time ever.

### 4. Office Rent

In Q4, the already low average vacancy rate in Tsim Sha Tsui was almost unchanged at 1.9%. The weakening demand from mainland Chinese companies was a disappointment to Tsim Sha Tsui's landlords, who expected increasing office demand driven by the completion of the Express Rail Link Terminus in West Kowloon. Major tenant groups such as banking & finance companies and trading & sourcing companies were affected by the trade war and challenging business environment.

With low vacancy in Tsim Sha Tsui and Kowloon East offering new Grade A office space with cheaper rents as an alternative for relocation or consolidation, we witnessed more multinational companies willing to expand their footprints in Kowloon East. MNCs, such as JP Morgan, helped to fill multiple floors in new buildings. However, large floor plates might not be favourable to local small-and-medium sized corporations.

## 5. Forecast

According to Colliers Radar report Top Locations in Asia — Financial Sector, Hong Kong's office market, especially the CBD, is facing downside risks given that the Hang Seng Index declined by more than 20% from the start of 2018, and mainland companies are losing their shine entering 2019. As such, we reaffirm our forecast of -3.8% growth for Central/Admiralty Grade A office rent in 2019. However, other submarkets, which are less affected by the movements of financial institutions, should continue enjoy modest rental growth amid very low vacancy rates.

Following a strong expansion in 2018, flexible workspace operators may face challenges to occupancy amid the soft business outlook, implying their expansion in 2019 may not be as aggressive as before. Meanwhile, the stagnant trading sector reduced overall demand in Kowloon. The depreciated renminbi may also pressure the retail market's performance and affect demand for offices in Kowloon which hosts a larger proportion of retailers and servicing companies. However, the economy has not shown an obvious slowdown amid these uncertainties, and we believe that rents will stay firm in Kowloon, given the current low vacancy rates in Greater Tsim Sha Tsui and the new Grade A office space as an alternative for relocation or consolidation in Kowloon East.

## INDUSTRIAL MARKET OVERVIEW

### 1. Introduction

Given the limited new industrial supply and low vacancy, industrial rents continue to increase. Meanwhile, investors are focused on redevelopment potential, such as data centres or commercial buildings, which are driving investment transactions.

### 2. Industrial Demand

Leasing demand remained strong in Q3 2018 due to forced relocations and expansion activities. Although the trade war may affect business sentiment, tenants cannot move production from China immediately. Instead, we expect moving out of China to be a step-by-step process lasting two to three years. Therefore, the leasing momentum in Hong Kong should remain firm. According to our research, warehouse and factory rents increased by 2.5% and 2.6% QOQ, respectively, in Q3 2018 despite the lack of new supply and tight vacancies.

Third party logistic companies continued to expand their businesses in Hong Kong. Notable leasing deals included HKAIR Logistics leasing 28,536 sq feet at Watson Centre for expansion, and Eric Art Services leased 16,660 sq feet at Global Gateway in Tsuen Wan, also for expansion.

### 3. Industrial Supply

The supply should remain tight due to limited new land supply for industrial use. The new supply of warehouses in 2019 in Tuen Mun should be limited at 92,400 sq feet.

### 4. Industrial Rent

In 2018, we did not see much impact on Hong Kong's external trade as well as industrial property market from the US-China trade war. The warehouse market in 2019 will continue to watch and react closely to the US-China negotiation. On a positive note, the newly opened Hong Kong-Zhuhai-Macau Bridge is driving leasing and investment demand for warehouses in Tuen Mun and its surroundings.

### 5. Industrial Investment

The investment sentiment remained positive in 2018. Investors continued to eye on redevelopment potential of industrial sites, such as data centres and commercial buildings, this demand has been driving en bloc industrial transactions and consolidation of strata title ownership. The number of en bloc and strata title transactions (with a deal size over HK\$30 million) has increased by 2.9% QOQ and 50% QOQ respectively in Q3 2018.

However, the total value of industrial property transactions dropped by 4.1% QOQ in Q3. En bloc and strata title transaction values recorded a decrease by 13.9% QOQ and 8.7% QOQ respectively. Hanison Construction Holdings Limited made a profit of HK\$311 million by selling Mee Wah Factory Building between July and August. The building was bought for HK\$922 million and sold for HK\$1.25 billion which is located at San Po Kong near CBD2, and the building could be redeveloped into a commercial building by paying the land premium for change the use of land.

### 6. Forecast

For 2019, we expect warehouse and factory rents to grow and the trend continue to 2022. At the same time, the rents will drive the property value up in the coming years. It is recommended that investors may consider the potential of converting industrial buildings for non-industrial use, and expect a positive impact from the revitalisation scheme on Hong Kong's industrial property market to outweigh any negative impacts from the trade war.

# 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, the second supplemental deed dated 15 May 2007, the third supplemental deed dated 14 May 2008, the fourth supplemental deed dated 23 July 2010, the fifth supplemental deed dated 29 December 2011 and the sixth supplemental deed dated 11 May 2018, for the financial year ended 31 December 2018.

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

In its capacity as the trustee of Prosperity Real Estate Investment Trust  
Hong Kong

22 March 2019

# 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))*

## REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

### Opinion

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 117 to 162, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, distribution statement, consolidated statement of changes in net assets attributable to unitholders and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial disposition of the Group as at 31 December 2018, and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("**HKSAs**") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "**Code**"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### Key audit matter

### How our audit addressed the key audit matter

#### Valuation of investment properties

We identified the valuation of investment properties as a key audit matter as they represented 97% of total assets of the Group as at 31 December 2018 and significant judgement is required in determining their fair value.

As disclosed in note 11 to the consolidated financial statements, investment properties of the Group are office buildings, commercial buildings, industrial/office buildings and industrial building located in Hong Kong. The carrying amounts of investment properties amounted to HK\$10,990.0 million as at 31 December 2018 and their change in fair value included in the profit for the year was HK\$487.9 million. In estimating the fair value of investment properties, ARA Asset Management (Prosperity) Limited (the "REIT Manager" of Prosperity REIT) engaged an independent qualified external valuer (the "Valuer") to perform the valuation and worked with the Valuer to establish inputs to the valuation.

As further disclosed in note 11 to the consolidated financial statements, the fair value was arrived at using income approach-term and reversion method cross-checked with the market approach. The valuation involves the making of certain assumptions and the use of estimates in respect of the capitalisation rates.

Our procedures in relation to the valuation of investment properties included:

- Evaluating the competence, capabilities and objectivity of the Valuer;
- Obtaining an understanding of the valuation process and significant assumptions and critical judgements to assess if the approaches meet relevant accounting requirements and industry norms;
- Evaluating the appropriateness of the judgements made by the REIT Manager and the Valuer, in particular the valuation model and the capitalisation rates based on our knowledge of the property market in Hong Kong; and
- Assessing the reasonableness of other key parameters, including market rentals, in the valuation model by comparing them against market data and entity-specific information such as rental income, tenancy summary, capital expenditures details and size of the properties on a sample basis.

## OTHER INFORMATION

The REIT Manager is responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF REIT MANAGER AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The REIT Manager is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, 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.

In preparing the consolidated financial statements, the REIT Manager is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the REIT Manager either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

In addition, the REIT Manager is required to ensure that the consolidated financial statements have been properly prepared in accordance with the relevant provisions of the trust deed dated 29 November 2005 (as amended) (the "Trust Deed") and the relevant disclosure provisions of Appendix C of the Code on Real Estate Investment Trusts (the "REIT Code") issued by the Hong Kong Securities and Futures Commission.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. In addition, we are required to assess whether the consolidated financial statements of the Group have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix C of the REIT Code.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the REIT Manager.
- Conclude on the appropriateness of the REIT Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**REPORT ON MATTERS UNDER THE RELEVANT PROVISIONS OF THE TRUST DEED AND THE RELEVANT DISCLOSURE PROVISIONS OF APPENDIX C OF THE REIT CODE**

In our opinion, the consolidated financial statements have been prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix C of the REIT Code.

