



# Strong Foundations

*Annual Report 2011*

Stock Code: 808



## About Prosperity REIT

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

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



The magnificent feather structure, symbolizes the continued growth of the Prosperity REIT built on a solid foundation. The shining and uniformity of the feathers, brings out the REIT Manager's meticulous management efforts on the high-quality properties under Prosperity REIT's portfolio. The demonstration of the colorful and iridescent combination of peacock tail feathers, signifies the prosperous results brought by Prosperity REIT to its unitholders.

## About The REIT Manager

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

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

## Our Mission

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

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The total distribution of HK\$0.1202 per unit for the Reporting Year represents a distribution yield of 8.0% per unit.



# 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 2011 (the "**Reporting Year**").

## Results and Distribution

Prosperity REIT delivered solid results in 2011. Revenue and income available for distribution grew by 2.0% and 10.6% respectively year-on-year ("**YoY**"). Correspondingly, total distribution per unit ("**DPU**") to unitholders increased by 9.2%. These outstanding achievements were attributable to the management's astute policies which led to a significant reduction in finance costs and a strong rental reversion rate.

During the Reporting Year, as a result of our strong business fundamentals, the value of Prosperity REIT's assets reached a record high after a YoY increase of approximately 17.8%. Net asset value per unit also surged to HK\$3.29.

I am therefore pleased to announce that our unitholders will receive a total distribution of HK\$0.1202 per unit for the Reporting Year. This represents a distribution yield of 8.0%<sup>1</sup> per unit.

## Market Review

The world economy faced a panoply of challenges in 2011. Headwinds that buffeted the global economy became considerably stronger in the second half of the year when Greece's sovereign debt crisis prompted concerns over the solvency of other European Union governments. Across the Atlantic, the United States had its credit rating downgraded; economic data in the United States and China are also showing signs of slowing down.

Despite the uncertain external market conditions, our property portfolio's strong business fundamentals enabled us to achieve satisfactory results for this Reporting Year. We continued to benefit from the strength of China's foreign trade. Large percentages of our tenants are companies focusing on Asian markets, and they have remained relatively resilient amid the volatile market.

Prosperity REIT is benefiting from the strategic locations of our properties. The Hong Kong SAR Government announced its plan to redevelop the area around the former Kai Tak Airport in Kowloon East into a core business and commercial district. We are well positioned to leverage the anticipated increase in property prices and rental incomes in the district.

<sup>1</sup> Based on Prosperity REIT's closing unit price of HK\$1.50 as at 30 December 2011.

## Operations Review

Prosperity REIT achieved satisfactory operating results for the Reporting Year. Total revenue amounted to HK\$275.6 million, a YoY increase of 2.0%.

As at 31 December 2011, Prosperity REIT's portfolio occupancy rate remained stable at 98.8%, while the average effective unit rent of the portfolio increased considerably from HK\$14.67 per sq.ft. to HK\$15.05 per sq.ft..

Our management's proactive leasing approach and effective tenant recruitment strategies enabled us to increase our tenant retention rate from 64.5% in 2010 to 66.9% during the Reporting Year.

Prosperity REIT continued to benefit from stable financing costs achieved by the term loan and revolving credit facility agreements that it entered into in 2010 when interest rates were relatively low. Our management's unwavering commitment to the unitholders has paid off with a healthy cost-to-revenue ratio and a gearing ratio of 23.3% and 25.6% respectively.



## Prospects

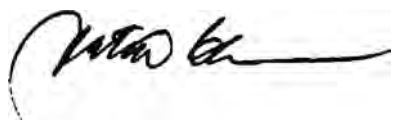
Looking ahead, we expect the Hong Kong and global economy to continue to experience the fallout from market uncertainty. However, Asia's stable fundamentals are likely to cushion this economic pressure to a certain extent.

Prosperity REIT is managed by a team of experienced asset management professionals of high calibre and, since its listing in 2005, has a long-term track record of delivering a stable distribution to our unitholders. We are cautiously optimistic that we will continue to deliver positive results in 2012.

We will not allow ourselves to become complacent. To generate greater value for both our tenants and our unitholders, we will continue to maintain a prudent approach in all our operations, while pushing ahead with our ongoing property enhancement programmes.

## Acknowledgement

Finally, I would like to thank everyone who has contributed to another year of solid results for Prosperity REIT. In particular, I would like to acknowledge my fellow board members, our management team, staff, service providers and business partners for their invaluable contributions. Last but not least, I would like to express my appreciation to you, our unitholders, for your support and confidence in Prosperity REIT.



**Chiu Kwok Hung, Justin**

*Chairman*

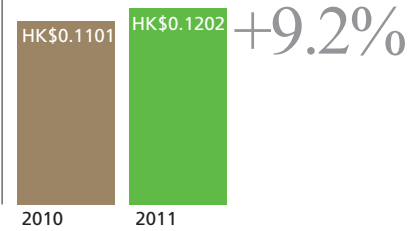
**ARA Asset Management (Prosperity) Limited**

as manager of Prosperity REIT

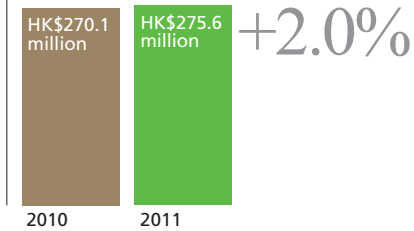
Hong Kong, 20 March 2012

# Performance Highlights in 2011

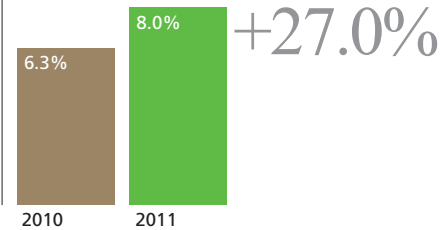
**Distribution Per Unit<sup>2</sup>**



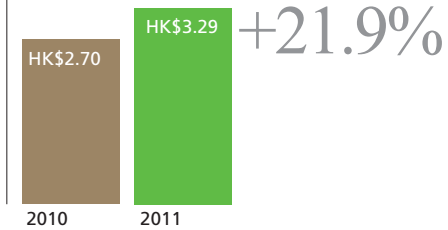
**Revenue<sup>1</sup>**



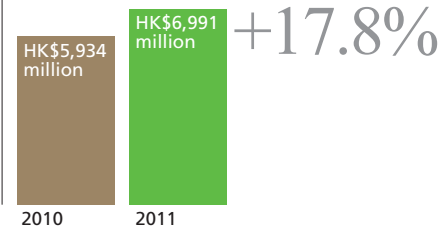
**Distribution Yield<sup>4</sup>**



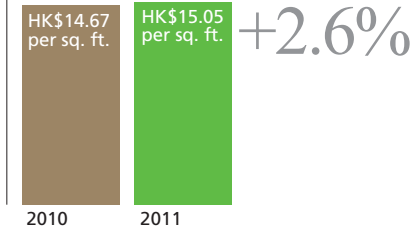
**Net Asset Value Per Unit<sup>3</sup>**



**Property Valuation<sup>3</sup>**



**Average Effective Unit Rent<sup>2</sup>**



Notes: <sup>1</sup> Year on year comparison

<sup>2</sup> For year ended 31 December

<sup>3</sup> As at 31 December

<sup>4</sup> Based on Prosperity REIT's closing unit prices of HK\$1.50 and HK\$1.76 as at 30 December 2011 and 31 December 2010 respectively.



# Trust Review

## Diversified Property Portfolio

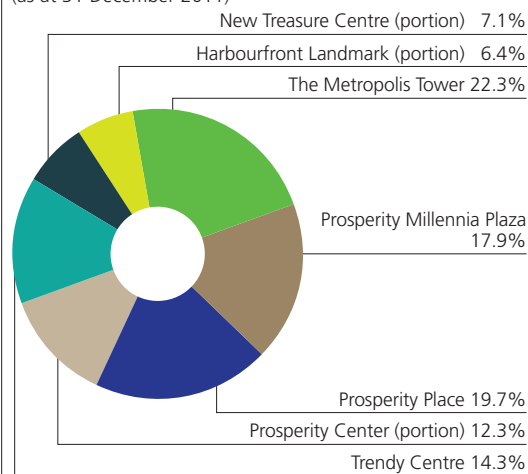
Prosperity REIT has a diversified portfolio comprising seven high-quality commercial properties in the decentralized business districts of Hong Kong. The portfolio comprises all, or a portion of, three Grade A office buildings, three industrial/office buildings and one industrial building, with total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

These seven properties were completed during the period from 1995 to 2001. As at 31 December 2011, the appraised value of the portfolio was HK\$6,991 million. Grade A office buildings, industrial/office buildings and industrial building account for 62.7%, 34.0% and 3.3% of the total appraised value respectively.

|                                 | Valuation<br>HK\$ million<br>as at<br>31 Dec 2011 | Valuation<br>HK\$ million<br>as at<br>31 Dec 2010 | Percentage<br>change<br>Increase/<br>(Decrease) |
|---------------------------------|---|---|---|
| <b>Grade A Office</b>           |   |   |   |
| The Metropolis Tower            | 2,508   | 2,225   | 12.7%   |
| Prosperity Millennia Plaza      | 1,480   | 1,276   | 16.0%   |
| Harbourfront Landmark (portion) | 397   | 344   | 15.4%   |
| <b>Industrial/Office</b>        |   |   |   |
| Prosperity Place                | 1,006   | 767   | 31.2%   |
| Trendy Centre                   | 732   | 623   | 17.5%   |
| Prosperity Center (portion)     | 636   | 504   | 26.2%   |
| <b>Industrial</b>               |   |   |   |
| New Treasure Centre (portion)   | 232   | 195   | 19.0%   |
| <b>Total</b>                    | <b>6,991</b>                                      | <b>5,934</b>                                      | <b>17.8%</b>                                    |

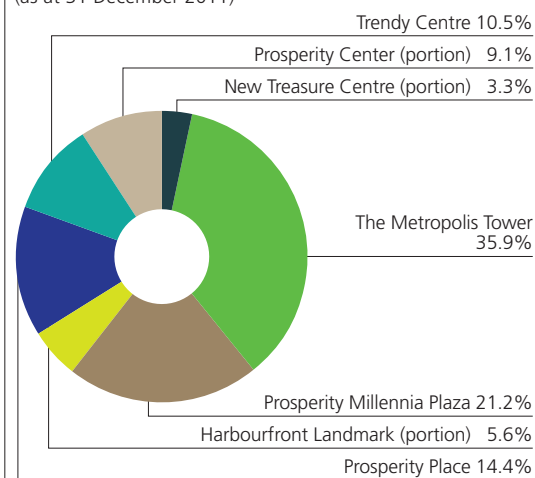
### Gross Rentable Area by Property

(as at 31 December 2011)



### Appraised Value by Property

(as at 31 December 2011)



## Effective Lease Management

As a result of proactive tenant recruitment efforts by the REIT Manager, the portfolio's occupancy rate maintained at a satisfactory level of 98.8% as at 31 December 2011. The portfolio's average effective unit rent increased by 2.6% YoY to HK\$15.05 per sq.ft., with the rental reversion rate at 14.8% for the leases successfully renewed in 2011.

As at 31 December 2011, leases to be expired in 2012 accounted for 49.6% of the portfolio's gross rental income and 50.3% of its gross rentable area. Proactive leasing strategies will be continued in 2012 to deliver stable distribution to unitholders.



## Lease Expiry Profile by Gross Rental Income (as at 31 December 2011)

|                                 | 31 Dec 2011<br>& 2012 | 2013  | 2014 and<br>Beyond |
|---------------------------------|-----------------------|-------|--------------------|
| The Metropolis Tower            | 63.5%                 | 25.3% | 11.2%              |
| Prosperity Millennia Plaza      | 50.4%                 | 31.9% | 17.7%              |
| Harbourfront Landmark (portion) | 0.0%                  | 0.0%  | 100.0%             |
| Prosperity Place                | 53.4%                 | 32.3% | 14.3%              |
| Trendy Centre                   | 38.4%                 | 43.7% | 17.9%              |
| Prosperity Center (portion)     | 46.2%                 | 43.5% | 10.3%              |
| New Treasure Centre (portion)   | 55.5%                 | 35.9% | 8.6%               |
| Portfolio                       | 49.6%                 | 30.1% | 20.3%              |

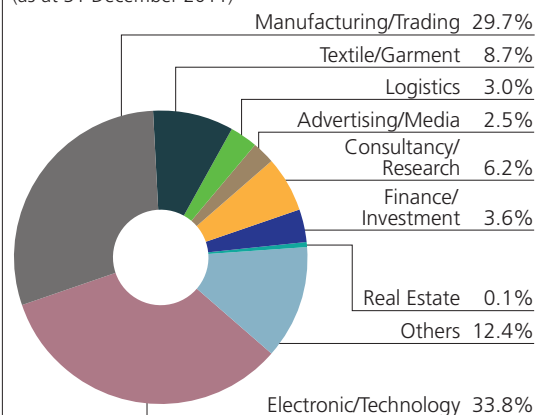
## Well-balanced Tenant Mix

As at 31 December 2011, Prosperity REIT had a total of 550 tenants. The tenant base included a number of enterprises that have been benefited from Hong Kong's resilient economy, as well as those with close trading ties with Mainland China. Most of these tenants were from business sectors such as electronics, technology, manufacturing, trading, as well as textiles and garments.

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

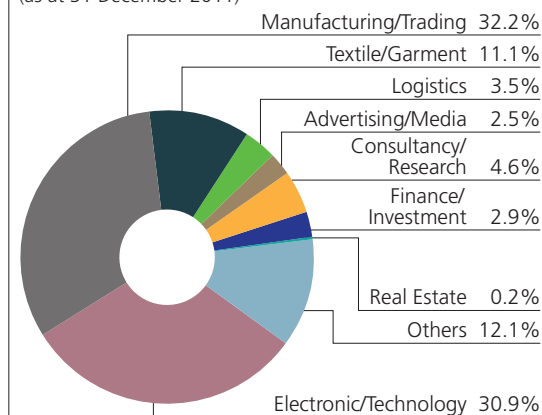
### Trade Mix by Gross Rental Income

(as at 31 December 2011)



### Trade Mix by Gross Rentable Area

(as at 31 December 2011)



| Size of tenant premises on gross rentable area (as at 31 December 2011) | Percentage |
|---|------------|
| Above 10,000 sq.ft.   | 21.6%      |
| 5,001 sq.ft.–10,000 sq.ft.  | 12.5%      |
| 2,001 sq.ft.–5,000 sq.ft.   | 26.6%      |
| 1,001 sq.ft.–2,000 sq.ft.   | 25.5%      |
| 1,000 sq.ft. and below  | 13.8%      |
| Total   | 100.0%     |

## Close-to-Zero Rent Delinquency Rate

During 2011, Prosperity REIT maintained a close-to-zero rent delinquency rate. This was attributed to its financially strong tenant base and effective lease management mechanism, which were supplemented by initiatives to phase out tenants with unfavourable track records.

## Asset Enhancement

It is an established strategy of the REIT Manager to provide premium rentable space in order to achieve sustainable rental growth. To this end, large-scale asset enhancement initiatives have been planned and executed on a continuous basis. This approach is demonstrated by the extensive improvements at Prosperity Place, Trendy Centre, Prosperity Center and Prosperity Millennia Plaza in 2011. Asset enhancement initiatives will continue in 2012 across the entire portfolio, with prudently planned payback periods.

## Outlook

Since its listing on 16 December 2005 (the “**Listing Date**”), Prosperity REIT has met challenges posed by various economic uncertainties, and has achieved favourable results by managing its portfolio with professionalism. Supported by Goodwell-Prosperity Property Services Limited, which provides leasing and management services for properties under Prosperity REIT’s portfolio, the REIT Manager will continue to work towards generating stable returns to the unitholders in 2012 through our proven expertise in professional management.





