

## Corporate Governance

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

### Authorisation Structure

Prosperity REIT is a collective investment scheme authorised by the Securities and Futures Commission (**"SFC"**) under section 104 of the Securities and Futures Ordinance (Cap. 571) (**"SFO"**) and regulated by the provisions of the REIT Code. The Manager has been authorised by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. Mr. Lin Chung Sing, Charlie, the Chief Executive Officer and Executive Director, and Ms. Soon Yan Seen, an Executive Director, are the responsible officers of the Manager pursuant to the requirements of section 125 of the SFO and Chapter 5.4 of the REIT Code.

HSBC Institutional Trust Services (Asia) Limited (the **"Trustee"**) is registered as a trust company under section 77 of the Trustee Ordinance. The Trustee is qualified to act as a trustee for collective investment schemes authorised under the SFO pursuant to the REIT Code.

### Roles of the Trustee and Manager

The Trustee and the Manager are independent of each other. The Trustee is responsible under the trust deed dated 29 November 2005 (as amended by a first supplemental trust deed dated 12 December 2005) between the Trustee and the Manager (collectively, the **"Trust Deed"**) for the safe custody of the assets of Prosperity REIT on behalf of unitholders.

The 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 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 Prosperity REIT's assets are professionally managed in the sole interests of the unitholders. Other main roles and functions and responsibilities of the Manager include the following:

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

### Board of Directors of the Manager

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

The Board principally oversees the day-to-day management of the Manager's affairs and the conduct of its business. The Board exercises its general powers within the limits defined by the articles of association of the Manager, with a view to ensuring that 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 Manager. Subject to the matters specifically reserved to the Board, 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 20 Directors. Pursuant to the corporate governance policy adopted by the Manager, Independent Non-executive Directors must fulfill the independence criteria set out in the Compliance Manual.

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

- the Chairman of the Board must be a Non-executive Director of the Manager;
- the Chief Executive Officer must be a member of the Board;

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- the Board must comprise Directors with a broad range of commercial experience including expertise in funds management and the property industry.

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

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

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

The Manager has received written annual confirmation from each Independent Non-executive Director of his/her independence pursuant to the "Criteria for Independence of INEDs" as set out in the Compliance Manual.

A full Board meeting of the Manager was held on 16 March 2006 for approving the 2005 final results of Prosperity REIT and the attendance rate was 100%.

### Audit Committee

The Manager has established an audit committee (the "**Audit Committee**") according to accepted practices for Hong Kong listed companies. The Audit Committee comprises three Independent Non-executive Directors, namely, Mr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (Phoon Sui Moy alias Poon Sow Mei), and Mr. Robert Douglas Pope, and Mr. Lan Hong Tsung, David is the chairman of the Audit Committee. The Audit Committee shall meet on a half yearly basis.

The Audit Committee has held a meeting on 16 March 2006 for considering and reviewing the 2005 final results of Prosperity REIT and other internal controls, risk management and compliance matters of Prosperity REIT. The attendance rate of that meeting was 100%.

The Audit Committee is responsible to the Board for ensuring the quality and integrity of internal control and the management of risks and financial statements, appointment and performance of internal and independent external auditors, and the existence and working of an effective system of internal control and risk management, in respect of both the Manager and Prosperity REIT.

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 applicable legislation, the REIT Code and the Listing Rules;
- (3) reviewing all financial statements and all internal audit reports;
- (4) monitoring the procedures established to regulate connected party transactions, including ensuring compliance with the provisions of the REIT Code relating to transactions between Prosperity REIT and a "connected person" (as defined in the REIT Code); and
- (5) making recommendations to the Board on persons for appointment and reappointment as Directors to, and persons for removal as Directors from, the full Board.

### Disclosures Committee

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

The Disclosures Committee is appointed by the Board from among the Directors of the Manager. The Disclosures Committee presently consists of three members, namely, Mr. Chiu Kwok Hung, Justin, Chairman and Non-executive Director, Mr. Lin Chung Sing, Charlie, Chief Executive Officer and an Executive Director, and Mr. Lan Hong Tsung, David, an Independent Non-executive Director, and the chairman of the Disclosures Committee is Mr. Lin Chung Sing, Charlie. The Disclosures Committee shall meet on a half yearly basis and otherwise on an as-needed basis.

The Disclosures Committee has held a meeting on 16 March 2006 for considering and reviewing the 2005 final results of Prosperity REIT and other corporate disclosure issues of Prosperity REIT. The attendance rate of that meeting was 100%.