The engagement partner on the audit resulting in the independent auditor's report is Cheung Chung Yin Lawrence.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

22 March 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Revenue	5	446,814	446,242
Property management fees		(10,994)	(10,965)
Property operating expenses	6	(85,009)	(81,677)
Total property operating expenses		(96,003)	(92,642)
<b>Net property income</b>		<b>350,811</b>	<b>353,600</b>
Interest income		4,790	5,225
Manager's fee		(53,610)	(51,954)
Trust and other expenses	7	(8,603)	(9,276)
Gain on disposed property company	11(ii)	—	299,695
Change in fair value of investment properties		487,882	295,697
Change in fair value of derivative financial instruments		1,941	(18,050)
Finance costs	8	(57,691)	(86,775)
<b>Profit before taxation and transactions with unitholders</b>		<b>725,520</b>	<b>788,162</b>
Taxation	9	(37,940)	(39,737)
<b>Profit for the year, before transactions with unitholders</b>		<b>687,580</b>	<b>748,425</b>
Distribution to unitholders		(268,899)	(261,533)
<b>Profit for the year, after transactions with unitholders</b>		<b>418,681</b>	<b>486,892</b>
<b>Total comprehensive income for the year, after transactions with unitholders</b>		<b>418,681</b>	<b>486,892</b>
<b>Income available for distribution to unitholders</b>		<b>268,899</b>	<b>261,533</b>
<b>Basic earnings per unit (HK\$)</b>	10	<b>0.46</b>	0.51

# DISTRIBUTION STATEMENT

For the year ended 31 December 2018

	2018 HK\$'000	2017 HK\$'000
<b>Profit for the year, before transactions with unitholders</b>	<b>687,580</b>	748,425
<b>Adjustments:</b>		
Manager's fee	52,441	50,815
Gain on disposed property company	—	(299,695)
Change in fair value of investment properties	<b>(487,882)</b>	(295,697)
Change in fair value of derivative financial instruments	<b>(1,941)</b>	18,050
Finance costs	<b>7,991</b>	26,411
Deferred tax	<b>10,710</b>	13,224
<b>Income available for distribution (note (i))</b>	<b>268,899</b>	261,533
<b>Distributions to unitholders:</b>		
HK\$0.0920 (2017: HK\$0.0915) per unit for the six months ended 30 June (note (ii))	<b>136,263</b>	134,096
HK\$0.0890 (2017: HK\$0.0865) per unit for the six months ended 31 December (note (iii))	<b>132,636</b>	127,437
	<b>268,899</b>	261,533
<b>Total distribution per unit (HK\$)</b>	<b>0.1810</b>	0.1780

Notes:

- (i) 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 and it is the REIT Manager's stated policy to distribute 100% of the distributable income. Pursuant to the Trust Deed, distributable income is defined as the amount calculated by the REIT Manager as representing the consolidated profit after tax of the Group 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 profit or loss and other comprehensive income for the relevant financial year.

These adjustments for the current year comprise:

- (a) manager's fees paid/payable in units of HK\$52,441,000 (2017: HK\$50,815,000) out of the total manager's fee of HK\$53,610,000 (2017: HK\$51,954,000) (the differences of HK\$1,169,000 (2017: HK\$1,139,000) are paid in cash);
- (b) change in fair value of investment properties of HK\$487,882,000 (2017: HK\$295,697,000), gain on fair value change of derivative financial instruments of HK\$1,941,000 (2017: a loss of HK\$18,050,000) and gain on disposed property company of nil (2017: HK\$299,695,000);
- (c) adjustment in respect of the difference between the accounting finance costs of HK\$57,691,000 (2017: HK\$86,775,000) less cash finance costs of HK\$49,700,000 (2017: HK\$60,364,000); and
- (d) deferred tax provision of HK\$10,710,000 (2017: HK\$13,224,000).
- (ii) The distribution per unit of HK\$0.0920 for the six months ended 30 June 2018 (six months ended 30 June 2017: HK\$0.0915) is calculated based on Prosperity REIT's income available for distribution of HK\$136,263,000 (six months ended 30 June 2017: HK\$134,096,000) over 1,481,179,523 units (30 June 2017: 1,465,548,870 units), representing units in issue as at 30 June 2018 plus the number of units issued after the distribution period to the REIT Manager as payment of base fee and variable fee in the second quarter of the relevant distribution period. The distribution was paid to unitholders on 7 September 2018.
- (iii) The distribution per unit of HK\$0.0890 for the six months ended 31 December 2018 (six months ended 31 December 2017: HK\$0.0865) is calculated based on Prosperity REIT's income available for distribution of HK\$132,636,000 (six months ended 31 December 2017: HK\$127,437,000) over 1,490,179,376 units (31 December 2017: 1,473,137,260 units), representing units in issue as at 31 December 2018 plus the number of units to be issued after the distribution period to the REIT Manager as payment of base fee and variable fee in the last quarter of the relevant distribution year.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	11	10,990,000	10,490,000
Derivative financial instruments	12	21,065	20,341
		<b>11,011,065</b>	10,510,341
<b>Current assets</b>			
Derivative financial instruments	12	1,206	1,528
Trade and other receivables	13	15,016	8,667
Bank balances and cash	14	358,736	363,451
<b>Total current assets</b>		<b>374,958</b>	373,646
<b>Total assets</b>		<b>11,386,023</b>	10,883,987
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Derivative financial instruments	12	—	1,539
Term loans	15	2,311,936	2,303,945
Deferred tax liabilities	16	197,379	186,669
<b>Total non-current liabilities, excluding net assets attributable to unitholders</b>		<b>2,509,315</b>	2,492,153
<b>Current liabilities</b>			
Trade and other payables	17	192,941	185,775
Amounts due to related companies	18	11,460	9,481
Provision for taxation		1,550	2,152
Manager's fee payable		13,710	13,246
Distribution payable		132,636	127,437
<b>Total current liabilities</b>		<b>352,297</b>	338,091
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>2,861,612</b>	2,830,244
<b>Net assets attributable to unitholders</b>		<b>8,524,411</b>	8,053,743
<b>Units in issue ('000)</b>	19	<b>1,485,861</b>	1,469,395
<b>Net asset value per unit (HK\$) attributable to unitholders</b>	20	<b>5.74</b>	5.48

The consolidated financial statements on pages 117 to 162 were approved and authorised for issue by ARA Asset Management (Prosperity) Limited on 22 March 2019 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 2018

	Issued units HK\$'000	Unit issue costs HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2018	3,142,543	(91,278)	5,002,478	8,053,743
<b>OPERATIONS</b>				
Profit for the year, before transactions with unitholders	—	—	687,580	687,580
Distribution paid and payable	—	—	(268,899)	(268,899)
Total comprehensive income for the year, after transaction with unitholders	—	—	418,681	418,681
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>				
Units issued to REIT Manager ( <i>note 19</i> )	51,987	—	—	51,987
Net assets attributable to unitholders as at 31 December 2018	3,194,530	(91,278)	5,421,159	8,524,411

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS ATTRIBUTABLE TO UNITHOLDERS

For the year ended 31 December 2017

	Issued units HK\$'000	Unit issue costs HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2017	3,091,413	(91,278)	4,515,586	7,515,721
<b>OPERATIONS</b>				
Profit for the year, before transactions with unitholders	—	—	748,425	748,425
Distribution paid and payable	—	—	(261,533)	(261,533)
Total comprehensive income for the year, after transaction with unitholders	—	—	486,892	486,892
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>				
Units issued to REIT Manager ( <i>note 19</i> )	51,130	—	—	51,130
Net assets attributable to unitholders as at 31 December 2017	3,142,543	(91,278)	5,002,478	8,053,743

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK\$'000	2017 HK\$'000
<b>Operating activities</b>		
Profit before taxation and transactions with unitholders	725,520	788,162
Adjustments for:		
(Reversal of allowance) allowance for doubtful debts	(75)	126
Manager's fees paid/payable in units	52,441	50,815
Gain on disposed property company	—	(299,695)
Change in fair value of investment properties	(487,882)	(295,697)
Change in fair value of derivative financial instruments	(1,941)	18,050
Interest income	(4,790)	(5,225)
Finance costs	57,691	86,775
Operating cashflow before working capital changes	340,964	343,311
Increase in amounts due to related companies	1,979	1,404
(Increase) decrease in trade and other receivables	(5,520)	413
Increase in trade and other payables	7,166	2,607
Increase (decrease) in Manager's fee payable	10	(1)
Cash generated from operations	344,599	347,734
Income tax paid	(27,832)	(26,222)
Net cash from operating activities	316,767	321,512
<b>Investing activities</b>		
Interest received	4,036	5,225
Additional expenditure to investment properties	(12,118)	(11,303)
Net proceeds from disposal of a property company	—	871,351
Net cash (used in) from investing activities	(8,082)	865,273
<b>Financing activities</b>		
Repayment of term loans	—	(530,000)
Repayment of secured revolving loan	—	(20,000)
Bank facility origination fees	—	(25,774)
Interest payment of term loans and revolving loan	(49,700)	(60,364)
Distribution to unitholders	(263,700)	(261,086)
Cash used in financing activities	(313,400)	(897,224)
Net (decrease) increase in cash and cash equivalents	(4,715)	289,561
Cash and cash equivalents at beginning of the year	363,451	73,890
<b>Cash and cash equivalents at end of year</b>	<b>358,736</b>	<b>363,451</b>

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2018*

## 1 GENERAL

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 Trust Deed made between the REIT Manager and HSBC Institutional Trust Services (Asia) Limited (the "Trustee"), and the REIT Code.