1 The Metropolis Tower



2 Prosperity Millennia Plaza



3 Harbourfront Landmark Property (portion)



4 Prosperity Place



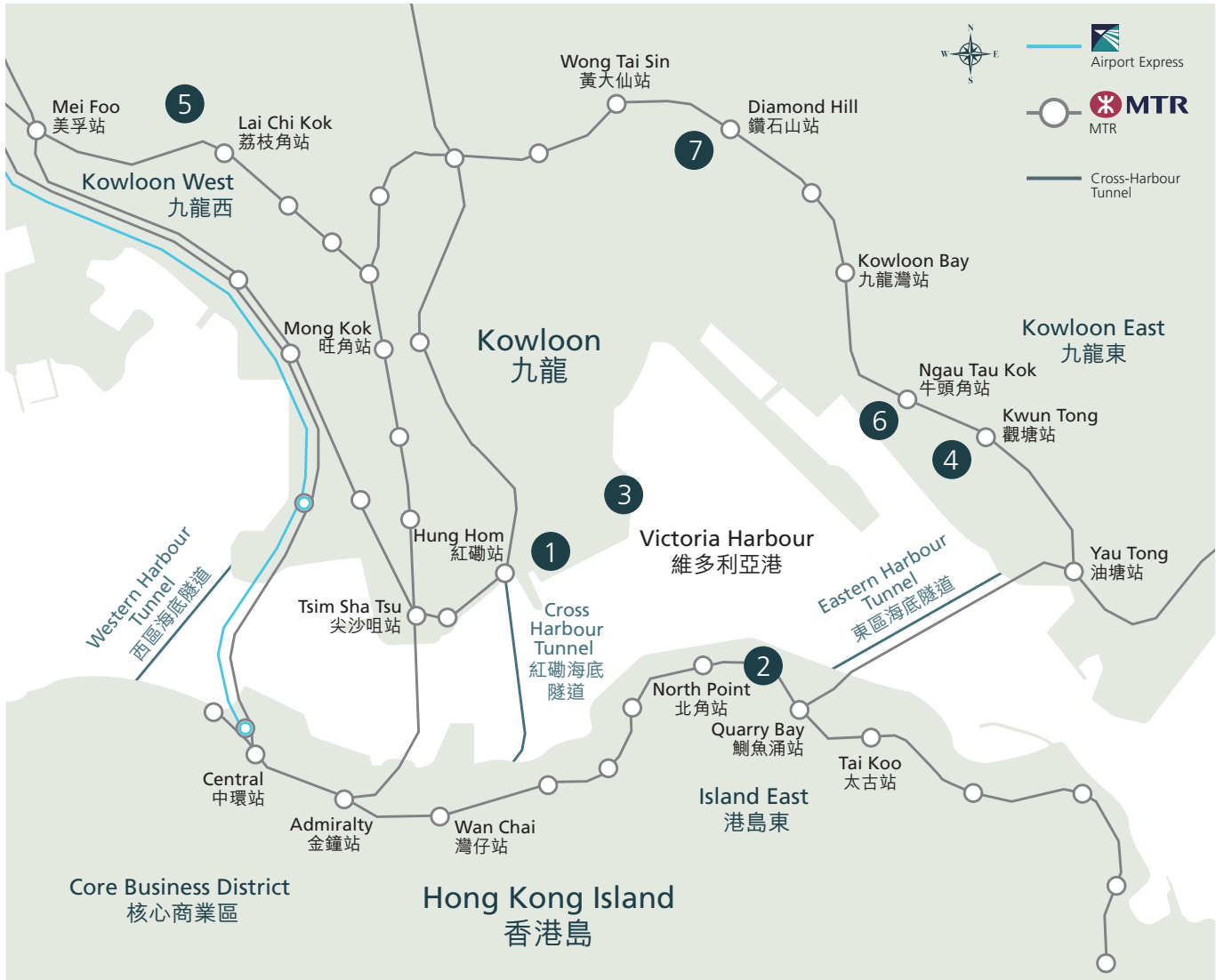
5 Trendy Centre



6 Prosperity Center Property (portion)



7 New Treasure Centre Property (portion)



## Prosperity Millennia Plaza



The renovation upgrades to the common washrooms are well received by the tenants. The upgrade of these facilities has boosted the image of the building.



**BEFORE**



**BEFORE**

The common corridor has also been renovated to improve the working environment and facilities for the tenants and to attract more new quality tenants.

## Prosperity Place



The renovation of passenger lift cars and upgrading of lift controller systems had been carried out to align with commercial building standards, and provide efficient and comfortable lift service to our tenants/visitors.



**BEFORE**



## Prosperity Center Property



The ground floor lobby has been renovated for upgrading the image of the building into a modern commercial property within the Kowloon East district. It is also the enhancement work for ingratiating the decentralization trend of the Kowloon East area.



**BEFORE**



**BEFORE**

The typical floor lift lobbies have also been renovated to upgrade the image to a modern business space, in order to attract more new quality tenants.

## Trendy Centre



The lower portion of the façade has been renovated to uplift its modern business image, which helps the building to retain its preeminent status in the neighbourhood and maintain the competitiveness within the district.



**BEFORE**



**BEFORE**

The ground floor lobby has been renovated with a modern commercial building style. All the lighting system has been changed to LED lighting which would further promote the green environment and decrease the utility cost of the property.

# Prosperity REIT Portfolio

## THE METROPOLIS TOWER



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

| Tenants                              | Trade                 | GRA* (sq.ft.) | % of GRI** | % of GRA |
|--------------------------------------|-----------------------|---------------|------------|----------|
| Canon Hongkong Company Limited       | Electronic/Technology | 50,647        | 21.0%      | 18.9%    |
| The Hong Kong Polytechnic University | Others                | 21,298        | 9.4%       | 8.0%     |
| NEC Hong Kong Limited                | Electronic/Technology | 18,161        | 7.3%       | 6.8%     |
| Triace Limited                       | Manufacturing/Trading | 9,200         | 4.0%       | 3.4%     |
| Presidio Production Limited          | Electronic/Technology | 11,319        | 3.4%       | 4.2%     |

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

Note 1: Top 5 tenants are measured based on tenant's contribution to the total rental income of the property as at 31 December 2011.

|                                |  |
|--------------------------------|--|
| Location                       | : 10 Metropolis Drive, Hung Hom, Kowloon |
| Year of Completion             | : 2001                                   |
| Gross Rentable Area (sq.ft.)   | : 271,418                                |
| No. of Carpark Spaces          | : 98                                     |
| Appraised Value (HK\$ million) | : 2,508                                  |
| Number of Tenants              | : 83                                     |

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

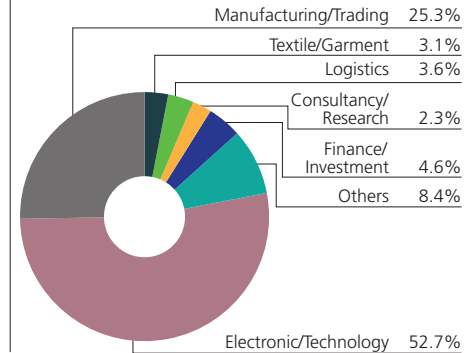
The Metropolis Tower is an established landmark in Hung Hom forming part of a 1.42 million sq.ft. development comprising of a Grade A office tower, a popular shopping mall, hotel and serviced apartments. Surrounding public amenities include the Hong Kong Coliseum, The Hong Kong Polytechnic University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

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

Following the successful completion of a green roof garden in 2010, a unique designed green wall at the entrance lobby will be carried out in 2012 in order to promote green life and environmental awareness to our tenants and the community. As at 31 December 2011, the occupancy rate of the building was 98.5%.

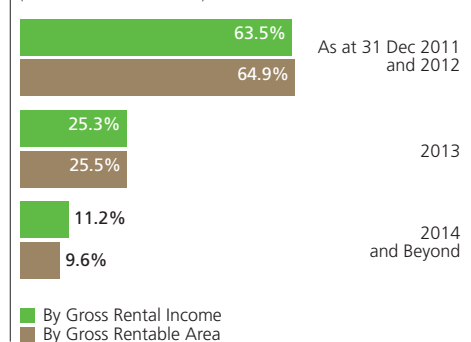
### The Metropolis Tower Trade Mix by Gross Rentable Area

(as at 31 December 2011)



### Lease Expiring Profile of The Metropolis Tower

(as at 31 December 2011)





## PROSPERITY MILLENNIA PLAZA



### Top 5 Tenants

| Tenants   | Trade                 | GRA (sq.ft.) | % of GRI | % of GRA |
|---|-----------------------|--------------|----------|----------|
| Computer and Technologies International Limited | Electronic/Technology | 16,628       | 6.9%     | 7.6%     |
| JDB Holdings Limited                            | Consultancy/Research  | 10,372       | 6.7%     | 4.8%     |
| Jobs DB Hong Kong Limited                       | Consultancy/Research  | 9,043        | 6.0%     | 4.1%     |
| Excel Technology International (HK) Ltd.        | Electronic/Technology | 11,058       | 4.6%     | 5.1%     |
| Grandtech Systems Limited                       | Electronic/Technology | 7,818        | 4.2%     | 3.6%     |

|                                |   |
|--------------------------------|---|
| Location                       | : 663 King's Road, North Point, Hong Kong |
| Year of Completion             | : 1999                                    |
| Gross Rentable Area (sq.ft.)   | : 217,955                                 |
| No. of Carpark Spaces          | : 43                                      |
| Appraised Value (HK\$ million) | : 1,480                                   |
| Number of Tenants              | : 77                                      |

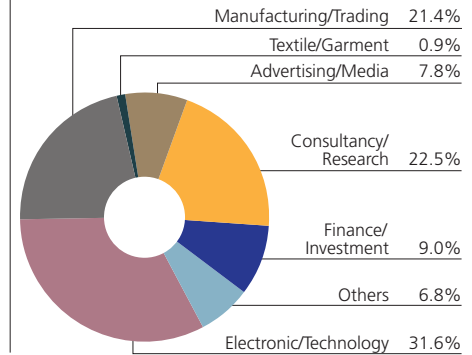
With panoramic sea view of Victoria Harbour and strategically located in the Island East office district, Prosperity Millennium Plaza stands adjacent to the Harbour Plaza North Point Hotel and across from the North Point Government Offices. Served by a convenient transportation network, the building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

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

Enhancement works for upgrading the common corridors and washrooms at the property has been carried out in 2011 to improve the working environment and building facility for the tenants. The works are scheduled to be completed in the third quarter of 2012. As at 31 December 2011, the occupancy rate of the building was 100%.

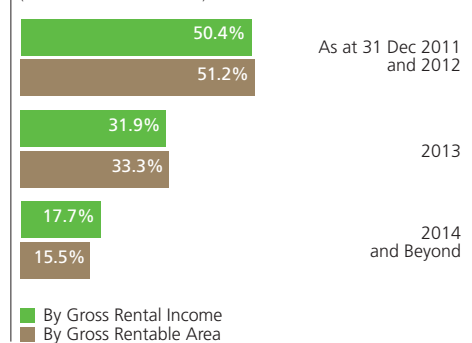
### Prosperity Millennium Plaza Trade Mix by Gross Rentable Area

(as at 31 December 2011)



### Lease Expiring Profile of Prosperity Millennium Plaza

(as at 31 December 2011)



## HARBOURFRONT LANDMARK PROPERTY (PORTION OF HARBOURFRONT LANDMARK)



| Tenants                                   | Trade                 | GRA (sq.ft.) | % of GRI | % of GRA |
|---|-----------------------|--------------|----------|----------|
| Universal Entertainment Hong Kong Limited | Others                | 30,151       | 42.9%    | 39.2%    |
| Hallmark Cards (HK) Limited               | Manufacturing/Trading | 29,063       | 34.6%    | 37.7%    |
| Ultimate Products (Hong Kong) 2006 Ltd.   | Manufacturing/Trading | 17,807       | 22.5%    | 23.1%    |



|                                |  |
|--------------------------------|--|
| Location                       | : 11 Wan Hoi Street, Hung Hom, Kowloon |
| Year of Completion             | : 2001                                 |
| Gross Rentable Area (sq.ft.)   | : 77,021                               |
| No. of Carpark Spaces          | : —                                    |
| Appraised Value (HK\$ million) | : 397                                  |
| Number of Tenants              | : 3                                    |

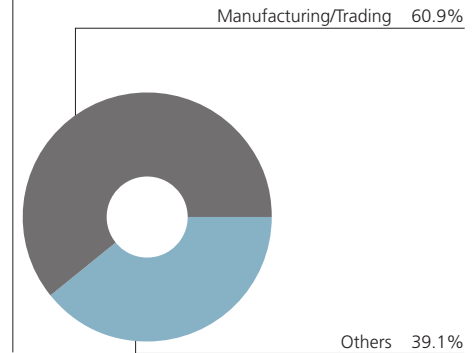
Harbourfront Landmark Property is a three-storey Grade A office area on the podium level of Harbourfront Landmark, a stunning 70-storey skyscraper on the harbour front of the Kowloon peninsula, offering breathtaking sea view of Victoria Harbour. The property is adjacent to two Grade A office tower blocks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

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

The Harbourfront Landmark Property has been leased to 3 different tenants after expiry of the lease with Tremayne Investments Limited on 31 October 2011. As at 31 December 2011, the occupancy rate of the property was 100%.

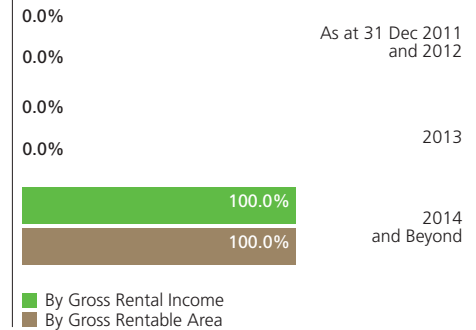
### Harbourfront Landmark Property Trade Mix by Gross Rentable Area

(as at 31 December 2011)



### Lease Expiring Profile of Harbourfront Landmark Property

(as at 31 December 2011)



## PROSPERITY PLACE



### Top 5 Tenants

| Tenants                            | Trade                 | GRA (sq.ft.) | % of GRI | % of GRA |
|------------------------------------|-----------------------|--------------|----------|----------|
| Evlite Electronics Co Ltd          | Electronic/Technology | 9,294        | 4.0%     | 3.9%     |
| Alltek Technology (H.K.) Limited   | Electronic/Technology | 8,256        | 2.9%     | 3.5%     |
| Delta Labelling (Far East) Limited | Manufacturing/Trading | 6,355        | 2.6%     | 2.7%     |
| Dartslive Asia Limited             | Others                | 5,402        | 2.4%     | 2.3%     |
| Sourcebridge Limited               | Manufacturing/Trading | 4,598        | 2.3%     | 1.9%     |

|                                |  |
|--------------------------------|--|
| Location                       | : 6 Shing Yip Street, Kwun Tong, Kowloon |
| Year of Completion             | : 1996                                   |
| Gross Rentable Area (sq.ft.)   | : 240,000                                |
| No. of Carpark Spaces          | : 60                                     |
| Appraised Value (HK\$ million) | : 1,006                                  |
| Number of Tenants              | : 124                                    |

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

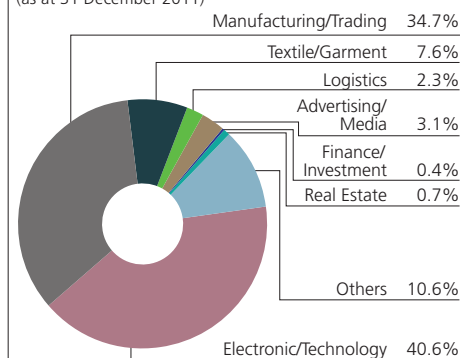
With new Grade A office buildings on the increase and re-development projects being carried out, Kowloon East has seen significant urban improvements on a number of fronts, including prominent modern architecture and dynamic shopping malls, along with leisure and public spaces. With the implementation of Kai Tak Redevelopment and the Kwun Tong Town Centre Renewal Projects by the Government, the district shall undergo significant change by uplifting of transport infrastructures. Both public and private sectors' developments and community facilities are scheduled to be completed in the coming years. Due to these attractive developments, prestigious tenants from the traditional core business districts have moved into the area.

In order to cope with the intense competition from new office buildings in the district, a refurbishment project to revamp Prosperity Place began in 2008 with the renovation of the ground floor lobby, common lift lobbies and corridors on the upper floors, lower portion of the façade, the erection of a green roof garden and the renovation of washrooms.

In 2011, the renovation of passenger lift cars and upgrading of lift controller systems had been carried out. In 2012, Prosperity Place has been applied for a change of use from existing industrial/office use to commercial use under the existing revitalization policy of industrial buildings by the Government. Following the completion of the conversion, Prosperity Place will become a premium commercial landmark in Kowloon East district. As at 31 December 2011, the occupancy rate of the building stood high at 98.8%.