The Disclosures Committee's responsibilities also include:

- (1) reviewing and recommending to the Board on matters of corporate disclosure issues and announcements, financial reporting, connected party transactions, and potential areas of conflict of interests;
- (2) overseeing compliance with 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 applicable regulatory agencies;

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- (3) reviewing and approving all material non-public information and all public regulatory filings of or on behalf of Prosperity REIT prior to such information being disseminated to the public or filed with applicable regulatory agencies, as applicable; and
- (4) reviewing periodic and current reports, proxy statements, information statements, registration statements and other information filed with regulatory bodies.

### Management of Business Risk

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

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

### Conflicts of Interest

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

- (1) The Manager is a dedicated manager to Prosperity REIT and will not manage any other real estate investment trust or be involved in any other real property business.
- (2) All Executive Officers are employed by and/or seconded on a full time basis to the Manager.
- (3) All connected party transactions have been managed in accordance with the procedures set out in the Compliance Manual.

### General Meetings

Prosperity REIT will in each year hold a general meeting as its annual general meeting in addition to any other meetings in that year. The Trustee or the Manager may at any time convene a meeting of unitholders. The Manager will also convene a meeting if requested in writing by not less than two unitholders registered as together holding not less than 10% of the issued and outstanding units. At least 14 days' notice of the meeting will be given to the unitholders, except that 21 days' notice will be given to the unitholders where a

special resolution is proposed for consideration at such meeting, and the notice will specify the time and place of the meeting and the resolutions to be proposed.

Two or more unitholders present in person or by proxy registered as holding not less than 10% of the units for the time being in issue will form a quorum for the transaction of all business, except for the purpose of passing a special resolution. The quorum for passing a special resolution will be two or more unitholders present in person or by proxy registered as holding not less than 25% of the units in issue.

### Reporting and Transparency

Prosperity REIT will prepare its accounts in accordance with Hong Kong generally accepted accounting principles 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 accounts for Prosperity REIT for the Reporting Period have been published and sent to unitholders no later than four months following the financial year-end and the interim results for the period ending 30 June 2006 will be sent no later than 31 August 2006.

As required by the REIT Code, the 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 in at least one leading Hong Kong English language and one Chinese language daily newspaper.

### 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 Manager and Interests of the Significant Unitholders

The Manager has adopted a code governing dealings in the securities of Prosperity REIT by the Directors or the Manager (collectively, the "Management Persons") (the "Units Dealing Code"). The Units Dealing Code may be extended to apply to any senior executives, officers or other employees of the Manager or the special purpose vehicles as the Board may determine.

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

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

Similarly, where the Manager is in possession of any unpublished price-sensitive information, it must refrain from dealing in the unit as soon as it becomes aware of them or privy to them until proper disclosure of the information in accordance with the REIT Code and any applicable Listing Rules is made.

During the period commencing one month immediately preceding the earlier of the date of the Board meeting for the approval of Prosperity REIT's results for any period as required under the REIT Code and the deadline for Prosperity REIT to publish an announcement of its results for any period as required under the REIT Code, and ending on the date of the results announcement, a Director or the Manager must not deal in any units of Prosperity REIT unless the circumstances are exceptional for example, the exceptional circumstances as described in Appendix 10 Rule C14 of the Listing Rules. In any event, in the case of dealings by a Director or the Manager, the Directors or the Manager must comply with the procedures set out in the Units Dealing Code.

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

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

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 Stock Exchange, the Trustee and the Manager of their holdings in Prosperity REIT. The Manager is keeping a register for these purposes and it has recorded in the register, against a person's name, the particulars provided pursuant to the notification and the date of entry of such record. The said register is available for inspection by the Trustee and any unitholder at any time during business hours upon reasonable notice to the 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 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 Manager's management fees; (iv) any increase in the rate above the permitted limit or change in structure of the Trustee's fees; (v) certain modifications of the Trust Deed; (vi) termination of Prosperity REIT; and (vii) merger of Prosperity REIT. The unitholders may also, by way of special resolution (i) remove Prosperity REIT's auditors and appoint other auditors or (ii) remove the Trustee or the Manager. As stated above, the quorum for passing a special resolution is two or more unitholders present in person or by proxy registered as holding not less than 25% of the units in issue.

During the Reporting Period, both the Manager and Prosperity REIT had complied with the provisions of the Compliance Manual.

### Public Float of the Units

As far as the Manager is aware, more than 25% of the units is held in public hands as of 31 December 2005.