The principal activity of Prosperity REIT and its subsidiaries 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, 55th 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 dated 29 November 2005 between the REIT Manager and Goodwell-Prosperity Property Services Limited (the "Property Manager"), the Property Manager 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.

For the year ended 31 December 2018

## 1 GENERAL (continued)

### (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.

#### Variable fee

The REIT Manager will receive from each of the property holding subsidiaries 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")

### New and amendments to HKFRSs that are mandatorily effective for the current year

Prosperity REIT and its subsidiaries (the "Group") has applied the following new and amendments to HKFRSs and an interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year.

HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers and the related Amendments</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
Amendments to HKAS 28	<i>As part of the Annual Improvements to HKFRSs 2014–2016 Cycle</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>

Except as described below, the application of the amendments to HKFRSs and the interpretation in the current year 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.

For the year ended 31 December 2018

## 2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

### HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and other items (for example, lease receivables) and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018, if any, is recognised in the opening retained profits and other components of equity, without restating comparative information.

The REIT Manager reviewed and assessed the Group’s financial assets and liabilities as at 1 January 2018 based on the facts and circumstances that existed on that date. There was no material impact on initial application of HKFRS 9 as all financial assets and financial liabilities continue to be measured on the same bases as were previously measured under HKAS 39 *Financial Instruments: Recognition and Measurement* and no impairment was recognised at the initial date of application, 1 January 2018.

Accounting policies resulting from applications of HKFRS 9 are disclosed in Note 3.

### HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations. HKFRS 15 applies to all contracts with customers except for leases which are within the scope of HKAS 17 *Leases*.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised on the date of initial application, 1 January 2018. Any difference as at the date of initial application is recognised in the opening retained profits (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that have not been completed at 1 January 2018.

The Group currently invests in a portfolio of commercial properties, comprising office, commercial, industrial/office and industrial buildings located in Hong Kong for earning stable rental income under operating leases. It receives leasing rental income, car park income and rental related income from tenants. HKFRS 15 does not apply to the leasing component of base rental and other rental which are under the scope of HKAS 17. Rental related income (e.g. management fee income and air conditioning income) are non-lease components which fall within HKFRS 15. Each of these incomes has a stand-alone selling price for the services which are observable under the lease contracts and they are recognised as revenue only when the performance obligation is satisfied.

The REIT Manager reviewed and assessed the Group’s revenue as at 1 January 2018 based on the facts and circumstances that existed on that date. There was no material impact from the initial application of HKFRS 15.

Information about the Group’s accounting policies and performance obligations resulting from application of HKFRS 15 are disclosed in Notes 3 and 5 respectively.

For the year ended 31 December 2018

## 2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

### New and amendments to HKFRSs that have been issued but not yet effective

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

HKFRS 16	<i>Leases<sup>1</sup></i>
HKFRS 17	<i>Insurance Contracts<sup>3</sup></i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments<sup>1</sup></i>
Amendments to HKFRS 3	<i>Definition of a Business<sup>4</sup></i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation<sup>1</sup></i>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture<sup>2</sup></i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material<sup>5</sup></i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement<sup>1</sup></i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures<sup>1</sup></i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2015–2017 Cycle<sup>1</sup></i>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>2</sup> Effective for annual periods beginning on or after a date to be determined

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2021

<sup>4</sup> Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2020

### HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 and the related interpretations when it becomes effective.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

The Group currently considers refundable rental deposits received of HK\$144,051,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not rental payments relating to the right to use the underlying assets. Accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases under HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease under HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain leases which already existed prior to the date of initial application.

For the year ended 31 December 2018

## 2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

### HK(IFRIC)-Int 23 Uncertainty over Income Tax Treatments

HK(IFRIC)-Int 23 sets out how to determine the accounting tax position when there is uncertainty over income tax treatments. The interpretation requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. Details on the Group’s uncertainty over income tax treatments are disclosed in Note 16.

The REIT Manager anticipates that the application of other new and amendments to HKFRSs and the interpretation in the future will not have a material effect on the Group’s consolidated financial statements.

## 3 SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), 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 REIT Code.

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 at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKFRS 17 *Leases*, and the measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

A fair value measurement of a non-financial asset takes into account a market participant’s ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

For the year ended 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2, or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

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 the reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

The principle accounting policies are set out below.

#### (b) Basis of consolidation

The consolidated financial statements incorporate the financial statements of Prosperity REIT and entities controlled by Prosperity REIT and its subsidiaries. Control is achieved when Prosperity REIT:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

Prosperity REIT reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when Prosperity REIT obtains control over the subsidiary and ceases when Prosperity REIT loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date Prosperity REIT gains control until the date when Prosperity REIT ceases to control the subsidiary.

Where necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies in line with those used by the Group.

All intra-group assets and liabilities, income, expenses and cashflow are eliminated in full on consolidation.

*For the year ended 31 December 2018*

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **(b) Basis of consolidation *(continued)***

When Prosperity REIT loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

#### **(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. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured 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.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

#### **(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. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs (which include bank facility origination fees) that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (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) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

For the year ended 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

##### Financial assets

*(1) Upon application of HKFRS 9 in accordance with transitions in Note 2*

##### Classification and measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value.

##### Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

For the year ended 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

(1) *Upon application of HKFRS 9 in accordance with transitions in Note 2 (continued)*

##### Impairment of financial assets

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("**12m ECL**") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group recognises lifetime ECL for trade receivables and the ECL on these assets are assessed individually for debtors.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

For the year ended 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

(1) *Upon application of HKFRS 9 in accordance with transitions in Note 2 (continued)*

##### Impairment of financial assets *(continued)*

(i) Significant increase in credit risk *(continued)*

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

For the year ended 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

(1) *Upon application of HKFRS 9 in accordance with transitions in Note 2 (continued)*

##### Impairment of financial assets *(continued)*

##### (ii) Definition of default

For internal credit risk management, the Group considers an event of default to have occurred when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that more lagging default criterion is more appropriate.

##### (iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the debtor;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the debtor will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

For the year ended 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

(i) *Upon application of HKFRS 9 in accordance with transitions in Note 2 (continued)*

##### Impairment of financial assets *(continued)*

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKAS 17 Leases.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss for all financial instruments by adjusting their carrying amount with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

For the year ended 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

##### *(II) Before application of HKFRS 9 on 1 January 2018*

##### Classification and subsequent measurement of financial assets

The Group's financial assets are classified as loans and receivables and derivative financial instruments. 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.

Interest income or expense is recognised on an effective interest basis, except for short-term receivables where the recognition of interest would be immaterial.

##### 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.

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.

For the year ended 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

##### Financial liabilities

Debt issued by a group entity 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 HKAS 32: *Financial Instruments: Presentation*. Unitholders' fund presented on the consolidated statement of financial position as net assets attributable to unitholders is classified as financial liabilities because the equity component is considered insignificant.

The Group's financial liabilities are generally classified into financial liabilities at fair value through profit or loss and financial liabilities at amortised cost.

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

##### Derivative financial instruments

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.

##### Derecognition/substantial modification of financial liabilities

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. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

For the year ended 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

##### **Derecognition/substantial modification of financial liabilities** *(continued)*

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

##### *Non-substantial modifications of financial liabilities (under HKFRS 9 since 1 January 2018)*

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

##### *Non-substantial modifications of financial liabilities (before application of HKFRS 9 on 1 January 2018)*

For non-substantial modifications of financial liabilities that do not result in derecognition, at the point of modification, the carrying amount of the relevant financial liabilities is revised for directly attributable transaction costs and any consideration paid to or received from the counterparty. The effective interest rate is then adjusted to amortise the difference between the revised carrying amount and the expected cash flows over the life of the modified instrument.