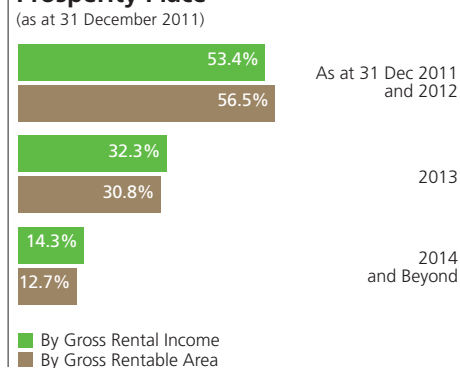
### Prosperity Place Trade Mix by Gross Rentable Area

(as at 31 December 2011)



### Lease Expiring Profile of Prosperity Place

(as at 31 December 2011)





## TRENDY CENTRE



### Top 5 Tenants

| Tenants                              | Trade                 | GRA (sq.ft.) | % of GRI | % of GRA |
|--------------------------------------|-----------------------|--------------|----------|----------|
| CEH Textiles Limited                 | Textile/Garment       | 6,849        | 4.1%     | 4.1%     |
| Digital World International limited  | Electronic/Technology | 4,773        | 4.1%     | 2.9%     |
| Madrid Cafe O/B Madrid Group Limited | Restaurant            | 708          | 2.4%     | 0.4%     |
| STI Asia Pacific Limited             | Manufacturing/Trading | 898          | 1.6%     | 0.5%     |
| ITSOUL HongKong Co., Limited         | Manufacturing/Trading | 2,365        | 1.6%     | 1.4%     |

|                                |  |
|--------------------------------|--|
| Location                       | : 682 Castle Peak Road, Lai Chi Kok, Kowloon |
| Year of Completion             | : 1998                                       |
| Gross Rentable Area (sq.ft.)   | : 173,764                                    |
| No. of Carpark Spaces          | : 79   |
| Appraised Value (HK\$ million) | : 732  |
| Number of Tenants              | : 146  |

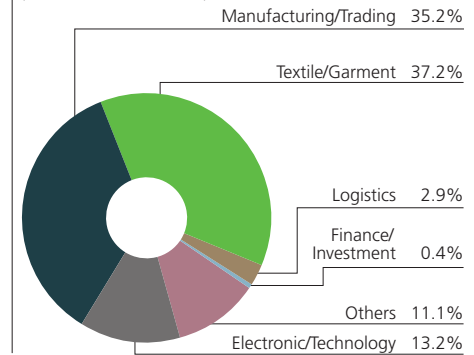
Situated on Castle Peak Road in Lai Chi Kok, Trendy Centre is located in the heart of Kowloon's garment and fashion wholesaling district. It has close proximity to the Container Terminals of the Kwai Chung-Tsing Yi basin, which have a total handling capacity of over 19 million TEUs ("twenty-foot equivalent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

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

In 2011, the lower portion of the façade as well as the entrance lobby of the building had been renovated to uplift its modern commercial image in order to maintain the competitiveness within the district. As at 31 December 2011, the occupancy rate of the building was 96.3%.

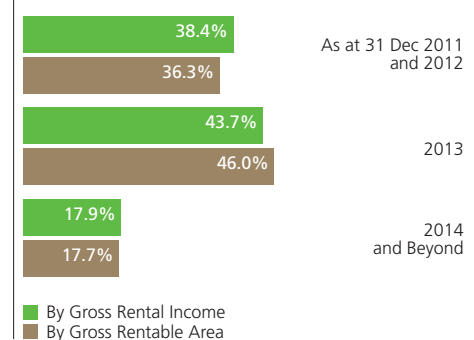
### Trendy Centre Trade Mix by Gross Rentable Area

(as at 31 December 2011)



### Lease Expiring Profile of Trendy Centre

(as at 31 December 2011)



PROSPERITY CENTER PROPERTY (PORTION OF PROSPERITY CENTER)



Top 5 Tenants

| Tenants                              | Trade                 | GRA (sq.ft.) | % of GRI | % of GRA |
|--------------------------------------|-----------------------|--------------|----------|----------|
| Cosme De Net Co. Ltd                 | Manufacturing/Trading | 21,056       | 17.9%    | 14.2%    |
| Aurora Fashions Asia Limited         | Textile/Garment       | 10,528       | 9.2%     | 7.1%     |
| Metatech Limited                     | Electronic/Technology | 5,545        | 3.9%     | 3.7%     |
| Watch Logistic International Limited | Logistics             | 4,415        | 3.0%     | 3.0%     |
| "A BETTER WAY" (Hong Kong) Limited   | Electronic/Technology | 5,588        | 3.0%     | 3.8%     |



|                                |   |
|--------------------------------|---|
| Location                       | : 25 Chong Yip Street, Kwun Tong, Kowloon |
| Year of Completion             | : 1999                                    |
| Gross Rentable Area (sq.ft.)   | : 149,253                                 |
| No. of Carpark Spaces          | : 105                                     |
| Appraised Value (HK\$ million) | : 636                                     |
| Number of Tenants              | : 67                                      |

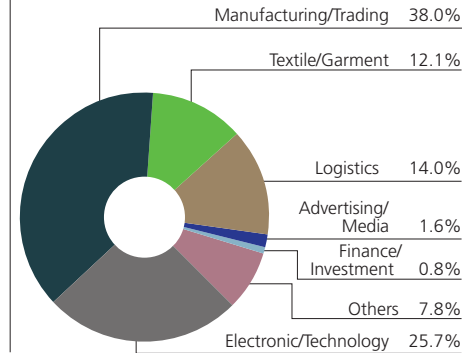
Prosperity Center Property is strategically located in the Kowloon East business district and is less than a three-minute walk from the Ngau Tau Kok MTR Station.

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

The ground floor lobby and the typical floor lift lobbies of the building had been renovated in 2011 to bring an overall fresh and modern design to increase the competitiveness within the district and attract more quality tenants. As at 31 December 2011, the occupancy rate of the property stood high at 99.2%.

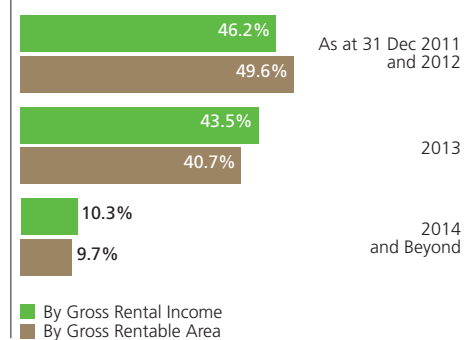
### Prosperity Center Property Trade Mix by Gross Rentable Area

(as at 31 December 2011)



### Lease Expiring Profile of Prosperity Center Property

(as at 31 December 2011)



## NEW TREASURE CENTRE PROPERTY (PORTION OF NEW TREASURE CENTRE)



### Top 5 Tenants

| Tenants                                 | Trade                 | GRA (sq.ft.) | % of GRI | % of GRA |
|---|-----------------------|--------------|----------|----------|
| Goodwell Property Management Ltd*       | Others                | 13,671       | 12.2%    | 15.9%    |
| Newmarket Engineering (Holding) Limited | Others                | 2,496        | 3.8%     | 2.9%     |
| Megahope Limited                        | Manufacturing/Trading | 2,496        | 3.4%     | 2.9%     |
| Supermax Merchandising (HK) Ltd         | Manufacturing/Trading | 2,496        | 3.3%     | 2.9%     |
| Rich Plan International Limited         | Manufacturing/Trading | 2,496        | 2.9%     | 2.9%     |

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

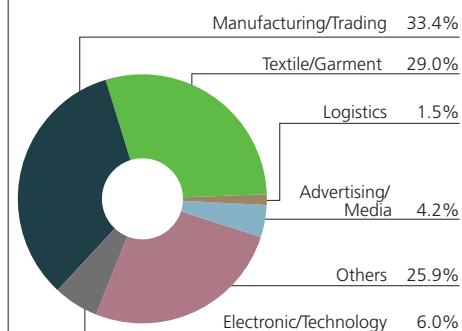
|                                |   |
|--------------------------------|---|
| Location                       | : 10 Ng Fong Street, San Po Kong, Kowloon |
| Year of Completion             | : 1995                                    |
| Gross Rentable Area (sq.ft.)   | : 86,168                                  |
| No. of Carpark Spaces          | : 22                                      |
| Appraised Value (HK\$ million) | : 232                                     |
| Number of Tenants              | : 50                                      |

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

The prestigious design of the ground floor main lobby coupled with the eminent concierge service counter distinguishes New Treasure Centre Property from the other older industrial buildings in the vicinity. The building has solid industrial building features including 7.5 kPa floor loading, individually controlled split-type air conditioning systems for every unit, sub-divisible floor plates, cargo lifts, high-grade passenger lifts, ample loading/unloading bays, and related facilities. The multi-level lorry and car parking area is fastidiously maintained, with generous illumination. As at 31 December 2011, the occupancy rate of the property was 100%.

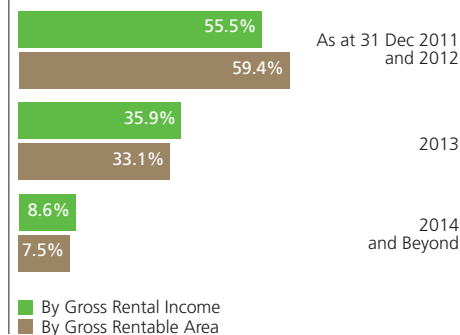
### New Treasure Centre Property Trade Mix by Gross Rentable Area

(as at 31 December 2011)



### Lease Expiring Profile of New Treasure Centre Property

(as at 31 December 2011)





THE METROPOLIS TOWER



# Management Discussion and Analysis

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

## Performance Highlights

|                       | Year ended<br>31 Dec 2011 | Year ended<br>31 Dec 2010 | Percentage change<br>Increase/(Decrease) |
|-----------------------|---------------------------|---------------------------|--|
| Distribution per unit | <b>HK\$0.1202</b>         | HK\$0.1101                | 9.2%                                     |

| Key financial figures    | As at<br>31 Dec 2011     | As at<br>31 Dec 2010 | Percentage change<br>Increase/(Decrease) |
|--------------------------|--------------------------|----------------------|--|
| Net asset value per unit | <b>HK\$3.29</b>          | HK\$2.70             | 21.9%                                    |
| Property valuation       | <b>HK\$6,991 million</b> | HK\$5,934 million    | 17.8%                                    |
| Gearing ratio*           | <b>25.6%</b>             | 30.1%                | (4.5%) <sup>1</sup>                      |

| Operation data                | Year ended<br>31 Dec 2011   | Year ended<br>31 Dec 2010 | Percentage change<br>Increase/(Decrease) |
|-------------------------------|-----------------------------|---------------------------|--|
| Revenue                       | <b>HK\$275.6 million</b>    | HK\$270.1 million         | 2.0%                                     |
| Net property income           | <b>HK\$211.5 million</b>    | HK\$212.5 million         | (0.5%)                                   |
| Average effective unit rent   | <b>HK\$15.05 per sq.ft.</b> | HK\$14.67 per sq.ft.      | 2.6%                                     |
| Occupancy rate (as at 31 Dec) | <b>98.8%</b>                | 99.5%                     | (0.7%) <sup>1</sup>                      |
| Tenant retention rate         | <b>66.9%</b>                | 64.5%                     | 2.4% <sup>1</sup>                        |
| Rental reversion rate         | <b>14.8%</b>                | (0.8%)                    | 15.6% <sup>1</sup>                       |
| Cost-to-revenue ratio         | <b>23.3%</b>                | 21.3%                     | 2.0% <sup>1</sup>                        |

\* This excludes the origination fees and is calculated by dividing total borrowings over total assets

<sup>1</sup> Absolute change

## Operations Review

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

Information on the portfolio of properties as at 31 December 2011 is as follows:

|                                 | Location    | Gross rentable area sq.ft. | No. of car park spaces | Valuation HK\$ Million | Occupancy rate |
|---------------------------------|-------------|----------------------------|------------------------|------------------------|----------------|
| <b>Grade A Office</b>           |             |                            |                        |                        |                |
| The Metropolis Tower            | Hung Hom    | 271,418                    | 98                     | 2,508                  | 98.5%          |
| Prosperity Millennia Plaza      | North Point | 217,955                    | 43                     | 1,480                  | 100.0%         |
| Harbourfront Landmark (portion) | Hung Hom    | 77,021                     | —                      | 397                    | 100.0%         |
| <b>Industrial/Office</b>        |             |                            |                        |                        |                |
| Prosperity Place                | Kwun Tong   | 240,000                    | 60                     | 1,006                  | 98.8%          |
| Trendy Centre                   | Lai Chi Kok | 173,764                    | 79                     | 732                    | 96.3%          |
| Prosperity Center (portion)     | Kwun Tong   | 149,253                    | 105                    | 636                    | 99.2%          |
| <b>Industrial</b>               |             |                            |                        |                        |                |
| New Treasure Centre (portion)   | San Po Kong | 86,168                     | 22                     | 232                    | 100.0%         |
| <b>Total</b>                    |             | <b>1,215,579</b>           | <b>407</b>             | <b>6,991</b>           | <b>98.8%</b>   |

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain organic growth in the Reporting Year. A high occupancy rate of 98.8% was recorded as at 31 December 2011, reflecting the effectiveness of the leasing strategies employed. As a result of increased revenue, coupled with efficient streamlining of operations, the cost-to-revenue ratio was maintained at a relatively low level of 23.3%.



|                                 | <b>Occupancy<br/>rate (%)<br/>As at<br/>31 Dec 2011</b> | Occupancy<br>rate (%)<br>As at<br>31 Dec 2010 | Percentage<br>change <sup>1</sup><br>Increase/<br>(Decrease) |
|---------------------------------|---|---|--|
| <b>Grade A Office</b>           |   |   |  |
| The Metropolis Tower            | <b>98.5</b>   | 100.0   | (1.5%)   |
| Prosperity Millennia Plaza      | <b>100.0</b>  | 99.5  | 0.5%   |
| Harbourfront Landmark (portion) | <b>100.0</b>  | 100.0   | —  |
| <b>Industrial/Office</b>        |   |   |  |
| Prosperity Place                | <b>98.8</b>   | 98.8  | —  |
| Trendy Centre                   | <b>96.3</b>   | 98.9  | (2.6%)   |
| Prosperity Center (portion)     | <b>99.2</b>   | 100.0   | (0.8%)   |
| <b>Industrial</b>               |   |   |  |
| New Treasure Centre (portion)   | <b>100.0</b>  | 100.0   | —  |
| <b>Portfolio</b>                | <b>98.8</b>   | 99.5  | (0.7%)   |

## Investment Review

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

<sup>1</sup> Absolute change

## 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<br>HK\$'000 | Rental<br>related<br>income<br>HK\$'000 | Revenue<br>HK\$'000 | Net property<br>income<br>HK\$'000 |
|---------------------------------|----------------------|---|---------------------|------------------------------------|
| <b>Grade A Office</b>           |                      |   |                     |                                    |
| The Metropolis Tower            | 70,456               | 18,175                                  | 88,631              | 69,276                             |
| Prosperity Millennia Plaza      | 46,169               | 11,686                                  | 57,855              | 44,557                             |
| Harbourfront Landmark (portion) | 15,577               | 2,646                                   | 18,223              | 13,995                             |
| <b>Industrial/Office</b>        |                      |   |                     |                                    |
| Prosperity Place                | 39,785               | 139                                     | 39,924              | 29,741                             |
| Trendy Centre                   | 28,378               | 5,980                                   | 34,358              | 27,123                             |
| Prosperity Center (portion)     | 22,977               | 2,833                                   | 25,810              | 19,181                             |
| <b>Industrial</b>               |                      |   |                     |                                    |
| New Treasure Centre (portion)   | 9,175                | 1,651                                   | 10,826              | 7,639                              |
| <b>Total</b>                    | <b>232,517</b>       | <b>43,110</b>                           | <b>275,627</b>      | <b>211,512</b>                     |

## Revenue

During the Reporting Year, revenue improved to HK\$275.6 million, being HK\$5.5 million or 2.0% higher than that of 2010.

The revenue comprised HK\$232.5 million of rental and car park income, plus HK\$43.1 million of rental related income. Rental and car park income was HK\$5.6 million or 2.5% above that of 2010.

## Net Property Income

The net property income for the Reporting Year was HK\$211.5 million, 0.5% lower than last year. The decrease was mainly due to the impact brought forward from the negative rental reversion in 2010, together with higher cost as a result of the larger expiry profile in 2011 and the statutory minimum wage enforced. Accordingly, the cost-to-revenue ratio for the Reporting Year increased to 23.3%.

## Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year amounted to HK\$163.5 million representing a total DPU of HK\$0.1202. The annual distributable income for the Reporting Year is calculated by the REIT Manager as representing the consolidated net profit of Prosperity REIT and its subsidiaries for that distribution period, after provision for tax and as adjusted to eliminate the effects of adjustments (as defined in the trust deed constituting Prosperity REIT (the “**Trust Deed**”)) including the finance cost of HK\$10.1 million (equivalent to HK\$0.0075 per unit) due to the interest rate swap, all of which have been recorded in the consolidated statement of comprehensive income.

## Distribution

It is the policy of the REIT Manager to distribute to unitholders of Prosperity REIT an amount equal to 100% of Prosperity REIT’s annual distributable income for the financial year ended 31 December 2011. 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 2011 to 31 December 2011 is HK\$82.9 million, equivalent to a DPU of HK\$0.0607. The interim DPU from 1 January 2011 to 30 June 2011 was HK\$0.0595, and the total DPU for the Reporting Year is HK\$0.1202, which represents a distribution yield of 8.0%<sup>1</sup>. The DPU increased 9.2% YoY which was mainly due to the decrease in finance costs in the Reporting Year, as a result of two financial arrangements, including the refinancing and plain vanilla swap, entered into during 2010.

The distribution for the half year from 1 July 2011 to 31 December 2011 will be paid on Thursday, 19 April 2012.

## Liquidity and Financing

As at 31 December 2011, Prosperity REIT had facilities in aggregate of HK\$2,200 million, comprising a HK\$1,770 million term loan facility and a HK\$430 million revolving credit facility, each for a term of five years expiring on 16 August 2015. The whole term loan facility was fully drawn on 16 December 2010 and revolving credit facility of HK\$35 million was drawn as at 31 December 2011. The term loan is repayable in five years from 16 August 2010 and will mature and become payable on 16 August 2015. The revolving facility will be repaid on each maturity date and can be redrawn upon maturity.

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

<sup>1</sup> Based on Prosperity REIT’s closing unit price of HK\$1.50 on 30 December 2011.



The total borrowings of Prosperity REIT, excluding the origination fees, as a percentage of Prosperity REIT's gross assets was 25.6% as at 31 December 2011, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 36.9% as at 31 December 2011.

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

## Investment Properties and Property Valuation

For the Reporting Year, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$1,044.1 million, based on a professional valuation performed by an independent valuer, Colliers International (Hong Kong) Limited. The movements of fair values are tabulated below:

|   | 31 Dec 2011<br>HK\$'000 | 31 Dec 2010<br>HK\$'000 |
|---|-------------------------|-------------------------|
| Fair value at the beginning of the year         | 5,934,000               | 5,256,000               |
| Additional expenditure                          | 12,946                  | 7,793                   |
| Increase in fair value of investment properties | 1,044,054               | 670,207                 |
| Fair value at the end of the year               | 6,991,000               | 5,934,000               |

## Charges on Assets

As at 31 December 2011, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$6,933 million, were pledged to secure bank loan facilities of Prosperity REIT's finance company.

Prosperity REIT and its subsidiaries have provided guarantees for the loan facilities of HK\$2,200 million, comprising a HK\$1,770 million term loan facility and a HK\$430 million revolving credit facility.

## Employees

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

## Closure of Register of Unitholders

The register of unitholders will be closed from Tuesday, 10 April 2012 to Friday, 13 April 2012, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 5 April 2012. The payment date of the final distribution will be on Thursday, 19 April 2012.

## Major Real Estate Agents and Contractors

The commission paid to the top five real estate agents during the Reporting Year was HK\$1,766,000 and the total value of service contracts of the top five contractors engaged by Prosperity REIT was HK\$42,210,000.

### Top Five Real Estate Agents

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

| Real Estate Agents                | Nature of Services | Commission Paid<br>HK\$'000 | Percentage |
|-----------------------------------|--------------------|-----------------------------|------------|
| Wako Realty                       | Leasing            | 1,126                       | 43.2%      |
| Centaline Property Agency Limited | Leasing            | 260                         | 10.0%      |
| Savills (HK) Limited              | Leasing            | 230                         | 8.8%       |
| Knight Frank Hong Kong Limited    | Leasing            | 77                          | 3.0%       |
| Starts Hong Kong Company Limited  | Leasing            | 73                          | 2.8%       |
|                                   |                    | 1,766                       | 67.8%      |

### Top Five Contractors

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

| Contractors                                    | Nature of Services  | Value of Contract<br>HK\$'000 | Percentage |
|--|---------------------|-------------------------------|------------|
| Goodwell Property Management Limited           | Building management | 20,031                        | 46.0%      |
| Citybase Property Management Limited           | Building management | 12,747                        | 29.2%      |
| Goodwell-Prosperity Property Services Limited  | Property management | 6,351                         | 14.6%      |
| Harbourfront Landmark Premium Services Limited | Building management | 1,620                         | 3.7%       |
| E-Park Parking Management Limited              | Carpark operation   | 1,461                         | 3.4%       |
|  |                     | 42,210                        | 96.9%      |

# The Property Manager

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

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



**NG Chi Wah, Kevin**  
*Asset Manager*

**CHU Kin Leung, Kevin**  
*Senior Property Manager*

**CHAN Chun Kwok, Boris**  
*Leasing Manager*

**CHAN Kei Kin, Ken**  
*Asset Manager*

**YUEN Sin Sze, Cecilia**  
*Assistant Property Manager*

**KONG Wai Kau, Ivan**  
*Technical Manager*

**WONG Lai Hung, Mavis**  
*Acting Chief Executive Officer*

**WONG Ling Fei, Mable**  
*Senior Leasing Manager*

**DENG Chi Yung, Jonathan**  
*Leasing Manager*





# Caring for Society

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





## Caring for Tenants

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

## Caring for the Environment

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





## Directors and Senior Management Biographical Information



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



**LIM Hwee Chiang**  
*Non-executive Director*



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



**WONG Lai Hung, Mavis**  
*Executive Director and  
Acting Chief Executive Officer*



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



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



**WONG Kwai Lam**  
*Independent Non-executive Director*

## Directors

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

*Chairman and Non-executive Director*

**CHIU Kwok Hung, Justin**, Chairman of the REIT Manager, aged 61, is also the Chairman and Non-executive Director of ARA Asset Management Limited (“**ARA**”), the holding company of the REIT Manager, the Chairman of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT) and the Chairman of ARA Trust Management (Suntec) Limited (the manager of Suntec REIT). Both ARA and Suntec REIT are listed on the Main Board of Singapore Exchange Securities Trading Limited (“**SGX-ST**”) while Fortune REIT is listed on the Main Board of both The Stock Exchange of Hong Kong Limited (“**SEHK**”) and SGX-ST. Mr. Chiu is also a Director of ARA Fund Management (Asia Dragon) Limited as the manager of the ARA Asia Dragon Fund. Mr. Chiu is a member of the 11th Shanghai Committee of the Chinese People’s Political Consultative Conference of the People’s Republic of China, a Fellow of The Hong Kong Institute of Directors, a Fellow of Hong Kong Institute of Real Estate Administrators and a member of the Board of Governors of Hong Kong Baptist University Foundation.

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

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

### **Lim Hwee Chiang**

*Non-executive Director*

**Lim Hwee Chiang**, a Non-executive Director of the REIT Manager, aged 55, is also the Group Chief Executive Officer and an Executive Director of ARA. He has been a Director of ARA since its establishment. He is also a Director of ARA Trust Management (Suntec) Limited (the manager of Suntec REIT), ARA Asset Management (Fortune) Limited (the manager of Fortune REIT), ARA-CWT Trust Management (Cache) Limited (the manager of Cache Logistics Trust), Am ARA REIT Managers Sdn Bhd (the manager of AmFIRST REIT) and Hui Xian Asset Management Limited (the manager of Hui Xian REIT). ARA, Suntec REIT and Cache Logistics Trust are listed on the Main Board of SGX-ST, Fortune REIT is listed on the Main Board of both SEHK and SGX-ST, Hui Xian REIT is listed on the Main Board of SEHK, and AmFIRST REIT is listed on the Main Board of Bursa Malaysia.

In addition, Mr. Lim is the Chairman of APM Property Management Pte. Ltd., Suntec Singapore International Convention & Exhibition Services Pte. Ltd. and the management council of The Management Corporation Strata Title Plan No. 2197 (Suntec City). Mr. Lim is also an Independent Director of Teckwah Industrial Corporation Limited which is listed on the Main Board of SGX-ST, and Non-executive Director of APN Property Group Limited which is listed in Australia. He is also the Vice President of the Hong Kong-Singapore Business Association, the Senior Vice President of the Asia Pacific Real Estate Association, a council member of the Singapore Chinese Chamber of Commerce and Industry and a member of the Valuation Review Board of the Ministry of Finance of Singapore.

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

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

### **Wong Lai Hung, Mavis**

*Executive Director and Acting Chief Executive Officer*

**Wong Lai Hung, Mavis**, Executive Director, Acting Chief Executive Officer and a Responsible Officer of the REIT Manager, aged 39, is also the Chairman of the Disclosures Committee and a member of the Designated (Finance) Committee of the REIT Manager. Prior to her current appointments, Ms. Wong was the Director, Asset and Investment Management of the REIT Manager overseeing the business plans of Prosperity REIT's properties including leasing, property management and asset enhancement strategies, and is responsible for investment strategy and policy. She has led and/or been a member of the REIT Manager's Investment and Asset Management Team since Prosperity REIT was listed in December 2005, and has been a Responsible Officer of the REIT Manager since 27 July 2007.

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

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*

**Ma Lai Chee, Gerald**, a Non-executive Director of the REIT Manager and a member of the Designated (Finance) Committee, aged 44, is currently Director, Corporate Strategy Unit and Chief Manager, Corporate Business Development at Cheung Kong. Mr. Ma is an Alternate Director to Mr. Ip Tak

Chuen, Edmond, in respect of certain of his directorships, namely ARA Asset Management (Fortune) Limited (the manager of Fortune REIT) and ARA Trust Management (Suntec) Limited (the manager of Suntec REIT). He is also an Alternate Director to Mr. Lai Kai Ming, Dominic, Non-executive Director of Hutchison Telecommunications Hong Kong Holdings Limited ("**HTHKH**"), a company listed on the Main Board of SEHK.

Mr. Ma has over 22 years of experience in banking, investment and portfolio management, real estate development and marketing, as well as managing IT related ventures and services. He is a member of the Hospitality Services Committee of Caritas Hong Kong and a member of the Finance Committee of the Scout Association of Hong Kong. He is also a member of the President's Circle of the University of British Columbia, Canada ("**UBC**") and a member of the Dean's Advisory Board for the Faculty of Arts of UBC. He holds a Bachelor of Commerce degree in Finance and a Master of Arts degree in Global Business Management.

### **Lan Hong Tsung, David**

*Independent Non-executive Director*

**Lan Hong Tsung, David**, an Independent Non-executive Director, the Chairman of the Audit Committee and a member of the Designated (Finance) Committee of the REIT Manager, aged 71, is also an Independent Non-executive Director and a member of the Audit Committee of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT). Mr. Lan is also an Independent Non-executive Director of other listed companies in Hong Kong including Cheung Kong Infrastructure Holdings Limited ("**CK Infrastructure**") (in which he is a member of the Audit Committee), HTHKH (in which he is a member of each of the Audit Committee and Remuneration Committee), Hutchison Harbour Ring Limited and SJM Holdings Limited. Mr. Lan is currently the Chairman of David H T Lan Consultants Ltd., Supervisor of Nanyang Commercial Bank (China), Limited and holds a directorship at Nanyang Commercial Bank Ltd. as well as being a Senior Advisor of Mitsui & Co. (H.K.) Ltd.

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



Republic of China. Mr. Lan is a Chartered Secretary and a fellow member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.

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

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

*Independent Non-Executive Director*

**Sng Sow-Mei (alias Poon Sow Mei)**, Independent Non-executive Director and a member of the Audit Committee of the REIT Manager, aged 70, is also an Independent Non-executive Director and a member of the Audit Committees of CK Infrastructure, Hutchison Port Holdings Management Pte Limited (the manager of Hutchison Port Holdings Trust (“**HPH Trust**”)) and ARA Asset Management (Fortune) Limited (the manager of Fortune REIT), and an Independent Director and a member of the Audit Committee of ARA Trust Management (Suntec) Limited (the manager of Suntec REIT). CK Infrastructure is listed on the Main Board of SEHK, Fortune REIT is listed on the Main Board of both SEHK and SGX-ST, and HPH Trust and Suntec REIT are listed on the Main Board of SGX-ST. Since 2001, Mrs. Sng has been a Senior Consultant (International Business) of Singapore Technologies Electronics Ltd. Concurrently she is a Director of INFA Systems Ltd.

Prior to her appointments with Singapore Technologies Pte Ltd, where she was Director of Special Projects (North East Asia) in 2000 and a Consultant in 2001, Mrs. Sng was the Managing Director of CapitalLand Hong Kong Ltd for investment in Hong Kong and the region including Japan and Taiwan. In Hong Kong from 1983 to 1997, Mrs. Sng was the Centre Director and then Regional Director of the Singapore Economic Development Board and Trade Development Board respectively. She was Singapore’s Trade Commissioner in Hong Kong from 1990 to 1997.

Mrs. Sng, who holds a Bachelor of Arts degree from the Nanyang University of Singapore, has wide experience in various fields of industrial investment, business development, strategic and financial management, especially in property

investment and management. In 1996, Mrs. Sng was conferred the title of PPA (P) — Pingat Pentadbiran Awam (Perak), the Singapore Public Administration Medal (Silver).

### **Wong Kwai Lam**

*Independent Non-executive Director*

**Wong Kwai Lam**, an Independent Non-executive Director and a member of each of the Audit Committee and Designated (Finance) Committee of the REIT Manager, aged 62, is also an Independent Non-executive Director and a member of each of the remuneration and appraisal committee and related-party transaction control committee of China Merchants Bank Co., Ltd., a company listed on the Main Board of SEHK and Shanghai Stock Exchange, and an Independent Non-executive Director and a member of the remuneration committee of K. Wah International Holdings Limited, a company listed on the Main Board of SEHK. Mr. Wong is currently the Chairman of IncitAdv Consultants Ltd., a Director of Opera Hong Kong Limited, a member of the Board of Trustees and a member of the Investment Committee of the Board of Trustees of New Asia College of the Chinese University of Hong Kong, and also a member of the Investment Sub-Committee of the Chinese University of Hong Kong. He was formerly a member of the Advisory Committee to the Securities and Futures Commission in Hong Kong, a member of the Real Estate Investment Trust (REIT) Committee of the Securities and Futures Commission in Hong Kong and a member of the China Committee to the Hong Kong Trade Development Council.

Mr. Wong has over 32 years of experience in the commercial and investment banking industry. He worked with Merrill Lynch (Asia Pacific) Ltd. from May 1993 to August 2009 where he served as a Managing Director in the Asia investment banking division since January 1995. He was appointed as a Senior Client Advisor to Merrill Lynch (Asia Pacific) Ltd. in September 2009 and served in that position for 1 year. Prior to joining Merrill Lynch (Asia Pacific) Ltd., Mr. Wong had been a Director in the investment banking division of CS First Boston (Hong Kong) Ltd. and a Director and the head of primary market in Standard Chartered Asia Limited.

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





The REIT Manager is staffed  
with experienced professionals  
who are dedicated to managing  
the assets of Prosperity REIT.



## Executive Officers

**WONG Lai Hung, Mavis** is the Acting 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.

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

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

Prior to joining 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. He graduated from Lingnan University with an Honours Diploma in Accountancy in 1993.