For the year ended 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (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) Leases

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.

##### The Group as lessor

Rental income under operating leases, except for contingent rentals, is recognised in the profit or loss 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.

Rental income which are derived from the Group's ordinary course of business are presented as revenue.

#### (g) Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates or enhances an asset that the customer controls as the Group performs;  
or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

For the year ended 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### **(g) Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) *(continued)***

##### **Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation**

###### *Output method*

The progress towards complete satisfaction of a performance obligation for rental related income is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

###### **(i) Revenue recognition (prior to 1 January 2018)**

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.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

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

Interest income 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 on initial recognition.

#### **(h) Borrowing 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.

All other borrowing costs are recognised as an expense in the consolidated statement of profit or loss and other comprehensive income in the year in which they are incurred.

For the year ended 31 December 2018

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (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 profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and 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 liabilities are generally recognised for all deductible temporary differences. 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 deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax is recognised in profit or loss.

For the year ended 31 December 2018

#### 4 KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies, which are described in note 3, the 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 notes 3(c) and 11, investment properties are stated at fair value based on the valuation performed by an independent qualified external 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 12, the fair value of derivative financial instruments that are not quoted in active markets are determined by using certain valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel. All models are calibrated to ensure that outputs reflect actual data and comparative market prices.

#### 5 REVENUE

	2018 HK\$'000	2017 HK\$'000
Gross rental from investment properties		
Rental income	365,154	365,644
Car park income	30,234	28,261
	395,388	393,905
Rental related income ( <i>note</i> )	51,426	52,337
	446,814	446,242

*Note: Rental related income, which mainly consists of management fee income and air conditioning income which are payable by the tenants, are recognised over time as income when the services and facilities are provided. The Group applied the practical expedient in HKFRS by recognising revenue in the amount to which the Group has right to invoice, since the Group billed a fixed amount for each month according to the term of the relevant lease. As permitted under HKFRS 15, the aggregate amount of the transaction price allocated to the unsatisfied contracts is not disclosed.*

For the year ended 31 December 2018

**6 PROPERTY OPERATING EXPENSES**

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Audit fee	<b>1,261</b>	1,248
Building management fees	<b>37,832</b>	37,878
Car park operating expenses	<b>8,032</b>	7,553
Government rent and rates	<b>885</b>	779
Lease commission	<b>6,158</b>	5,057
Legal cost and stamp duty	<b>1,632</b>	1,562
Marketing service fee	<b>12,367</b>	11,325
Others	<b>940</b>	1,303
Repairs and maintenance	<b>9,341</b>	8,055
Secretarial fee	<b>801</b>	595
Tax fees	<b>181</b>	181
Utilities	<b>5,380</b>	5,925
Valuation fees (paid to principal valuers)	<b>199</b>	216
	<b>85,009</b>	81,677

**7 TRUST AND OTHER EXPENSES**

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Audit fee	<b>239</b>	272
Back-office support service fee	<b>35</b>	64
Bank charges	<b>1,382</b>	1,700
Legal and professional fees	<b>802</b>	805
Public relations-related expenses	<b>203</b>	397
Registrar fee	<b>600</b>	600
Trust administrative expenses	<b>2,136</b>	2,323
Trustee's fee	<b>3,206</b>	3,115
	<b>8,603</b>	9,276

**8 FINANCE COSTS**

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Interest expense on:		
Secured term loan	—	58,546
Unsecured term loans	<b>60,739</b>	18,416
Equalisation of interest (income) expense through interest rate swaps	<b>(3,048)</b>	9,801
	<b>57,691</b>	86,763
Secured revolving loan	—	12
	<b>57,691</b>	86,775

For the year ended 31 December 2018

## 9 TAXATION

	2018 HK\$'000	2017 HK\$'000
Current tax	27,796	26,910
Over-provision in prior year	(566)	(397)
Deferred tax ( <i>note 16</i> )	10,710	13,224
	<b>37,940</b>	39,737

No provision for Hong Kong Profits Tax are required for certain subsidiaries as these subsidiaries did not have any assessable profits or have tax losses brought forward to set off their 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 profit or loss and other comprehensive income as follows:

	2018 HK\$'000	2017 HK\$'000
Income tax expense at statutory rate of 16.5%	119,711	130,047
Over-provision in prior year	(566)	(397)
Tax effect of non-taxable income	(81,290)	(99,102)
Tax effect of non-deductible expenses	4,137	4,741
Tax effect of tax loss not recognised	—	5,650
Tax effect of utilisation of tax losses previously not recognised	(2,044)	—
Tax effect of utilisation of deductible temporary differences not recognised	(2,340)	(2,325)
Others	332	1,123
Taxation for the year	<b>37,940</b>	39,737

## 10 BASIC EARNINGS PER UNIT

The basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$687,580,000 (2017: HK\$748,425,000) by the weighted average of 1,481,458,516 (2017: 1,465,575,357) 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.

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## 11 INVESTMENT PROPERTIES

	2018 HK\$'000	2017 HK\$'000
<b>FAIR VALUE</b>		
At beginning of the year	<b>10,490,000</b>	10,183,000
Additional expenditure	<b>12,118</b>	11,303
Change in fair value of investment properties	<b>487,882</b>	295,697
At end of the year	<b>10,990,000</b>	10,490,000

- (i) All of the Group's property interests in office buildings, commercial buildings, industrial/office buildings and industrial building located in Hong Kong 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.

In estimating the fair value of investment properties, it is the Group's policy to engage an independent qualified external valuer to perform the valuation. The REIT Manager works closely with the independent qualified external valuer to establish the appropriate valuation technique and inputs to the model.

On 31 December 2018 and 31 December 2017, an independent valuation on the investment properties was undertaken by Colliers International (Hong Kong) Limited. The firm is an independent qualified external valuers 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, falls under level 3 of the fair value hierarchy, was arrived at using the income approach-term and reversion method cross-checked to the market approach. Income approach-term and reversion method is based on the capitalisation of the current passing rental income and potential reversionary income over the remaining tenure of the investment properties from the date of valuation at appropriate investment yields to arrive at the capital value. The estimated net property yield is based on the monthly net rental income for December 2018 and average net monthly car parking income for the period for January 2018 to December 2018. The market approach is based on comparing the properties to be valued directly with other comparable properties which recently changed hands or leased and generally located in the surrounding areas or in another market which is comparable to the properties and with appropriate adjustments.

The adopted capitalisation rates in the valuation range from 3.6% to 4.2% (2017: 3.6% to 4.2%) for capitalisation of the current passing rental income over the existing lease term and 3.6% to 4.2% (2017: 3.6% to 4.2%) for potential future reversionary rental income. The capitalisation rates is the key parameter in the income approach-term and reversion method and they involve professional judgment in relation to the adjustments made by the independent qualified external valuer. A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa.

None of the Group's investment properties as at 31 December 2018 and 31 December 2017 was pledged to secure banking facilities granted to the Group.

For the year ended 31 December 2018

**11 INVESTMENT PROPERTIES** *(continued)*

- (ii) On 20 January 2017, the Trustee (in its capacity as trustee of Prosperity REIT) as vendor and the REIT Manager (in its capacity as manager of Prosperity REIT) entered into a share purchase agreement with an independent third party in respect of the sale of the Harbourfront Landmark Property and the disposal was completed on 3 March 2017 for a cash consideration of HK\$877,378,000 (representing to the gross consideration of HK\$885,741,000 minus the adjusted net asset value of Harbour Champ Limited of HK\$8,363,000) as at completion date of the disposal. The disposal resulted in a gain of approximately HK\$299,695,000, mainly representing fair value change of investment property as a result of such transaction.

Analysis of assets and liabilities over which control was lost:

	Upon disposal HK\$'000
Investment properties	594,000
Trade and other receivables	240
Trade and other payables	(10,141)
Deferred tax liabilities	(12,443)
Net assets disposed	571,656

Gain on disposal of a property company is determined as follows:

	HK\$'000
Consideration received	877,378
Less: Transaction cost incurred	(1,598)
Less: Divestment fee	(4,429)
Less: Net assets disposed	(571,656)
	299,695

Net cash inflow arising on disposal is as follows:

	HK\$'000
Net proceeds from disposal	871,351

During the year ended 31 December 2017, HK\$5,756,000 out of the Group's revenue and HK\$2,690,000 out of the Group's profit for the year were attributable to the subsidiary disposed.

For the year ended 31 December 2018

## 12 DERIVATIVE FINANCIAL INSTRUMENTS

	<b>2018</b> <b>HK\$'000</b>	2017 HK\$'000
Reflected on consolidated statement of financial position based on remaining contractual maturity as:		
Non-current assets	<b>21,065</b>	20,341
Current assets	<b>1,206</b>	1,528
Non-current liabilities	<b>—</b>	(1,539)
	<b>22,271</b>	20,330

The Group uses interest rate swaps 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.

### Derivatives:

Contracts with total notional amount of HK\$1,170,000,000 will mature from June 2019 to September 2022. These contracts have fixed interest payments at rates ranging from 0.455% to 1.254% per annum and have floating interest receipts at three months Hong Kong Interbank Offered Rate ("HIBOR") or at three months HIBOR minus 1.5% if HIBOR is within a pre-determined range (if applicable) with HIBOR being repriced every three months for both years presented.

During the year ended 31 December 2018, contracts with total notional amount of HK\$946,000,000 has matured. These contracts had fixed interest payments at rates ranging from 1.299% to 1.483% per annum and had floating interest receipts at three months HIBOR with HIBOR being repriced every three months.

The total change in fair value of the derivative financial instruments amounting to a gain of HK\$1,941,000 is recognised to profit or loss during the year ended 31 December 2018 (2017: a loss of HK\$18,050,000).

All derivatives are measured at fair value at the end of the 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 derivative financial instruments falls under level 2 of the fair value hierarchy and is based on valuation of the instruments provided by the counterparty banks, which are determined using interest rates implied from observable market inputs such as market interest rates yield curves and contracted interest rates discounted at a rate that reflects the credit risk of various counterparties.

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**13 TRADE AND OTHER RECEIVABLES**

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Trade receivables	<b>1,283</b>	561
Less: allowance for doubtful debts	<b>(54)</b>	(129)
	<b>1,229</b>	432
Deposit and prepayments and other receivables	<b>13,787</b>	8,235
	<b>15,016</b>	8,667

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

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Current – 1 month	<b>86</b>	178
2 – 3 months	<b>1,143</b>	254
	<b>1,229</b>	432

As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$1,283,000 which are past due as at the reporting date. Out of the past due balances, amount of HK\$54,000 has been past due 90 days or more and considered as in default. The Group does not hold any collateral over these balances. In determining the recoverability of a trade receivable, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. The exposure of credit risk is limited due to deposits received from tenants. Full allowance will be made on the balance overdue for 90 days after setting off the relevant tenant's deposits. Accordingly, the REIT Manager believes that there is no further credit allowance required.

As at 31 December 2017, included in the Group's trade receivable balance are debtors with a carrying amount of HK\$561,000 which are past due as at the end of the reporting period. The Group has provided for impairment loss in full of 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. The Group does not hold any collateral over these balances.

Movement in the allowance for doubtful debt:

	<b>2018</b>	2017
	<b>HK\$'000</b>	HK\$'000
Balance at beginning of the year	<b>129</b>	3
(Reversal of allowance) allowance for doubtful debts	<b>(75)</b>	126
Balance at the end of the year	<b>54</b>	129

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## 14 BANK BALANCES AND CASH

	2018 HK\$'000	2017 HK\$'000
Cash at bank	358,736	363,451

Cash at bank carries at the market interest rate, of which aggregate value of HK\$88,736,000 (2017: HK\$213,451,000) are placed with The Hongkong and Shanghai Banking Corporation Limited, a related company of the Trustee.

## 15 BORROWINGS

	2018 HK\$'000	2017 HK\$'000
Unsecured term loans	2,340,000	2,340,000
Bank facility origination fees	(28,064)	(36,055)
	2,311,936	2,303,945
Carrying amount repayable:		
Within a period of more than one year but not exceeding five years	2,311,936	2,303,945
	2,311,936	2,303,945

Details of the terms and conditions of the Group's facilities as at 31 December 2018 and 31 December 2017 are as follows:

- (i) HK\$1,540,000,000 unsecured term loan bears interest at floating interest rate of HIBOR+0.82% per annum and is repayable in full on 30 November 2022;
- (ii) HK\$430,000,000 unsecured revolving loan bears interest at floating rate of HIBOR+0.82% per annum and is repayable on demand;
- (iii) HK\$800,000,000 unsecured term loan bears interest at floating interest rate of HIBOR+ 1.05% per annum and is repayable in full on 31 August 2021.

Prosperity REIT has provided guarantees for all the facilities.

The bank facility origination fees consist of advisory fee and front-end fee with respect to the banking facilities and are included in measuring the borrowings at amortised cost. The bank facility origination fees are amortised over the respective loan periods and the movement is as follows:

	2018 HK\$'000	2017 HK\$'000
Balance at beginning of the year	36,055	36,692
Addition	—	25,774
Amortised during the year	(7,991)	(26,411)
Balance at the end of the year	28,064	36,055

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## 16 DEFERRED TAX LIABILITIES

For the purpose of presentation in the consolidated statement of financial position, certain deferred tax assets arising from tax losses have been offset with the liabilities. The followings are the major component of deferred tax liabilities and assets recognised and movements thereon during the year:

	<b>Accelerated tax depreciation</b>	<b>Tax losses</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000
As at 1 January 2017	184,898	(9,409)	175,489
Charge to profit or loss	11,639	1,585	13,224
Release upon disposal ( <i>note 11(ii)</i> )	(2,044)	—	(2,044)
As at 31 December 2017	194,493	(7,824)	186,669
Charge (credit) to profit or loss	11,099	(389)	10,710
As at 31 December 2018	205,592	(8,213)	197,379

At the end of the reporting period, tax loss amounting to approximately HK\$20,273,000 (31 December 2017: HK\$45,701,000) were not recognised, due to unpredictability of future profits stream.

At the end of the reporting period, tax losses of approximately HK\$56,000,000 pertaining to a property holding company acquired in previous years has yet to be agreed by the Inland Revenue Department (“**IRD**”). In the event that the IRD disallows deductions of the tax losses which were claimed in the previous years, which results in taxable profits for the respective years of assessment, any potential penalties and tax liabilities arising from the above, prior to the acquisition, will be borne by the vendor under the deed of tax covenant.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK\$24,129,000 (2017: HK\$26,108,000) in respect of the investment properties measured at fair value. The carrying amount of such properties are presumed to be recovered entirely through sale. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not expected to be reversed upon disposal of the properties.

## 17 TRADE AND OTHER PAYABLES

	<b>2018</b>	2017
	HK\$'000	HK\$'000
Trade payables	<b>3,425</b>	1,495
Tenants' deposits		
— Outside parties	<b>140,870</b>	138,356
— Related parties	<b>3,181</b>	779
Rental received in advance		
— Outside parties	<b>5,086</b>	3,589
Other payables	<b>40,379</b>	41,556
	<b>192,941</b>	185,775

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## 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:

	<b>2018</b> <b>HK\$'000</b>	2017 HK\$'000
Current – 1 month	763	473
2 – 3 months	2,049	357
Over 3 months	613	665
	<b>3,425</b>	1,495

Tenants' deposits represent the deposits refundable to tenants upon termination or cancellation of operating lease arrangements. 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\$95,343,000 (2017: HK\$83,245,000).

## 18 AMOUNTS DUE TO RELATED COMPANIES

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

## 19 UNITS IN ISSUE

	<b>Number of units</b>	<b>HK\$'000</b>
Balance as at 1 January 2017	1,453,669,230	3,091,413
Payment of manager's base fee and variable fee through issuance of new units during the year	15,726,217	51,130
Balance as at 31 December 2017	1,469,395,447	3,142,543
Payment of manager's base fee and variable fee through issuance of new units during the year	16,465,518	51,987
Balance as at 31 December 2018	1,485,860,965	3,194,530

Subsequent to the end of the reporting period, 4,318,411 units (2017: 3,741,813 units) at HK\$3.1067 (2017: HK\$3.4642) per unit were issued to the REIT Manager as partial settlement of base fee and variable fee in the last quarter of the relevant distribution year. The unitholders' fund per unit, based on the closing market price of Prosperity REIT as at 31 December 2018 was HK\$3.00 (31 December 2017: HK\$3.34).