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

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

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

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

Miss Au is also the Hong Kong-based Compliance Manager of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT). Prior to joining the REIT Manager in 2007, Miss Au was a solicitor in private practice for over 8 years. She holds a Bachelor of Laws degree and Postgraduate Certificate in Laws.

**CHAN Kei Kin, Ken** is the Asset Manager of the REIT Manager. He is responsible for formulating the business plans of Prosperity REIT's properties with short, medium and long-term objectives, and with a view of maximizing the rental income of Prosperity REIT's properties via active asset management. Mr. Chan has about 15 years of experience in the real estate industry.

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

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

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

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

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

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



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

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

## Responsible Officers

**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".

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

**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".

# Our Awards



# Corporate Governance

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

## 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 Code on Real Estate Investment Trusts (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 Acting Chief Executive Officer and an Executive Director, Mr. Chan Kei Kin, Ken and Mr. Ng Chi Wah, Kevin are the Responsible Officers of the REIT Manager pursuant to the requirements of section 125 of the SFO and Chapter 5.4 of the REIT Code.

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

## Roles of the Trustee and the REIT Manager

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

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

- (1) setting the strategic direction and risk management policies of Prosperity REIT on acquisition, divestment or enhancement of assets of Prosperity REIT in accordance with its stated investment strategy;
- (2) preparing various property plans on a regular basis to explain the performance of the assets of Prosperity REIT;



- (3) ensuring compliance with the applicable provisions of the REIT Code, the SFO and all other relevant legislation, the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), the Trust Deed, all other relevant legislation and all relevant contracts; and
- (4) attending to all regular communications with unitholders.

## Board of Directors of the REIT Manager

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

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

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

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

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

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

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

The positions of Chairman 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 Mr. Chiu Kwok Hung, Justin who is a Non-executive Director. Ms. Wong Lai Hung, Mavis, an Executive Director and a Responsible Officer, is the Acting CEO.



Four full Board meetings of the REIT Manager were held in 2011 and the attendance record of the Board meetings is as follows:

| Members of the Board   | Attendance               |
|--|--------------------------|
| <i>Chairman and Non-executive Director</i><br>Mr. Chiu Kwok Hung, Justin   | 4/4                      |
| <i>CEO/Acting CEO and Executive Director</i><br>Mr. Stephen Henry Chu <sup>(1)</sup><br>Ms. Wong Lai Hung, Mavis <sup>(2)</sup>  | 1/1<br>3/3               |
| <i>Non-executive Directors</i><br>Mr. Lim Hwee Chiang<br>Mr. Ma Lai Chee, Gerald   | 3/4<br>4/4               |
| <i>Independent Non-executive Directors</i><br>Mr. Lan Hong Tsung, David<br>Mrs. Sng Sow-Mei (alias Poon Sow Mei)<br>Mr. Robert Douglas Pope <sup>(3)</sup><br>Mr. Wong Kwai Lam <sup>(4)</sup> | 4/4<br>4/4<br>1/1<br>2/2 |

(1) Mr. Stephen Henry Chu ceased to be the CEO, an Executive Director, a member and the chairman of the Disclosures Committee with effect from 8 April 2011.

(2) Ms. Wong Lai Hung, Mavis was appointed as the Acting CEO, an Executive Director, a member and the chairman of the Disclosures Committee with effect from 8 April 2011.

(3) Mr. Robert Douglas Pope passed away on 6 March 2011.

(4) Mr. Wong Kwai Lam was appointed as an INED and a member of the Audit Committee with effect from 6 July 2011.

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

## Appointment and Removal of Directors

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

In considering persons for appointment and re-appointment as Directors, the Board will have regard to a number of matters as set out in the Compliance Manual in assessing whether such persons are fit and proper to be a Director.

## Internal Controls

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

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

## Audit Committee

The REIT Manager has established an Audit Committee to assist the Board in reviewing the completeness, accuracy, clarity and fairness of Prosperity REIT's financial statements, recommending for the appointment and reviewing the relationship with the external auditors of Prosperity REIT periodically, as well as reviewing and supervising the internal control procedures and risk management systems.

The Audit Committee's responsibilities also include:

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

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

The Audit Committee meets on a half yearly basis, and held two meetings in 2011 for considering and reviewing the 2010 final results, 2011 interim results and other internal controls, risk management and compliance matters of Prosperity REIT. The attendance record of the Audit Committee meetings is as follows:

| Members of the Audit Committee         | Attendance |
|--|------------|
| Mr. Lan Hong Tsung, David              | 2/2        |
| Mrs. Sng Sow-Mei (alias Poon Sow Mei)  | 2/2        |
| Mr. Robert Douglas Pope <sup>(1)</sup> | 1/1        |
| Mr. Wong Kwai Lam <sup>(2)</sup>       | 1/1        |

(1) Mr. Robert Douglas Pope passed away on 6 March 2011.

(2) Mr. Wong Kwai Lam was appointed as an INED and a member of the Audit Committee with effect from 6 July 2011.

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

## Disclosures Committee

The REIT Manager has set up a Disclosures Committee to 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 of the REIT Manager to ensure the disclosure of information is accurate and complete.

The Disclosures Committee's responsibilities also include:

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

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

The Disclosures Committee meets on a half yearly basis and otherwise on an as-needed basis. The Disclosures Committee held two meetings in 2011 for considering and reviewing the 2010 final results announcement and 2011 interim results announcement, the 2010 annual report and 2011 interim report of Prosperity REIT and other corporate disclosure issues of Prosperity REIT. The Disclosures Committee also reviewed all public announcements issued by Prosperity REIT throughout the year ended 31 December 2011. The attendance record of the Disclosures Committee meetings is as follows:

| Members of the Disclosures Committee    | Attendance |
|---|------------|
| Mr. Chiu Kwok Hung, Justin              | 2/2        |
| Mr. Stephen Henry Chu <sup>(1)</sup>    | 1/1        |
| Ms. Wong Lai Hung, Mavis <sup>(2)</sup> | 1/1        |
| Mr. Lan Hong Tsung, David               | 2/2        |

(1) Mr. Stephen Henry Chu ceased to be the CEO, an Executive Director, a member and the chairman of the Disclosures Committee with effect from 8 April 2011.

(2) Ms. Wong Lai Hung, Mavis was appointed as the Acting CEO, an Executive Director, a member and the chairman of the Disclosures Committee with effect from 8 April 2011.

## Designated (Finance) Committee

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

The Designated (Finance) Committee presently comprises, among others, four Directors, namely, Ms. Wong Lai Hung, Mavis, Acting CEO and an Executive Director, Mr. Ma Lai Chee, Gerald, a Non-executive Director, Mr. Lan Hong Tsung, David and Mr. Wong Kwai Lam, INEDs. Ms. Wong Lai Hung, Mavis is the convener of the Designated (Finance) Committee.

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



## Management of Business Risk

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

The REIT Manager has appointed experienced and well-qualified management team to handle the day-to-day operations of the REIT Manager and Prosperity REIT. 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 projects prior to approving any major transactions.

## Conflicts of Interest

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

- (1) The REIT Manager is a dedicated manager to Prosperity REIT and 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.

## Communication with Unitholders

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

The general meetings of Prosperity REIT provide a forum for communication between the Board and the unitholders. The 2011 Annual General Meeting ("**AGM**") was held on 27 May 2011. The Chairman of the Board, chairmen of the respective Board committees as well as the auditors of Prosperity REIT attended the 2011 AGM and were available to answer questions. The notice of AGM was sent to unitholders at least 20 clear business days before the AGM.

An Extraordinary General Meeting ("**EGM**") was also held on 27 May 2011 for approving an extension of the waiver from strict compliance with the disclosure requirements and unitholders' approval requirements under Chapter 8 of the REIT Code in respect of certain categories of connected party transactions and the new annual monetary limits thereof for the periods ending 31 December 2012, 2013 and 2014 respectively. Apart from the Chairman of the Board and chairmen of the respective Board committees, legal advisors and independent financial advisors also attended the EGM 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.

## Amendments to the Trust Deed

On 29 December 2011, the Trust Deed was amended to expressly authorize the use of electronic means and Prosperity REIT's website for corporate communication to unitholders which comply with Rule 2.07A of the Listing Rules, and to comply with the enhanced corporate governance practices under Appendix 14 of the Listing Rules relating to notice periods for meetings with unitholders, in both cases as if the Listing Rules were applicable to the SFC-authorized real estate investment trusts.

## 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 for Prosperity REIT will be published and sent to unitholders within four months of the end of each financial year and within two months of the end of each financial half-year respectively.

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

## Directors' Responsibility for Financial Statements

The Directors acknowledge their responsibility for preparation of a true and fair presentation of the financial statements for the year ended 31 December 2011. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the ability of Prosperity REIT to continue as a going concern.

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

## Issues of Further Units Post-Listing

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

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

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

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

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

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 SEHK and the REIT Manager of their holdings in Prosperity REIT. The REIT Manager shall then send copies of such notifications received by it to the Trustee. The REIT Manager keeps a register for the purposes of maintaining disclosure of interests in units of Prosperity REIT and it has recorded in the register, against a person's name, the particulars provided pursuant to the disclosure of interests notifications and the date of entry of such record. The said register is available for inspection by the Trustee and any unitholder at any time during business hours upon reasonable notice to the REIT Manager.

## Matters to be Decided by Unitholders by Special Resolution

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

## Change of Director's Information

Subsequent to publication of the Interim Report 2011 of Prosperity REIT, the REIT Manager received a notification regarding the following change of Director's information:

1. Mrs. Sng Sow-Mei (alias Poon Sow Mei) ceased to be an advisor of InfoWave Pte Ltd on 1 December 2011.

## Compliance with the Compliance Manual

During the year ended 31 December 2011, both the REIT Manager and Prosperity REIT have in material terms complied with the provisions of the Compliance Manual.

## Review of Annual Report

The annual report of Prosperity REIT for the year ended 31 December 2011 has been reviewed by the Audit Committee and the Disclosures Committee.

## Public Float of the Units

As far as the REIT Manager is aware, more than 25% of the issued units of Prosperity REIT were held in public hands as of 31 December 2011.

# Connected Party Transactions

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

## Connected Party Transactions — Income

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

| Name of Connected Party              | Relationship with Prosperity REIT                               | Nature of the Connected Party Transaction           | Rental and charge out collection (excluding rental deposit, if applicable) for the year ended 31 December 2011 HK\$ | Rental deposit received as at 31 December 2011 HK\$ |
|--------------------------------------|---|---|---|---|
| Goodwell Property Management Limited | Subsidiary of a significant holder <sup>1</sup>                 | Tenancy of property of Prosperity REIT <sup>3</sup> | 1,253,988   | 335,433   |
| Tremayne Investments Limited         | Subsidiary of an associate of a significant holder <sup>2</sup> | Tenancy of property of Prosperity REIT <sup>4</sup> | 14,438,191  | see note 7  |
| E-Park Parking Management Limited    | Subsidiary of a significant holder <sup>1</sup>                 | Tenancy of property of Prosperity REIT <sup>5</sup> | 232,584   | 61,064  |
| Hutchison Telephone Company Limited  | Subsidiary of an associate of a significant holder <sup>2</sup> | Licence of property of Prosperity REIT <sup>6</sup> | 48,000  | 15,000  |
| <b>Total</b>                         |   |   | <b>15,972,763</b>   | <b>411,497</b>                                      |

1 Significant holder being Cheung Kong.

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

3 For 2/F, Units 302–3, 306–7 & Unit 703, New Treasure Centre.

4 For 3/F, 5/F & 6/F, Harbourfront Landmark (the lease expired during the Reporting Year).

5 For Unit 306, Prosperity Place.

6 For installation of micro-transmission station equipment at Prosperity Place.

7 By a bank guarantee of HK\$4,850,346 given by HWL (the lease for which the bank guarantee is related to expired during the Reporting Year).

## Connected Party Transactions — Building Management Services

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

| Name of Connected Party                                     | Relationship with Prosperity REIT                               | Nature of the Connected Party Transaction | Payment received/receivable for the year ended 31 December 2011<br>HK\$ |
|---|---|---|---|
| Goodwell Property Management Limited <sup>1</sup>           | Subsidiary of a significant holder <sup>3</sup>                 | Remuneration of DMC Manager               | 162,659   |
| Goodwell Property Management Limited <sup>2</sup>           | Subsidiary of a significant holder <sup>3</sup>                 | Remuneration of Carpark Manager           | 6,507   |
| Citybase Property Management Limited <sup>1</sup>           | Subsidiary of a significant holder <sup>3</sup>                 | Remuneration of DMC Manager               | 258,905   |
| Citybase Property Management Limited <sup>2</sup>           | Subsidiary of a significant holder <sup>3</sup>                 | Remuneration of Carpark Manager           | 66,361  |
| Harbourfront Landmark Premium Services Limited <sup>1</sup> | Subsidiary of an associate of a significant holder <sup>4</sup> | Remuneration of DMC Manager               | 106,472   |
| <b>Total</b>  |   |   | <b>600,904</b>  |

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

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

3 Significant holder being Cheung Kong.

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



## Connected Party Transactions — Expenses

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

| Name of Connected Party                          | Relationship with Prosperity REIT                                | Nature of the Connected Party Transaction    | Expenses for the year ended 31 December 2011 HK\$ |
|--|--|--|---|
| Goodwell-Prosperity Property Services Ltd        | Subsidiary of a significant holder <sup>1</sup>                  | Property management and lease management fee | 6,350,768   |
| Goodwell-Prosperity Property Services Ltd        | Subsidiary of a significant holder <sup>1</sup>                  | Marketing service fee                        | 8,665,183   |
| E-Park Parking Management Limited                | Subsidiary of a significant holder <sup>1</sup>                  | Carpark lease agency fee                     | 1,460,619   |
| HSBC Institutional Trust Services (Asia) Limited | Trustee  | Trustee fee                                  | 1,915,225   |
| ARA Asset Management (Prosperity) Limited        | REIT Manager   | Base fee and variable fees                   | 32,568,950  |
| Cheung Kong Companies <sup>2</sup>               | Subsidiaries and associates of a significant holder <sup>1</sup> | Back-office support service fee              | 889,624   |
| <b>Total</b>                                     |  |  | <b>51,850,369</b>                                 |

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

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

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

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

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

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

| Name of Connected Party (Tenant) | Relationship with Prosperity REIT                               | Nature of the Connected Party Transaction                   | Annual income <sup>2</sup><br>HK\$ |
|----------------------------------|---|---|------------------------------------|
| Tremayne Investments Limited     | Subsidiary of an associate of a significant holder <sup>1</sup> | Tenancy agreement for 3/F, 5/F & 6/F, Harbourfront Landmark | 12,778,344                         |
| <b>Total</b>                     |   |   | <b>12,778,344</b>                  |

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

<sup>2</sup> The annual income stated herein refers to the rental income, excluding charge out collection, that would have been received during the year upon termination of the relevant tenancy agreements. (The lease expired during the Reporting Year)

## Other Connected Party Transactions

The following companies had provided back-office services, car park management services and property management services to Prosperity REIT for the Reporting Year and hence amounts due from Prosperity REIT as at 31 December 2011 are as follows:

| Name of Connected Party                        | Amount payable<br>HK\$ |
|--|------------------------|
| Cheung Kong (Holdings) Limited                 | 2,253                  |
| Goodwell-Prosperity Property Services Limited  | 3,261,903              |
| Goodwell Property Management Limited           | 6,066,655              |
| E-Park Parking Management Limited              | 259,193                |
| Citybase Property Management Limited           | 1,136,607              |
| Harbourfront Landmark Premium Services Limited | 704,796                |
| <b>Total</b>                                   | <b>11,431,407</b>      |

## Confirmation by the INEDs

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

- (a) in the ordinary and usual course of business of Prosperity REIT;
- (b) on normal commercial terms (to the extent that there are comparable transactions) or, where there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to Prosperity REIT than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement governing them (if any) on terms that are fair and reasonable and in the interests of the unitholders of Prosperity REIT as a whole.

## Confirmation by the Auditor of Prosperity REIT

Messrs. Deloitte Touche Tohmatsu, auditor of Prosperity REIT, was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions on leasing/licensing transactions, property management arrangements, third party services and other operational transactions and transactions involving ordinary banking and financial services disclosed by the Group from pages 60 to 63 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 is no corporate finance transaction and other connected party transaction (save and except for those disclosed hereinabove) with the HSBC Group during the Reporting Year.