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## 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 and the total number of 1,485,860,965 units in issue as at 31 December 2018 (1,469,395,447 units in issue as at 31 December 2017).

## 21 MAJOR NON-CASH TRANSACTION

During the year, the REIT Manager earned manager's fee of HK\$53,610,000 (2017: manager's fee of HK\$51,954,000) of which HK\$52,441,000 (2017: HK\$50,815,000) was paid or payable through the issuance of units to the REIT Manager. An amount of HK\$39,025,000 (2017: HK\$37,853,000) had been settled through the issuance of units to the REIT Manager while the balance of HK\$13,416,000 (2017: HK\$12,962,000) were paid in units subsequent to the year end.

## 22 FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

	2018 HK\$'000	2017 HK\$'000
<b>Financial assets</b>		
Trade and other receivables	1,983	—
Bank balances and cash	358,736	—
At amortised cost	360,719	—
Trade receivables	—	432
Bank balances and cash	—	363,451
Loan and receivables	—	363,883
<b>Derivative instruments</b>		
Interest rate swaps, net	22,271	20,330
<b>Financial liabilities</b>		
Trade payables	(3,425)	(1,495)
Tenants' deposit	(144,051)	(139,135)
Amounts due to related companies	(11,460)	(9,481)
Unsecured term loans	(2,311,936)	(2,303,945)
Manager's fee payable	(13,710)	(13,246)
Distribution payable	(132,636)	(127,437)
At amortised cost	(2,617,218)	(2,594,739)
Unitholders' funds	8,524,411	8,053,743

Details of the financial instruments are disclosed in respective notes.

For the year ended 31 December 2018

## 22 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 term loan (see note 15 for details of these borrowings). The Group manages its exposure to interest rate movements on its bank borrowings by swapping a majority proportion of these borrowings from floating rates to fixed rates. In order to achieve this result, the Group entered into interest rate swaps in respect of its term loans (see note 12 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 increase (decrease) as follows.

	Term loans HK\$'000	Fair value of interest rate swaps HK\$'000
<b>2018</b>		
Profit for the year	<b>(11,700)</b>	<b>10,312</b>
<b>2017</b>		
Profit for the year	(11,700)	20,855

If the interest rates have been lower by 50 basis points and all other variables were held constant, there would be an equal and opposite impact on the profit for the year.

The above sensitivity analysis has been determined based on the exposure to interest rates for variable rate term loans and derivative instruments at the end of the reporting period. For variable rate term loans, the analysis is prepared assuming the amount of liability outstanding at the end of the 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.

For the year ended 31 December 2018

**22 FINANCIAL INSTRUMENTS** *(continued)***(b) Financial risks management objectives and policies** *(continued)***(ii) Credit risk and impairment assessment**

At the end of the 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 for the rental of 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 REIT Manager has delegated the Property Manager 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.

As at 31 December 2018, other than those financial assets whose carrying amounts best represent the maximum exposure to credit risk, the Group does not hold any collateral or other credit enhancements to cover the credit risks associated with those financial assets.

Credit risk from debtors is the potential financial loss resulting from the failure of a tenant or counterparty to settle its financial and contractual obligations to the property companies, as and when they fall due. The Group has adopted a policy of obtaining deposit to mitigate the risk of financial loss from tenant's default.

Trade receivable consists of rental revenue and rental related income receivables from tenant or counterparty. The Manager monitors their balances on an ongoing basis. Credit evaluations are performed by the property manager on behalf of the Manager before lease agreements are entered into with tenants. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually. In this regard, the REIT Manager considers that the Group's credit risk is significantly reduced.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The Group measures the loss allowance on other receivables, mainly represents interest receivables from fixed deposits and liquid funds equal to 12m ECL. The credit risk on interest receivables and liquid funds are limited because interest receivables, cash and fixed deposits are placed with reputable banks with external credit rating of at least A1 assigned by an international credit-rating agency.

The credit risk on derivative financial instrument is limited because the counterparties are banks with external credit rating of at least A1 assigned by an international credit-rating agency.

Based on the ECL assessment, the credit exposures for all the financial assets (including trade and other receivables and bank balances and cash), which are subject to ECL assessment, are considered as low risk because the counterparties have a low risk of default and does not have material past-due amounts. During the year ended 31 December 2018, reversal of allowance for doubtful debt of HK\$75,000 was recognised for the Group.

For the year ended 31 December 2018

## 22 FINANCIAL INSTRUMENTS *(continued)*

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

#### (iii) Liquidity risk

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 REIT Code concerning limits on total borrowings and monitors the level of borrowing to be within the permitted limit.

As at 31 December 2018, the Group has three bank loan facilities of HK\$2,770,000,000 (2017: HK\$2,770,000,000), comprising two term loans with total of HK\$2,340,000,000 (2017: HK\$2,340,000,000) and a revolving credit facility of HK\$430,000,000 (2017: HK\$430,000,000). None (2017: nil) of the revolving credit facility was drawn as at 31 December 2018. Details of the borrowing are set out in note 15.

As at 31 December 2018 and 31 December 2017, all bank loan facilities are unsecured. Prosperity REIT has provided guarantees for these bank loan facilities and none of the Group's investment properties was pledged to secure the banking credit facilities granted to the Group.

The Group, with a cash balance of HK\$358,736,000 (2017: HK\$363,451,000) and available unutilised revolving credit facility of approximately HK\$430,000,000 (2017: HK\$430,000,000) as at 31 December 2018, has sufficient financial resources and facilities to satisfy its commitments and working capital requirements.

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 the year ended 31 December 2018

## 22 FINANCIAL INSTRUMENTS (continued)

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

## (iii) Liquidity risk (continued)

For derivative financial instruments settled on a net basis, undiscounted net cash flows 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.

	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 31/12/2018 HK\$'000
<b>2018</b>							
<b>Non-derivative</b>							
Trade payables	—	613	2,049	763	—	3,425	3,425
Tenants' deposits	—	6,889	4,166	37,653	95,343	144,051	144,051
Amounts due to related companies	—	11,460	—	—	—	11,460	11,460
Term loans	3.10%	6,169	11,741	50,768	2,520,141	2,588,819	2,311,936
Manager's fee payable	—	13,710	—	—	—	13,710	13,710
Distribution payable	—	—	—	132,636	—	132,636	132,636
Cash outflow		38,841	17,956	221,820	2,615,484	2,894,101	2,617,218
<b>Derivatives — net settlement (receipt)</b>							
Interest rate swaps		—	(2,382)	(5,250)	(18,051)	(25,683)	(22,271)
	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 31/12/2017 HK\$'000
<b>2017</b>							
<b>Non-derivative</b>							
Trade payables	—	665	357	473	—	1,495	1,495
Tenants' deposits	—	8,203	2,985	44,702	83,245	139,135	139,135
Amounts due to related companies	—	9,481	—	—	—	9,481	9,481
Term loans	1.43%	3,701	7,044	32,833	2,401,905	2,445,483	2,303,945
Manager's fee payable	—	13,246	—	—	—	13,246	13,246
Distribution payable	—	—	—	127,437	—	127,437	127,437
Cash outflow		35,296	10,386	205,445	2,485,150	2,736,277	2,594,739
<b>Derivatives — net settlement (receipt)</b>							
Interest rate swaps		—	1,153	(2,869)	(26,014)	(27,730)	(20,330)

*For the year ended 31 December 2018*

## 22 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 the discounted future cash flows using the applicable yield curve for the duration of the swap.

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.

## 23 NET CURRENT ASSETS

At the end of the reporting period, the Group's net current assets, defined as current assets less current liabilities, amounted to HK\$22,661,000 (2017: net current assets of HK\$35,555,000). 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\$11,033,726,000 (2017: HK\$10,545,896,000).

For the year ended 31 December 2018

## 25 SEGMENTAL REPORTING

During the year, Prosperity REIT invested in seven (2017: eight) office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennia Plaza, 9 Chong Yip Street, Prosperity Place, Trendy Centre, a portion of Prosperity Center and a portion of New Treasure Centre. These properties are the basis on which the REIT Manager, being the chief operating decision maker, reports Prosperity REIT's segment information for the purpose of resource allocation and performance assessment.

### Segment revenue and results

For the year ended 31 December 2018

	The Metropolis Tower HK\$'000	Prosperity Millennia Plaza HK\$'000	9 Chong Yip street HK\$'000	Prosperity Place HK\$'000	Trendy Centre HK\$'000	Prosperity Center (portion) HK\$'000	New Treasure Centre (portion) HK\$'000	Consolidated HK\$'000
Rental income	106,140	80,333	36,355	75,425	45,331	37,268	14,536	395,388
Rental related income	20,184	14,321	4,117	267	7,068	3,412	2,057	51,426
Segment revenue in Hong Kong	126,324	94,654	40,472	75,692	52,399	40,680	16,593	446,814
Segment profit	97,986	77,641	30,727	60,804	40,679	30,714	12,260	350,811
Interest income								4,790
Manager's fee								(53,610)
Trust and other expenses								(8,603)
Change in fair value of investment properties								487,882
Change in fair value of derivative financial instruments								1,941
Finance costs								(57,691)
Profit before taxation and transactions with unitholders								725,520

For the year ended 31 December 2017

	The Metropolis Tower HK\$'000	Prosperity Millennia Plaza HK\$'000	9 Chong Yip street HK\$'000	Harbourfront Landmark (portion) HK\$'000	Prosperity Place HK\$'000	Trendy Centre HK\$'000	Prosperity Center (portion) HK\$'000	New Treasure Centre (portion) HK\$'000	Consolidated HK\$'000
Segment revenue in Hong Kong	135,326	91,116	38,964	5,756	70,182	49,650	39,853	15,395	446,242
Segment profit	112,226	75,058	30,316	4,880	53,145	36,316	30,717	10,942	353,600
Interest income									5,225
Manager's fee									(51,954)
Trust and other expenses									(9,276)
Gain on disposed property company									299,695
Change in fair value of investment properties									295,697
Change in fair value of derivative financial instruments									(18,050)
Finance costs									(86,775)
Profit before taxation and transactions with unitholders									788,162

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.

For the year ended 31 December 2018

## 25 SEGMENTAL REPORTING (continued)

### Segment assets

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

	2018 HK\$'000	2017 HK\$'000
The Metropolis Tower	3,330,000	3,220,000
Prosperity Millennia Plaza	2,250,000	2,140,000
9 Chong Yip Street	1,150,000	1,100,000
Prosperity Place	1,860,000	1,760,000
Trendy Centre	1,110,000	1,050,000
Portion of Prosperity Center	930,000	880,000
Portion of New Treasure Centre	360,000	340,000
Total segment assets	10,990,000	10,490,000
Other assets	396,023	393,987
Consolidated assets	11,386,023	10,883,987

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

## 26 OPERATING LEASE ARRANGEMENTS

	2018 HK\$'000	2017 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	313,979	299,109
In the second to fifth year inclusive	254,680	201,572
Total	568,659	500,681

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.

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**27 CONNECTED AND RELATED PARTY TRANSACTIONS**

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

	Notes	2018 HK\$000	2017 HK\$000
Rent and rental related income from			
Goodwell Property Management Limited	(a)	1,897	1,799
Gama Aviation Hutchison (Hong Kong) Limited	(b)	345	—
Hutchison Telephone Company Limited	(b)	77	80
Hutchison Hain Organic (Hong Kong) Limited	(b)	790	970
Hutchison Whampoa (China) Limited	(b)	3,748	—
Carpark lease agency fee for the operations of the Group's carpark			
E-Park Parking Management Limited	(a)	3,330	3,112
Property management fee			
Goodwell-Prosperity Property Services Limited	(a)	10,994	10,965
Marketing service fee			
Goodwell-Prosperity Property Services Limited	(a)	12,367	11,325
Back-office support service fee			
CK Asset Companies	(a)	35	64
Lease commission			
Jones Lang LaSalle Limited	(c)	—	291
Colliers International (Hong Kong) Limited	(c)	168	—
Valuation Fee			
Jones Lang LaSalle Limited	(c)	—	71
Colliers International (Hong Kong) Limited	(c)	199	145
Consulting Fee			
Colliers International (Hong Kong) Limited	(c)	100	—
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited	(d)	3,206	3,115
Manager's fee			
ARA Asset Management (Prosperity) Limited	(e)	53,610	51,954
Divestment fee			
ARA Asset Management (Prosperity) Limited	(e)	—	4,429
Building manager's remuneration			
Goodwell Property Management Limited	(a)	387	213
Citybase Property Management Limited	(a)	157	307
Carpark manager's remuneration			
Goodwell Property Management Limited	(a)	29	8
Citybase Property Management Limited	(a)	57	75

For the year ended 31 December 2018

**27 CONNECTED AND RELATED PARTY TRANSACTIONS** (continued)

	Notes	2018 HK\$000	2017 HK\$000
Balances as at year end with connected and related parties are as follows:			
Amount due to			
Citybase Property Management Limited	(a)	938	941
Goodwell-Prosperity Property Services Limited	(a)	4,909	4,267
Goodwell Property Management Limited	(a)	5,052	3,738
E-Park Parking Management Limited	(a)	561	535
Deposits placed with the Group for the lease of the Group's properties			
Goodwell Property Management Limited	(a)	500	500
Gama Aviation Hutchison (Hong Kong) Limited	(b)	350	—
Hutchison Telephone Company Limited	(b)	20	20
Hutchison Hain Organic (Hong Kong) Limited	(b)	—	259
Hutchison Whampoa (China) Limited	(b)	2,311	—

## Notes:

- (a) These companies were the subsidiaries of CK Asset Holdings Limited ("CK Asset"), a significant unitholder (defined in the REIT Code as a holder of 10% or more of the outstanding units) of Prosperity REIT.
- (b) These companies were associated companies (as defined in the REIT Code) of CK Asset.
- (c) Colliers International (Hong Kong) Limited is the principal valuer of investment properties for the year ended 31 December 2018. Jones Lang LaSalle Limited was the principal valuer of investment properties up to 30 November 2017.
- (d) HSBC Institutional Trust Services (Asia) Limited is the trustee of Prosperity REIT.
- (e) ARA Asset Management (Prosperity) Limited is the management company of Prosperity REIT.

Under the REIT Code, 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 CK Asset group technically constitutes a contract between the Group and CK Asset group. Remuneration to the building managers, wholly-owned subsidiaries of CK Asset, for the building management services provided constitutes a connected party 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\$630,000 (2017: HK\$650,000).

For the year ended 31 December 2018

**28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES**

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	<b>Term loans and secured revolving loan</b> <i>(Note 15)</i> HK\$'000	<b>Distribution payable</b> HK\$'000	<b>Total</b> HK\$'000
At 1 January 2017	2,853,308	126,990	2,980,298
Financing cash flows	(636,138)	(261,086)	(897,224)
Finance costs	86,775	—	86,775
Distribution to unitholders	—	261,533	261,533
At 1 January 2018	<b>2,303,945</b>	<b>127,437</b>	<b>2,431,382</b>
Financing cash flows	<b>(49,700)</b>	<b>(263,700)</b>	<b>(313,400)</b>
Finance costs	<b>57,691</b>	—	<b>57,691</b>
Distribution to unitholders	—	<b>268,899</b>	<b>268,899</b>
At 31 December 2018	<b>2,311,936</b>	<b>132,636</b>	<b>2,444,572</b>