## Repurchase, Sale or Redemption of Units

During the Reporting Year, other than the disposal of 17,806,000 units by the REIT Manager which the REIT Manager had received as payment of its management fee, there was no purchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or its subsidiaries.

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

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

| Name   | As at 31 December 2011 |   | As at 31 December 2010 |
|--|------------------------|---|------------------------|
|  | Number of Units        | Percentage of Unitholdings <sup>5</sup> | Number of Units        |
| Total Win Group Limited <sup>1</sup>                   | 176,328,129            | 12.96%                                  | 176,328,129            |
| Wide Option Investments Limited <sup>1</sup>           | 98,883,559             | 7.27%                                   | 98,883,559             |
| HKSCC Nominees Limited <sup>2</sup>                    | 993,587,385            | 73.03%                                  | 978,155,092            |
| HSBC <sup>3</sup>                                      | 35,437                 | 0.0026%                                 | 35,437                 |
| ARA Asset Management (Prosperity) Limited <sup>4</sup> | 307                    | 0.00002%                                | 460                    |

Notes:

(1) *Total Win Group Limited (“Total Win”) is a connected person of Prosperity REIT as it is a significant holder (as defined under the REIT Code) of Prosperity REIT as at 31 December 2011. Total Win is a direct wholly-owned subsidiary of Cheung Kong Investment Company Limited, which was therefore deemed to hold 176,328,129 units held by Total Win as at 31 December 2011. Total Win is an indirect wholly-owned subsidiary of Cheung Kong.*

*Wide Option Investments Limited (“Wide Option”) is a connected person of Prosperity REIT as it is an associated company (as defined under the REIT Code) of Total Win as at 31 December 2011. Wide Option is a wholly-owned subsidiary of HWL, which in turn is 49.9% owned by Cheung Kong.*

*Cheung Kong was therefore deemed to hold 275,211,688 units as at 31 December 2011, of which 176,328,129 units were held by Total Win and 98,883,559 units were held by Wide Option.*

(2) *HKSCC Nominees Limited is a connected person of Prosperity REIT as it is a significant holder (as defined under the REIT Code) of Prosperity REIT as at 31 December 2011. 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”) are connected persons of Prosperity REIT as HSBC Institutional Trust Services (Asia) Limited, the Trustee of Prosperity REIT, is an indirect subsidiary of HSBC Holdings plc. So far as the REIT Manager is aware of, the Trustee had no beneficial interest in any units as at 31 December 2011 and 31 December 2010. The directors, senior executives, officers and their associates of the Trustee were beneficially interested in 35,187 units as at 31 December 2011 and 31 December 2010. The controlling entity, holding company, subsidiary or associated company of the Trustee were beneficially interested in 250 units as at 31 December 2011 and 31 December 2010.*

(4) *ARA Asset Management (Prosperity) Limited is a connected person of Prosperity REIT as it is the management company (as defined under the REIT Code) of Prosperity REIT as at 31 December 2011.*

(5) *The total number of issued units as at 31 December 2011 is 1,360,442,529.*

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 2011.



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

As at 31 December 2011, the interests of the REIT Manager, Directors and chief executive of the REIT Manager in the units of Prosperity REIT as recorded in the Register of Interests maintained by the REIT Manager under clause 30.3 of the Trust Deed are as follows:

| Name                                      | Number of Units |                   | Percentage of Unitholdings <sup>2</sup> |
|---|-----------------|-------------------|---|
|   | Direct Interest | Indirect Interest |   |
| ARA Asset Management (Prosperity) Limited | 307             |                   | 0.00002%                                |
| Lim Hwee Chiang <sup>1</sup>              |                 | 307               | 0.00002%                                |

Notes:

(1) *Mr. Lim Hwee Chiang is deemed to be interested in 307 units of Prosperity REIT by virtue of his direct and indirect holding of one third or more of shareholding interest in a chain of corporations including ARA Asset Management (Holdings) Limited, the holding company of the REIT Manager.*

(2) *The total number of issued units as at 31 December 2011 is 1,360,442,529.*

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 2011.

# Valuation Report

Our Ref: 20244  
13 February 2012

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

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

## **Re: Valuation of Various Properties in Relation to Prosperity Real Estate Investment Trust (“Prosperity REIT”)**

Dear Sirs,

### Instructions

With reference to your instruction to conduct a valuation of the various properties in relation to Prosperity REIT, we have prepared a valuation report setting out our opinion of the Market Value of the properties. We confirm that we have independently prepared the report on a fair and unbiased basis and have carried out inspection of the subject properties, made relevant enquiries and obtained such further information as we consider necessary to allow us to provide you with our opinion of value, as at 31 December 2011, for accounting and mortgage security purpose.

### Basis of Valuation

Our valuations are on the basis of Market Value, which we would define as intended to mean “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion”.

### Valuation Standards

The valuations have been carried out in accordance with The HKIS Valuation Standards on Properties (1st Edition January 2005) published by The Hong Kong Institute of Surveyors; the requirements contained in Chapter 5 of the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited; and Chapter 6.8 of The Code on Real Estate Investment Trusts issued by The Securities and Futures Commission in June 2010.

## Valuation Rationale

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

## Income Capitalisation Approach

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

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

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

## Direct Comparison Approach

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

## Title Investigations

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

## Sources of Information

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

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

## Site Measurement

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

## Site Inspection

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

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

## Assumptions and Caveats

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

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

This report is for the use of the Manager and the Trustee of Prosperity REIT and the potential subscribers of units in Prosperity REIT and for the purpose indicated, and no liability to any third party can be accepted for the whole or any part of the contents of the document. Neither the whole nor any part of this valuation report nor any reference thereto may be included in any published documents, circular or statement, nor published in any way whatsoever without prior written approval of Colliers International (Hong Kong) Limited as to the form and context in which it may appear.



Valuation Report *(continued)*

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

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

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

*Note: David Faulkner is a Chartered Surveyor and has over 30 years' experience in the valuation of properties of this magnitude and nature, and over 25 years' experience in Hong Kong/China.*

## Valuation Summary

| Properties                                   | Approx. Gross Area (sq.ft.) | No. of CPS (lots) | Market Value in its existing state as at 31 December 2011 |
|--|-----------------------------|-------------------|---|
| 1. The Metropolis Tower                      | 271,418                     | 98                | HK\$2,508,000,000   |
| 2. Prosperity Millennia Plaza                | 217,955                     | 43                | HK\$1,480,000,000   |
| 3. Commercial Units of Harbourfront Landmark | 77,021                      | Nil               | HK\$397,000,000   |
| 4. Prosperity Place                          | 240,000                     | 60                | HK\$1,006,000,000   |
| 5. Trendy Centre                             | 173,764                     | 79                | HK\$732,000,000   |
| 6. Portion of Prosperity Center              | 149,253                     | 105               | HK\$636,000,000   |
| 7. Portion of New Treasure Centre            | 86,168                      | 22                | HK\$232,000,000   |
| <b>Total</b>                                 | <b>1,215,579</b>            | <b>407</b>        | <b>HK\$6,991,000,000</b>                                  |

## Valuation Certificate

| Property   | Description and tenure   | Particulars of occupancy  | Market Value in existing state as at 31 December 2011 | Estimated Net Property Yield |
|--|--|---|---|------------------------------|
| 1 The Metropolis Tower, 10 Metropolis Drive, Hung Hom, Kowloon<br><br>24,734/247,769th undivided parts or shares of and in Kowloon Inland Lot No. 11077. | <p>The Metropolis Tower (the "Property") is a 15-storey office building comprising 11th to 28th Floors (13th, 14th and 24th floor numbers are omitted) built over a multi-storey retail/ carparking podium on a registered site area of approximately 50,058 sq.m. (538,824 sq.ft.). The Property was built in 2001.</p> <p>The Metropolis Tower is office portion of the comprehensive mixed-use complex, called The Metropolis. The Metropolis comprises other components including a shopping centre (Fortune Metropolis), two 18-storey residential towers (The Metropolis Residence) and a 12-storey hotel (Harbour Plaza Metropolis).</p> <p>The Property comprises the entire office units from the 11th to 28th Floors of The Metropolis Tower with a total gross area of approximately 25,215.35 sq.m. (271,418 sq.ft.). The total saleable area is approximately 18,832.87 sq.m. (202,717 sq.ft.).</p> <p>The Property also comprises 98 carparking spaces within the retail/carparking podium of the development.</p> <p>Kowloon Inland Lot No. 11077 is held under Conditions of Grant No. 12444 for a term from 14 February 1997 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the Property.</p> | <p>The office portion of the Property is let under various tenancies for various terms with the latest expiry in November 2014. Total net monthly rental income is approximately HK\$6,030,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The overall occupancy rate is 98.5% (excluding carparking spaces).</p> <p>The carparking spaces of the Property are let on monthly and hourly basis generating an average gross monthly income of approximately HK\$294,000 from January 2011 to December 2011 exclusive of Government rates and rent, and utility charges but inclusive of management fees.</p> | HK\$2,508,000,000                                     | 3.0%                         |

## Valuation Report (continued)

### 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 subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.*

(3) *The Property lies within an area zoned "Other Specified Uses (For "Commercial Development and Freight Yard" only)" under Hung Hom Outline Zoning Plan S/K9/24.*

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

(5) *Estimated net property yield is based on the net monthly rental income for December 2011 and the average gross monthly car parking income for the period of January 2011 to December 2011.*

(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<br>(sq.ft.) | % of total | Monthly Rental<br>(HK\$) | % of total | No. of<br>Tenancy | % of total |
|---------------|------------------------|------------|--------------------------|------------|-------------------|------------|
| 2009 & Before | 98,598                 | 36.9%      | 2,065,553                | 34.2%      | 17                | 19.5%      |
| 2010          | 76,762                 | 28.7%      | 1,645,430                | 27.3%      | 37                | 42.5%      |
| 2011          | 92,107                 | 34.4%      | 2,319,600                | 38.5%      | 33                | 38.0%      |
| Total         | 267,467                | 100.0%     | 6,030,583                | 100.0%     | 87                | 100.0%     |

#### Tenancy Expiry Profile

| Year               | Gross Area<br>(sq.ft.) | % of total | Monthly Rental<br>(HK\$) | % of total | No. of<br>Tenancy | % of total |
|--------------------|------------------------|------------|--------------------------|------------|-------------------|------------|
| 31 Dec 2011 & 2012 | 173,548                | 64.9%      | 3,823,883                | 63.5%      | 45                | 51.7%      |
| 2013               | 68,186                 | 25.5%      | 1,528,500                | 25.3%      | 27                | 31.0%      |
| 2014 & Beyond      | 25,733                 | 9.6%       | 678,200                  | 11.2%      | 15                | 17.3%      |
| Total              | 267,467                | 100.0%     | 6,030,583                | 100.0%     | 87                | 100.0%     |

#### Tenancy Duration Profile

| Tenancy Duration                       | Gross Area<br>(sq.ft.) | % of total | Monthly Rental<br>(HK\$) | % of total | No. of<br>Tenancy | % of total |
|--|------------------------|------------|--------------------------|------------|-------------------|------------|
| Below and up to 2 years                | 88,534                 | 33.1%      | 2,107,080                | 34.9%      | 22                | 25.3%      |
| More than 2 years and<br>up to 3 years | 169,104                | 63.2%      | 3,673,503                | 60.9%      | 64                | 73.6%      |
| More than 3 years                      | 9,829                  | 3.7%       | 250,000                  | 4.2%       | 1                 | 1.1%       |
| Total                                  | 267,467                | 100.0%     | 6,030,583                | 100.0%     | 87                | 100.0%     |



Valuation Report (continued)

| Property   | Description and tenure   | Particulars of occupancy   | Market Value in existing state as at 31 December 2011 | Estimated Net Property Yield |
|--|--|--|---|------------------------------|
| 2 Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong<br><br>3,741/10,000th undivided parts or shares of and in Inland Lot No. 8885. | <p>Prosperity Millennia Plaza (the "Property") is a 32-storey office building (including 3 mechanical floors and a refuge floor) together with a 2-level basement carport. It is erected on portion of a site with a registered site area of approximately 3,404 sq.m. (36,641 sq.ft.). The Property was built in 1999.</p> <p>The 2-level basement of the Property is for carparking and ancillary purposes. The 1st Floor (Ground floor is omitted from floor numbering) is used for lobby and circulation purposes whereas the remaining upper floors from the 2nd to 32nd Floors (4th, 13th, 14th and 24th floor numbers are omitted) are for office uses.</p> <p>The Property comprises the entire office units with a total gross area of approximately 20,248.51 sq.m. (217,955 sq.ft.). The total saleable area is approximately 14,551.28 sq.m. (156,630 sq.ft.).</p> <p>The Property also comprises 43 carparking spaces within the 2-level basement.</p> <p>Inland Lot No. 8885 is held under Conditions of Exchange No. 12374 for a term from 24 January 1996 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the Property.</p> | <p>The office portion of the Property is let under various tenancies for various terms with the latest expiry in May 2014. Total net monthly rental income is approximately HK\$4,060,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The Property is currently 100% occupied (excluding carparking spaces).</p> <p>The carparking spaces of the Property are let on monthly and hourly basis generating an average gross monthly income of approximately HK\$209,000 from January 2011 to December 2011 exclusive of Government rates and rent, and utility charges but inclusive of management fees.</p> | HK\$1,480,000,000                                     | 3.5%                         |

Notes:

- (1) *The registered owner of the Property is Conestoga Limited.*
- (2) *The Property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.*
- (3) *The Property lies within an area zoned "Commercial" under North Point Outline Zoning Plan SIH8/24.*
- (4) *In accordance with the Property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.*
- (5) *Estimated net property yield is based on the net monthly rental income for December 2011 and the average gross monthly car parking income for the period of January 2011 to December 2011.*

(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<br>(sq.ft.) | % of total | Monthly Rental<br>(HK\$) | % of total | No. of<br>Tenancy | % of total |
|---------------|------------------------|------------|--------------------------|------------|-------------------|------------|
| 2009 & Before | 79,493                 | 36.5%      | 1,357,038                | 33.4%      | 18                | 20.9%      |
| 2010          | 45,547                 | 20.9%      | 872,800                  | 21.5%      | 21                | 24.4%      |
| 2011          | 92,915                 | 42.6%      | 1,831,618                | 45.1%      | 47                | 54.7%      |
| Total         | 217,955                | 100.0%     | 4,061,456                | 100.0%     | 86                | 100.0%     |

#### Tenancy Expiry Profile

| Year               | Gross Area<br>(sq.ft.) | % of total | Monthly Rental<br>(HK\$) | % of total | No. of<br>Tenancy | % of total |
|--------------------|------------------------|------------|--------------------------|------------|-------------------|------------|
| 31 Dec 2011 & 2012 | 111,648                | 51.2%      | 2,045,336                | 50.4%      | 35                | 40.7%      |
| 2013               | 72,632                 | 33.3%      | 1,296,540                | 31.9%      | 33                | 38.4%      |
| 2014 & Beyond      | 33,675                 | 15.5%      | 719,580                  | 17.7%      | 18                | 20.9%      |
| Total              | 217,955                | 100.0%     | 4,061,456                | 100.0%     | 86                | 100.0%     |

#### Tenancy Duration Profile

| Tenancy Duration                       | Gross Area<br>(sq.ft.) | % of total | Monthly Rental<br>(HK\$) | % of total | No. of<br>Tenancy | % of total |
|--|------------------------|------------|--------------------------|------------|-------------------|------------|
| Below and up to 2 years                | 46,070                 | 21.2%      | 957,038                  | 23.5%      | 28                | 32.5%      |
| More than 2 years and<br>up to 3 years | 165,058                | 75.7%      | 2,967,718                | 73.1%      | 55                | 64.0%      |
| More than 3 years                      | 6,827                  | 3.1%       | 136,700                  | 3.4%       | 3                 | 3.5%       |
| Total                                  | 217,955                | 100.0%     | 4,061,456                | 100.0%     | 86                | 100.0%     |

Valuation Report (continued)

| Property   | Description and tenure   | Particulars of occupancy  | Market Value in existing state as at 31 December 2011 | Estimated Net Property Yield |
|--|--|---|---|------------------------------|
| 3 Commercial Units on 3rd, 5th and 6th Floors, Harbourfront Landmark, 11 Wan Hoi Street, Hung Hom, Kowloon | The Property comprises commercial portion on 3rd, 5th and 6th floors within a mixed-use development called Harbourfront Landmark, which comprises three blocks of 50 to 60-storey residential towers built over a level of clubhouse, 3 levels of commercial podium and 2 levels of carparking (including a basement). It is erected on a registered site area of approximately 7,402 sq.m. (79,675 sq.ft.), and was built in 2001.  | The Property is let under three tenancies with the latest expiry in October 2014. Total net monthly rental income is approximately HK\$1,400,000 exclusive of Government rates and rent, management fees and utility charges. | HK\$397,000,000                                       | 4.2%                         |
| 7,031/74,479th undivided parts or shares of and in Kowloon Inland Lot No. 11055.                           | <p>The Basement and the Lower 1st Floor of the development are used for carparking purposes whilst the upper 1st Floor is for lobby and circulation purposes. The 3rd to 6th Floors (4th floor number is omitted) are for commercial uses whilst the 7th Floor of the development is for a clubhouse. The remaining upper floors of the 3 residential towers are for domestic uses.</p> <p>The Property comprises the three commercial floors within the development with a total gross area of approximately 7,155.43 sq.m. (77,021 sq.ft.). The total saleable area is approximately 5,875.98 sq.m. (63,249 sq.ft.).</p> <p>Kowloon Inland Lot No. 11055 is held under Conditions of Sale No. UB12460 for a term from 3 June 1997 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the Property.</p> | The Property is currently 100% occupied.  |   |                              |

Notes:

- (1) The registered owner of the Property is Harbour Champ Limited.
- (2) The Property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.
- (3) The Property lies within an area zoned "Residential (Group A) (Sub-group 3)" under Hung Hom Outline Zoning Plan SIK9/24.
- (4) In accordance with the Property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.
- (5) Estimated net property yield is based on the net monthly rental income for December 2011.