# LIST OF SUBSIDIARIES

Name of company	Place of incorporation	Effective equity interest held by Prosperity REIT				Share capital	Principal activities in Hong Kong
		As at 31 December 2018		As at 31 December 2017			
		Directly %	Indirectly %	Directly %	Indirectly %		
Bandick Limited	Hong Kong	100	—	100	—	HK\$2	Property investment
Clifton Properties Limited	Hong Kong	—	100	—	100	HK\$10,000	Property investment
Conestoga Limited	Hong Kong	—	100	—	100	HK\$10,000	Property investment
Haskins Investments Limited	Hong Kong	100	—	100	—	HK\$2	Property investment
Jade Arch Investment Limited	British Virgin Islands	100	—	100	—	HK\$15,053	Investment holding
Prodes Company Limited	Hong Kong	—	100	—	100	HK\$10	Property owner
Progain Group Limited	British Virgin Islands	100	—	100	—	US\$1	Financing
Top Easy Profits Limited	British Virgin Islands	100	—	100	—	US\$1	Property investment
Unicenter Limited	British Virgin Islands	100	—	100	—	US\$1	Investment holding
Unique Champ Investments Limited	British Virgin Islands	100	—	100	—	US\$1	Investment holding
Vital Vision Enterprises Limited	British Virgin Islands	100	—	100	—	US\$1	Financing
Winrise Champion Limited	British Virgin Islands	—	100	—	100	US\$1	Property investment
Wisdom Champion Limited	British Virgin Islands	100	—	100	—	US\$1	Property investment
Wisdom Champion (12) Limited	British Virgin Islands	100	—	100	—	US\$1	Property investment
Wisdom Champion (15) Limited	British Virgin Islands	100	—	100	—	US\$1	Property investment
Wisdom Champion (16) Limited	British Virgin Islands	100	—	100	—	US\$1	Property investment
Wisdom Champion (17) Limited	British Virgin Islands	100	—	100	—	US\$1	Property investment
Wisdom Champion (18) Limited	British Virgin Islands	100	—	100	—	US\$1	Property investment
Wisdom Champion (19) Limited	British Virgin Islands	100	—	100	—	US\$1	Property investment
Wisdom Champion (20) Limited	British Virgin Islands	100	—	100	—	US\$1	Property investment
Wisdom Champion (21) Limited	British Virgin Islands	100	—	100	—	US\$1	Property investment
Wisdom Champion (22) Limited	British Virgin Islands	100	—	100	—	US\$1	Property investment
Wisdom Champion (23) Limited	British Virgin Islands	100	—	100	—	US\$1	Property investment
Wisdom Champion (25) Limited	British Virgin Islands	100	—	100	—	US\$1	Property investment
Wisdom Champion (26) Limited	British Virgin Islands	100	—	100	—	US\$1	Property investment
Wisdom Champion (27) Limited	British Virgin Islands	100	—	100	—	US\$1	Property investment
Wisdom Champion (28) Limited	British Virgin Islands	100	—	100	—	US\$1	Property investment
Diamond Champ Enterprises Limited	British Virgin Islands	100	—	100	—	US\$1	Dormant

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

# PERFORMANCE TABLE

## Results Analysis for the year ended 31 December

	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Gross rental from investment properties	395,388	393,905	396,468	382,691	350,240
Net property income	350,811	353,600	357,847	345,479	312,056
Profit for the year, before transactions with unitholders	687,580	748,425	565,244	692,591	466,493
Distribution to unitholders	268,899	261,533	258,362	254,083	231,364
Earnings per unit (HK\$)	0.46	0.51	0.39	0.48	0.33
Distribution per unit (HK\$)	0.1810	0.1780	0.1777	0.1768	0.1630

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

	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Investment properties	10,990,000	10,490,000	10,777,000 <sup>(3)</sup>	10,419,000	9,890,000
Borrowings, excluding bank facility origination fees	(2,340,000)	(2,340,000)	(2,890,000)	(2,854,000)	(2,854,000)
Net asset value	8,524,411	8,053,743	7,515,721	7,155,735	6,668,686
Net asset value per unit (HK\$) <sup>(1)</sup>	5.74	5.48	5.17	4.98	4.70
<b>Other Information</b>					
The highest traded price during the year (HK\$)	3.50	3.46	3.61	3.05	2.74
The highest discount of the traded price to net asset value	(39.0%)	(36.9%)	(30.2%)	(38.8%)	(41.7%)
The lowest traded price during the year (HK\$)	2.76	3.06	2.61	2.59	2.18
The lowest discount of the traded price to net asset value	(51.9%)	(44.2%)	(49.5%)	(48.0%)	(53.6%)
The net yield per unit based on market price at the end of year	6.0% <sup>(2)</sup>	5.3%	5.8%	6.3%	6.2%

<sup>1</sup> The net asset value per unit is calculated based on the net assets attributable to unitholders and the total number of units in issue as at year ended dates.

<sup>2</sup> Based on the distribution per unit of HK\$0.1810 for the year ended 31 December 2018 and the closing market price of HK\$3.00 as at 31 December 2018.

<sup>3</sup> This includes Harbourfront Landmark Property of HK\$594,000,000, which was transferred to assets of a disposal group classified as held for sale in 2016. Harbourfront Landmark Property was disposed on 3 March 2017.

# INVESTMENT PROPERTIES PORTFOLIO

As at 31 December 2018

Property	Type	Lease term	Lease expiry date	Location	Valuation 2018 HK\$ Million
The Metropolis Tower	O	Medium-term lease	30 June 2047	10 Metropolis Drive Hung Hom Kowloon Hong Kong	3,330
Prosperity Millennia Plaza	O	Medium-term lease	30 June 2047	663 King's Road North Point Hong Kong	2,250
9 Chong Yip Street	O	Medium-term lease	30 June 2047	9 Chong Yip Street Kwun Tong Kowloon Hong Kong	1,150
Prosperity Place	C	Medium-term lease	30 June 2047	6 Shing Yip Street Kwun Tong Kowloon Hong Kong	1,860
Trendy Centre	I/O	Medium-term lease	30 June 2047	682 Castle Peak Road Lai Chi Kok Kowloon Hong Kong	1,110
Prosperity Center (portion)	I/O	Medium-term lease	30 June 2047	25 Chong Yip Street Kwun Tong Kowloon Hong Kong	930
New Treasure Centre (portion)	I	Medium-term lease	30 June 2047	10 Ng Fong Street San Po Kong Kowloon Hong Kong	360
<b>Total</b>					<b>10,990</b>

Note: Type of properties: O — Office, C — Commercial, I/O — Industrial/Office, I — Industrial

## SUMMARY FINANCIAL INFORMATION

Following is a summary of the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position of Prosperity REIT for the past financial years prepared on a basis as consistent to the financial year ended 31 December 2018:

### CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	<b>Year ended 31 December 2018 HK\$'000</b>	Year ended 31 December 2017 HK\$'000	Year ended 31 December 2016 HK\$'000	Year ended 31 December 2015 HK\$'000	Year ended 31 December 2014 HK\$'000
Revenue	<b>446,814</b>	446,242	452,926	438,723	403,413
Profit before taxation and transactions with unitholders	<b>725,520</b>	788,162	603,101	728,766	498,117
Taxation	<b>(37,940)</b>	(39,737)	(37,857)	(36,175)	(31,624)
Profit for the years, before transactions with unitholders	<b>687,580</b>	748,425	565,244	692,591	466,493
Distribution to unitholders	<b>268,899</b>	261,533	258,362	254,083	231,364
Distribution per unit (HK\$)	<b>0.1810</b>	0.1780	0.1777	0.1768	0.1630

### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<b>2018 HK\$'000</b>	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Non-current assets	<b>11,011,065</b>	10,510,341	10,221,436	10,419,000	9,890,000
Current assets	<b>374,958</b>	373,646	707,336	73,714	75,200
Current liabilities	<b>352,297</b>	338,091	404,198	344,074	338,001
Net assets attributable to unitholders	<b>8,524,411</b>	8,053,743	7,515,721	7,155,735	6,668,686

# 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  
Sumitomo Mitsui Banking Corporation  
The Hongkong and Shanghai Banking Corporation Limited

## LEGAL ADVISER

Baker & McKenzie

## REGISTERED OFFICE

Unit 901, Level 9, Fortune Metropolis  
6 The Metropolis Drive, Hunghom, Kowloon  
Hong Kong  
(effective from 9 April 2019)

## UNIT REGISTRAR AND TRANSFER OFFICE

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

## STOCK CODE

The Stock Exchange of Hong Kong Limited: 808

## INVESTOR RELATIONS

Tel: +852 2169 0928  
Fax: +852 2169 0968  
Email: [prosperityenquiry@ara-group.com](mailto:prosperityenquiry@ara-group.com)

## WEBSITE

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

## KEY DATES

Annual Results Announcement	22 March 2019
Closure of Register of Unitholders for Final Distribution	9 April to 10 April 2019 (both days inclusive)
Payment of Final Distribution	18 April 2019
Closure of Register of Unitholders for Annual General Meeting	14 May to 17 May 2019 (both days inclusive)
Annual General Meeting	17 May 2019



This annual report 2018 ("**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](mailto: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](http://www.prosperityreit.com) and the website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://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](mailto:prosperityreit.ecom@computershare.com.hk).



Stock Code: 808



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

Manager



ARA Asset Management (Prosperity) Limited

Prosperity REIT is managed by

ARA Asset Management (Prosperity) Limited