(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<br>(sq.ft.) | % of total | Monthly Rental<br>(HK\$) | % of total | No. of<br>Tenancy | % of total |
|---------------|------------------------|------------|--------------------------|------------|-------------------|------------|
| 2009 & Before | —                      | —          | —                        | —          | —                 | —          |
| 2010          | —                      | —          | —                        | —          | —                 | —          |
| 2011          | 77,021                 | 100.0%     | 1,399,180                | 100.0%     | 3                 | 100.0%     |
| Total         | 77,021                 | 100.0%     | 1,399,180                | 100.0%     | 3                 | 100.0%     |

#### Tenancy Expiry Profile

| Year               | Gross Area<br>(sq.ft.) | % of total | Monthly Rental<br>(HK\$) | % of total | No. of<br>Tenancy | % of total |
|--------------------|------------------------|------------|--------------------------|------------|-------------------|------------|
| 31 Dec 2011 & 2012 | —                      | —          | —                        | —          | —                 | —          |
| 2013               | —                      | —          | —                        | —          | —                 | —          |
| 2014 & Beyond      | 77,021                 | 100.0%     | 1,399,180                | 100.0%     | 3                 | 100.0%     |
| Total              | 77,021                 | 100.0%     | 1,399,180                | 100.0%     | 3                 | 100.0%     |

#### Tenancy Duration Profile

| Tenancy Duration                       | Gross Area<br>(sq.ft.) | % of total | Monthly Rental<br>(HK\$) | % of total | No. of<br>Tenancy | % of total |
|--|------------------------|------------|--------------------------|------------|-------------------|------------|
| Below and up to 2 years                | —                      | —          | —                        | —          | —                 | —          |
| More than 2 years and<br>up to 3 years | 77,021                 | 100.0%     | 1,399,180                | 100.0%     | 3                 | 100.0%     |
| More than 3 years                      | —                      | —          | —                        | —          | —                 | —          |
| Total                                  | 77,021                 | 100.0%     | 1,399,180                | 100.0%     | 3                 | 100.0%     |



Valuation Report (continued)

| Property   | Description and tenure   | Particulars of occupancy   | Market Value in existing state as at 31 December 2011 | Estimated Net Property Yield |
|--|--|--|---|------------------------------|
| 4 Prosperity Place,<br>6 Shing Yip Street,<br>Kwun Tong, Kowloon | Prosperity Place (the "Property") is a 27-storey industrial/office building with ancillary parking and loading/unloading facilities erected on a registered site area of approximately 1,858.06 sq.m. (20,000 sq.ft.). The Property was built in 1996.               | The workshop/office portion of the Property is let under various tenancies for various terms with the latest expiry in October 2014. Total net monthly rental income is approximately HK\$2,500,000 exclusive of Government rates and rent, management fees and utility charges.   | HK\$1,006,000,000                                     | 3.3%                         |
| Kun Tong Inland Lot No. 62.                                      | Portion of the Ground Floor, 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 workshop/office purposes. | The overall occupancy rate is approximately 99.2% (including the leasing office but excluding carparking spaces).  |   |                              |
|  | The Property comprises the entire workshop/office units with a total gross area of approximately 22,296.54 sq.m. (240,000 sq.ft.). The total saleable area is approximately 14,754.09 sq.m. (158,813 sq.ft.).  | The carparking spaces of the Property are let on monthly and hourly basis generating an average gross monthly income of approximately HK\$285,000 from January 2011 to December 2011 exclusive of Government rates and rent, and utility charges but inclusive of management fees. |   |                              |
|  | The Property also consists of a total of 60 carparking spaces within the building.   |  |   |                              |
|  | Kun Tong Inland Lot No. 62 is held under a Government Lease for a term expiring on 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the Property.   |  |   |                              |

Notes:

- (1) The registered owner of the Property is Bandick Limited.
- (2) The Property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.
- (3) The Property lies within an area zoned "Other Specified Uses (For "Business" only)" under Kwun Tong South Outline Zoning Plan SIK14S/16.
- (4) In accordance with the Property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.
- (5) Estimated net property yield is based on the net monthly rental income for December 2011 and the average gross monthly car parking income for the period of January 2011 to December 2011.
- (6) According to Memorandum (change of name of building) vide Memorandum No. 09071001040025 dated on 12 June 2009, the building name of the Property (i.e. "Modern Warehouse") has been changed to "Prosperity Place".

- (7) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces and leasing office of 956 sq.ft.) is set out below:

#### Tenancy Commencement Profile

| Year          | Gross Area (sq.ft.) | % of total | Monthly Rental (HK\$) | % of total | No. of Tenancy | % of total |
|---------------|---------------------|------------|-----------------------|------------|----------------|------------|
| 2009 & Before | 59,029              | 24.9%      | 542,292               | 21.7%      | 27             | 21.1%      |
| 2010          | 100,422             | 42.3%      | 1,026,790             | 41.0%      | 63             | 49.2%      |
| 2011          | 77,718              | 32.8%      | 932,316               | 37.3%      | 38             | 29.7%      |
| Total         | 237,169             | 100.0%     | 2,501,398             | 100.0%     | 128            | 100.0%     |

#### Tenancy Expiry Profile

| Year               | Gross Area (sq.ft.) | % of total | Monthly Rental (HK\$) | % of total | No. of Tenancy | % of total |
|--------------------|---------------------|------------|-----------------------|------------|----------------|------------|
| 31 Dec 2011 & 2012 | 133,990             | 56.5%      | 1,335,690             | 53.4%      | 83             | 64.8%      |
| 2013               | 72,983              | 30.8%      | 807,747               | 32.3%      | 34             | 26.6%      |
| 2014 & Beyond      | 30,196              | 12.7%      | 357,961               | 14.3%      | 11             | 8.6%       |
| Total              | 237,169             | 100.0%     | 2,501,398             | 100.0%     | 128            | 100.0%     |

#### Tenancy Duration Profile

| Tenancy Duration                    | Gross Area (sq.ft.) | % of total | Monthly Rental (HK\$) | % of total | No. of Tenancy | % of total |
|-------------------------------------|---------------------|------------|-----------------------|------------|----------------|------------|
| Below and up to 2 years             | 64,782              | 27.3%      | 697,790               | 27.9%      | 43             | 33.6%      |
| More than 2 years and up to 3 years | 172,387             | 72.7%      | 1,803,608             | 72.1%      | 85             | 66.4%      |
| More than 3 years                   | —                   | —          | —                     | —          | —              | —          |
| Total                               | 237,169             | 100.0%     | 2,501,398             | 100.0%     | 128            | 100.0%     |

Valuation Report (continued)

| Property  | Description and tenure  | Particulars of occupancy   | Market Value in existing state as at 31 December 2011 | Estimated Net Property Yield |
|---|---|--|---|------------------------------|
| 5 Trendy Centre,<br>682 Castle Peak Road,<br>Cheung Sha Wan,<br>Kowloon | Trendy Centre (the "Property") is a 30-storey industrial/office building with ancillary parking and loading/unloading facilities erected on a registered site area of approximately 1,393.50 sq.m. (15,000 sq.ft.). The Property was built in 1998.   | The industrial/office portion of the Property is let under various tenancies for various terms with the latest expiry in July 2014. Total net monthly rental income of approximately HK\$2,190,000 exclusive of Government rates and rent, management fees and utility charges.  | HK\$732,000,000                                       | 4.1%                         |
| New Kowloon Inland Lot No. 6224.  | <p>Portion of the Ground Floor, 1st to 3rd Floors are for carparking and/or loading/unloading purposes whereas the remaining portion of the Ground Floor is used for lobby and retail shops. The upper floors from the 5th to 33rd floors (4th, 13th, 14th and 24th floor number is omitted) are designed for industrial/office purposes.</p> <p>The Property comprises the entire units within the building with a total gross area of approximately 16,143.07 sq.m. (173,764 sq.ft.). The total saleable area is approximately 10,934.23 sq.m. (117,696 sq.ft.).</p> <p>The Property also consists of 79 carparking spaces within the building.</p> <p>New Kowloon Inland Lot No. 6224 is held under Conditions of Exchange No. 12399 for a term from 24 July 1996 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the Property.</p> | <p>The overall occupancy rate is approximately 97.1% (including the leasing office but excluding carparking spaces).</p> <p>The carparking spaces of the Property are let on monthly and hourly basis generating an average gross monthly income of approximately HK\$319,000 from January 2011 to December 2011 exclusive of Government rates and rent, and utility charges but inclusive of management fees.</p> |   |                              |

Notes:

- (1) The registered owner of the Property is Top Easy Profits Limited.
- (2) The Property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.
- (3) The Property lies within an area zoned "Other Specified Uses (For "Business 1" Only)" under Cheung Sha Wan Outline Zoning Plan S/K5/33.
- (4) In accordance with the Property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.
- (5) Estimated net property yield is based on the net monthly rental income for December 2011 and the average gross monthly car parking income for the period of January 2011 to December 2011.

- (6) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces and leasing office of 1,412 sq.ft.) is set out below:

#### Tenancy Commencement Profile

| Year          | Gross Area (sq.ft.) | % of total | Monthly Rental (HK\$) | % of total | No. of Tenancy | % of total |
|---------------|---------------------|------------|-----------------------|------------|----------------|------------|
| 2009 & Before | 11,057              | 6.6%       | 195,134               | 8.9%       | 8              | 5.3%       |
| 2010          | 63,507              | 37.9%      | 763,900               | 35.0%      | 62             | 41.1%      |
| 2011          | 92,814              | 55.5%      | 1,227,150             | 56.1%      | 81             | 53.6%      |
| Total         | 167,378             | 100.0%     | 2,186,184             | 100.0%     | 151            | 100.0%     |

#### Tenancy Expiry Profile

| Year               | Gross Area (sq.ft.) | % of total | Monthly Rental (HK\$) | % of total | No. of Tenancy | % of total |
|--------------------|---------------------|------------|-----------------------|------------|----------------|------------|
| 31 Dec 2011 & 2012 | 60,837              | 36.3%      | 839,634               | 38.4%      | 64             | 42.4%      |
| 2013               | 76,987              | 46.0%      | 954,700               | 43.7%      | 59             | 39.1%      |
| 2014 & Beyond      | 29,554              | 17.7%      | 391,850               | 17.9%      | 28             | 18.5%      |
| Total              | 167,378             | 100.0%     | 2,186,184             | 100.0%     | 151            | 100.0%     |

#### Tenancy Duration Profile

| Tenancy Duration                    | Gross Area (sq.ft.) | % of total | Monthly Rental (HK\$) | % of total | No. of Tenancy | % of total |
|-------------------------------------|---------------------|------------|-----------------------|------------|----------------|------------|
| Below and up to 2 years             | 46,498              | 27.8%      | 614,300               | 28.1%      | 45             | 29.8%      |
| More than 2 years and up to 3 years | 120,880             | 72.2%      | 1,571,884             | 71.9%      | 106            | 70.2%      |
| More than 3 years                   | —                   | —          | —                     | —          | —              | —          |
| Total                               | 167,378             | 100.0%     | 2,186,184             | 100.0%     | 151            | 100.0%     |



Valuation Report (continued)

| Property  | Description and tenure   | Particulars of occupancy   | Market Value in existing state as at 31 December 2011 | Estimated Net Property Yield |
|---|--|--|---|------------------------------|
| 6   | Portion of Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon (see note(1))  | 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.  | HK\$636,000,000                                       | 3.9%                         |
| 12,014/22,510th undivided parts or shares of and in Kwun Tong Inland Lot No. 729. | <p>Portion of the Ground Floor, 2nd to 5th Floors of the building (1st, and 4th floor numbers are omitted) are for carparking and/or loading/unloading purposes whereas the remaining portion of the Ground Floor and upper floors from the 6th to 30th Floors (13th, 14th and 24th floor numbers are omitted) are for office/workshop purposes.</p> <p>The Property comprises portion of Prosperity Center with a total gross area of approximately 13,865.94 sq.m. (149,253 sq.ft.). The total saleable area is approximately 10,095.60 sq.m. (108,669 sq.ft.).</p> <p>The Property also consists of 105 carparking spaces comprising 91 private carparking spaces, 13 lorry parking spaces and 1 container parking space within the building.</p> <p>Kwun Tong Inland Lot No. 729 is held under Conditions of Exchange No. 12317 for a term from 6 August 1994 to 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the Property.</p> | <p>The office/workshop portion of the Property is let under various tenancies for various terms with the latest expiry in November 2014. Total net monthly rental income of approximately HK\$1,770,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The overall occupancy rate is 99.2% (excluding carparking spaces).</p> <p>The carparking spaces of the Property are let on monthly and hourly basis generating an average gross monthly income of approximately HK\$282,000 from January 2011 to December 2011 exclusive of Government rates and rent, and utility charges but inclusive of management fees.</p> |   |                              |

Notes:

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

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

- (3) The Property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation (excluding units 1001–1010 on 10th Floor and units 2601–2603 and 2605 on 26th Floor).
- (4) The Property lies within an area zoned “Other Specified Uses (For “Business” only)” under Kwun Tong South Outline Zoning Plan S/K14S/16.
- (5) In accordance with the Property owner’s standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.
- (6) Estimated net property yield is based on the net monthly rental income for December 2011 and the average gross monthly car parking income for the period of January 2011 to December 2011.
- (7) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces) is set out below:

#### Tenancy Commencement Profile

| Year          | Gross Area<br>(sq.ft.) | % of total | Monthly Rental<br>(HK\$) | % of total | No. of<br>Tenancy | % of total |
|---------------|------------------------|------------|--------------------------|------------|-------------------|------------|
| 2009 & Before | 39,931                 | 27.0%      | 438,605                  | 24.8%      | 16                | 22.5%      |
| 2010          | 49,567                 | 33.4%      | 542,800                  | 30.8%      | 31                | 43.7%      |
| 2011          | 58,604                 | 39.6%      | 784,000                  | 44.4%      | 24                | 33.8%      |
| Total         | 148,102                | 100.0%     | 1,765,405                | 100.0%     | 71                | 100.0%     |

#### Tenancy Expiry Profile

| Year               | Gross Area<br>(sq.ft.) | % of total | Monthly Rental<br>(HK\$) | % of total | No. of<br>Tenancy | % of total |
|--------------------|------------------------|------------|--------------------------|------------|-------------------|------------|
| 31 Dec 2011 & 2012 | 73,412                 | 49.6%      | 816,155                  | 46.2%      | 40                | 56.3%      |
| 2013               | 60,338                 | 40.7%      | 767,450                  | 43.5%      | 23                | 32.4%      |
| 2014 & Beyond      | 14,352                 | 9.7%       | 181,800                  | 10.3%      | 8                 | 11.3%      |
| Total              | 148,102                | 100.0%     | 1,765,405                | 100.0%     | 71                | 100.0%     |

#### Tenancy Duration Profile

| Tenancy Duration                       | Gross Area<br>(sq.ft.) | % of total | Monthly Rental<br>(HK\$) | % of total | No. of<br>Tenancy | % of total |
|--|------------------------|------------|--------------------------|------------|-------------------|------------|
| Below and up to 2 years                | 21,845                 | 14.7%      | 254,500                  | 14.4%      | 16                | 22.5%      |
| More than 2 years and<br>up to 3 years | 126,257                | 85.3%      | 1,510,905                | 85.6%      | 55                | 77.5%      |
| More than 3 years                      | —                      | —          | —                        | —          | —                 | —          |
| Total                                  | 148,102                | 100.0%     | 1,765,405                | 100.0%     | 71                | 100.0%     |

Valuation Report (continued)

| Property  | Description and tenure   | Particulars of occupancy  | Market Value in existing state as at 31 December 2011 | Estimated Net Property Yield |
|---|--|---|---|------------------------------|
| 7<br>Portion of New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon (see note (1))<br><br>11,163/26,198th 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 1,304.35 sq.m. (14,040 sq.ft.), and was built in 1995.</p> <p>Portion of the Ground Floor and Mezzanine of the building are for carparking and/or loading/unloading purposes whereas the remaining upper floors from the 1st to 31st Floors (4th, 14th and 24th floor numbers are omitted) are used for factory purposes.</p> <p>The Property comprises portion of New Treasure Centre, with a total gross area of approximately 8,005.20 sq.m. (86,168 sq.ft.). The total saleable area is approximately 5,947.70 sq.m. (64,021 sq.ft.).</p> <p>The Property also consists of flat roof areas on the 1st Floor with a total area of approximately 401.99 sq.m. (4,327 sq.ft.) and 22 carparking spaces within the building.</p> <p>New Kowloon Inland Lot No. 4864 is held under Government Lease for a term expiring on 30 June 2047 at an annual rent equivalent to 3% of the rateable value for the time being of the Property.</p> | <p>The factory portion of the Property is let under various tenancies for various terms with the latest expiry in October 2014. Total net monthly rental income of approximately HK\$680,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The Property is currently 100% occupied (excluding carparking spaces).</p> <p>The carparking spaces of the Property are let on monthly and hourly basis generating an average gross monthly income of approximately HK\$134,000 from January 2011 to December 2011 exclusive of Government rates and rent, and utility charges but inclusive of management fees.</p> | HK\$232,000,000                                       | 4.2%                         |

Notes:

- (1) *The Property comprises Units 101 (and portion of Flat Roof adjacent thereto), 103 (and portion of Flat Roof adjacent thereto) and 107 on 1st Floor, 201–203, 205–207 on 2nd Floor, 301–303, 306 and 307 on 3rd Floor, 501–503, 505–507 on 5th Floor, 603, 606 and 607 on 6th Floor, 703 on 7th Floor, 801–803, 806 and 807 on 8th Floor, 1005 on 10th Floor, 1201–1203, 1205 and 1207 on 12th Floor, 1302, 1303 and 1306 on 13th Floor, 1506 and 1507 on 15th Floor, 1602, 1603, 1605 and 1607 on 16th Floor, 1702, 1703, 1705–1707 on 17th Floor, 1801–1803 and 1805–1807 on 18th Floor, 2202, 2203 and 2205 on 22nd Floor, 2301–2303, 2306 and 2307 on 23rd Floor, 2706 and 2707 on 27th Floor, 2803 on 28th Floor, 2903, 2906 and 2907 on 29th Floor and 22 carparking spaces, New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon.*
- (2) *The registered owner of the Property is Haskins Investments Limited.*
- (3) *The Property is subject to a Mortgage and an Assignment of Proceeds both in favour of Sumitomo Mitsui Banking Corporation.*
- (4) *The Property lies within an area zoned "Other Specified Uses (For "Business" only)" under Tsz Wan Shan, Diamond Hill and San Po Kong Outline Zoning Plan SK11/25.*
- (5) *In accordance with the Property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.*

(6) Estimated net property yield is based on the net monthly rental income for December 2011 and the average gross monthly car parking income for the period of January 2011 to December 2011.

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

#### Tenancy Commencement Profile

| Year          | Gross Area<br>(sq.ft.) | % of total | Monthly Rental<br>(HK\$) | % of total | No. of<br>Tenancy | % of total |
|---------------|------------------------|------------|--------------------------|------------|-------------------|------------|
| 2009 & Before | 8,652                  | 10.0%      | 58,620                   | 8.6%       | 5                 | 9.5%       |
| 2010          | 47,386                 | 55.0%      | 356,710                  | 52.5%      | 27                | 50.9%      |
| 2011          | 30,130                 | 35.0%      | 264,500                  | 38.9%      | 21                | 39.6%      |
| Total         | 86,168                 | 100.0%     | 679,830                  | 100.0%     | 53                | 100.0%     |

#### Tenancy Expiry Profile

| Year               | Gross Area<br>(sq.ft.) | % of total | Monthly Rental<br>(HK\$) | % of total | No. of<br>Tenancy | % of total |
|--------------------|------------------------|------------|--------------------------|------------|-------------------|------------|
| 31 Dec 2011 & 2012 | 51,203                 | 59.4%      | 377,330                  | 55.5%      | 29                | 54.7%      |
| 2013               | 28,553                 | 33.1%      | 243,800                  | 35.9%      | 21                | 39.6%      |
| 2014 & Beyond      | 6,412                  | 7.5%       | 58,700                   | 8.6%       | 3                 | 5.7%       |
| Total              | 86,168                 | 100.0%     | 679,830                  | 100.0%     | 53                | 100.0%     |

#### Tenancy Duration Profile

| Tenancy Duration                       | Gross Area<br>(sq.ft.) | % of total | Monthly Rental<br>(HK\$) | % of total | No. of<br>Tenancy | % of total |
|--|------------------------|------------|--------------------------|------------|-------------------|------------|
| Below and up to 2 years                | 41,722                 | 48.4%      | 345,800                  | 50.9%      | 30                | 56.6%      |
| More than 2 years and<br>up to 3 years | 44,446                 | 51.6%      | 334,030                  | 49.1%      | 23                | 43.4%      |
| More than 3 years                      | —                      | —          | —                        | —          | —                 | —          |
| Total                                  | 86,168                 | 100.0%     | 679,830                  | 100.0%     | 53                | 100.0%     |

## Grade A Office Market Overview

### 1. Introduction

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

### 2. Grade A Office Stock

Grade A office stock in Hong Kong has continuously increased over the past decades with a long-term average supply of 2.2 million sq.ft. per annum. According to the Hong Kong Rating and Valuation Department ("RVD"), the total Grade A office stock in Hong Kong was recorded at 72.59 million sq.ft. at the end of 2010, which accounted for 63% of the total office stock. Colliers expected that Grade A office stock would marginally increase to 73.60 million sq.ft. by the end of 2011 through the addition of about 1 million sq.ft. of net floor area during the year.

According to the RVD, the majority of Grade A office stock is concentrated in Central with about 17.31 million sq.ft. (23.84% of total Grade A office stock). In terms of other sub-districts, Tsim Sha Tsui had Grade A office stock of 8.73 million sq.ft. (12.03%), Island East (North Point/Quarry Bay) had 7.98 million sq.ft. (10.99%), Kwun Tong had 10.84 million sq.ft. (14.93%) and Kwai Tsing/Tsuen Wan had 2.16 million sq.ft. (2.98%) at the end of 2010.

### 3. Grade A Office Supply, Take up and Vacancy

There will be no significant easing on the current tight supply situation with only five new office developments with about 1 million sq.ft. of net floor area due for completion in 2012. New Grade A office supply in 2012 includes the Hotel Ritz Carlton Redevelopment Project (Central) with about 191,000 sq.ft., Hysan Place (Causeway Bay) with about 237,000 sq.ft., 414 Kwun Tong Road (Kwun Tong) with about 204,000 sq.ft., Elite Centre (20–24 Hung To Road, Kwun Tong) with about 176,000 sq.ft. and the 55 King Yip Street & 24 Hing Yip Street Project (Kwun Tong) with about 211,000 sq.ft..

From 2012 to 2013, the sub district of Kowloon East (Kwun Tong/Kowloon Bay) will be the major source of new supply, providing a total of 1.5 million sq.ft. of Grade A office space. Given that there is no new supply in Tsim Sha Tsui and Island East, no serious competition is expected for these two districts during the next few years.

Due to strong rental increases over the years, Hong Kong has observed decentralised relocation trends, as some of the cost-sensitive tenants have been looking for alternative office accommodations away from the core districts. As a result, decentralised business districts, particularly for Kowloon East and Wanchai/Causeway Bay, witnessed strong net take-up in 2011.



According to Colliers, the overall vacancy rate for the Grade A office market was recorded at 4.6% in 4Q 2011, a decline from 4.7% in 3Q 2011. The on-going relocation of cost-sensitive tenants resulted in a downward vacancy trend, particularly in Tsim Sha Tsui, which reached its lowest point at 1.9% in 4Q 2011, while Island East was recorded at 3.9%, and Kowloon East registered at 12.5%.

It is expected that the deterioration in business sentiment caused by the volatile global economy will result in a slowdown of the overall Grade A office leasing demand in 2012. As a result, the average vacancy level of the whole Grade A office market is expected to reach a 10-year historical average of 5.0% in the first half of 2012.

#### 4. Grade A Office Rentals

According to Colliers, the Grade A office market rent of almost all districts surpassed the previous peak of the 2008 rental levels in mid 2011, except the core districts such as Central and Admiralty. For example, during 2011, the rental peak of Kowloon East exceeded its rental peak of 14.3% in 2008, and Island East and Tsim Sha Tsui exceeded their 2008 rental peaks of 13.9% and 1.8% respectively. Although the market has been heading towards a downturn since July 2011, the overall Grade A office market rent increased 16.9% Year-on-Year ("YoY") during 2011, thanks to the outstanding office market performance in the first half of 2011.

The largest increase in 2011 was observed in Kowloon East at 27.3% YoY, followed by Wan Chai/Causeway Bay (26.4% YoY) and Tsim Sha Tsui (23.6% YoY).

#### 5. Forecast

Considering that the general deterioration in business conditions is affecting business expansion plans, increasing numbers of companies have been becoming cautious in regards to hiring. This will progressively weaken the office leasing demand in Hong Kong. However, this is expected to mainly affect the core districts, particularly Central. Due to the anticipated tighter supply situation with only 1.0 million sq.ft. of supply in 2012, the rental decline rate in the core districts is expected to be of a smaller magnitude than those seen in Hong Kong's previous downturns.

According to Colliers, other non-core office markets including Tsim Sha Tsui, Island East and Kowloon East will be able to maintain positive rental growth at a slower pace in 2012. This is mainly due to the continued decentralisation trend in the market.

## Industrial Market Overview

### 1. Introduction

According to the Census and Statistics Department, the value of Hong Kong's total exports increased 8.1% YoY to HK\$271.8 billion in December 2011, mainly led by a better performance of the Mainland market. Of this total, the value of re-exports increased 8.3% YoY to 267.1 billion. Although the external environment has been challenged by advanced markets, in particular those in the United States and the European Union, merchandise exports still attained a double-digit growth rate of 10.1% in value terms for 2011 as a whole, due to the spectacular performance in the first quarter of the year. Of this total, the value of re-exports increased 10.5% YoY.

Given the favourable external trading performance, the Hong Kong industrial property market showed remarkable performance during 2011. Hong Kong industrial properties can be classified into three types, such as Flatted Factories, I-O Buildings and Warehouses. In this report, we will mainly cover the Flatted Factory and I-O Building sectors, which are relevant to the subject properties.

### 2. Industrial Stock

According to the RVD, the total Flatted Factory stock was recorded at 185 million sq.ft. at the end of 2010. Flatted Factory stock has increased with a long-term average annual supply of 2.7 million sq.ft. (on an internal floor area basis) per annum since the late 80's. The largest amount of stock is located in Kwun Tong (19.1%) and Kwai Tsing (19.1%).

On the other hand, I-O Building stock reached 6.3 million sq.ft. at the end of 2010 with a long-term average annual supply of 0.3 million sq.ft. since 1994. About 38.8% of the total I-O Building stock was concentrated in Kwun Tong, followed by stock in Sham Shui Po (22.2%) and Kwai Tsing (15.2%) at the end of 2010.

### 3. Industrial Supply and Vacancy

New supply for both the Flatted Factory and I-O Building sectors has been significantly reduced since 2001. As per the RVD, a total new supply of 221,738 sq.ft. was added to the Flatted Factory market in 2010. In addition, about 411,200 sq.ft. (on an internal floor area basis) was completed in 2011 and it is expected that 431,600 sq.ft. (on an internal floor area basis) of new premises will be completed in 2012. These figures are below the long-term average of 2.7 million sq.ft. per annum. The overall vacancy rate of Flatted Factories edged down to 6.5% in 2010 from 8% in 2009.

According to the RVD, there was no new supply of I-O Buildings from 2009 to 2011, and new completions are not expected in 2012. The overall vacancy rate of I-O Buildings decreased to 8.6% in 2010 from 10% in 2009.

#### 4. Industrial Rental

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

In view of the sustained demand from tenants, industrial rentals increased by double digits during 2011. According to Colliers, the average rental of I-O Buildings increased 15.6% YoY, whereas the average rental of the factory sector increased 19.3% YoY in 4Q 2011.

#### 5. Forecast

Hong Kong's external trade continued to grow, but the pace of growth slowed in 4Q 2011 due to weak economic recovery in the core export markets. This trend might soften the demand in the overall industrial property market during the next few months. The overall industrial rentals for both Flatted Factories and I-O Buildings are expected to see downward adjustments if global economic performance remains sluggish in the coming quarters. However, in 2013, the overall industrial rents are expected to resume positive growth if the global economy improves.

As there is limited supply in the I-O Building sector with its strong correlation to the decentralised office market, which is expecting a positive rental growth forecast in 2012, the I-O Building sector would be less affected from the negative environment.

Despite the uncertain external environment, the market is still seeing some positive demand for industrial properties. For example, demand for financial institutions' data centre facilities and services to support business growth in Mainland China and throughout the region is still present, given that Hong Kong is a major financial and international trading and logistics hub. The growing demand for data centre services has stimulated their operators to seek suitable space, including industrial premises for business expansion.

Furthermore, it is expected that the government's recently announced to transform Kowloon East into a new vibrant business hub will gradually move the overall industrial market in the area upward over the long-term.

# Report of the Trustee

We hereby confirm that, in our opinion, the manager of Prosperity Real Estate Investment Trust has, in all material respects, managed Prosperity Real Estate Investment Trust in accordance with the provisions of the Trust Deed dated 29 November 2005, as amended by the First Supplemental Deed dated 12 December 2005 and the second supplemental Deed dated 15 May 2007 and the third supplemental deed dated 14 May 2008 and the fourth supplemental deed dated 23 July 2010 and the fifth supplemental deed dated 29 December 2011, for the financial year ended 31 December 2011.

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

In its capacity as the trustee of Prosperity Real Estate Investment Trust  
Hong Kong, 20 March 2012

# Independent Auditor's Report

## **TO THE UNITHOLDERS OF PROSPERITY REAL ESTATE INVESTMENT TRUST**

*(A Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong))*

We have audited the consolidated financial statements of Prosperity Real Estate Investment Trust ("Prosperity REIT") and its subsidiaries (collectively referred to as the "Group") set out on pages 93 to 130, which comprise the consolidated statement of financial position as at 31 December 2011, and consolidated statement of comprehensive income, consolidated statement of changes in net assets attributable to unitholders, consolidated statement of cash flows and distribution statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

## Manager's Responsibility for the Consolidated Financial Statements

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

## Auditor's Responsibility

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

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

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



## Opinion

In our opinion, the consolidated financial statements give a true and fair view of the disposition of the assets and liabilities of the Group as at 31 December 2011, and of the Group's results and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the relevant provisions of the Trust Deed and the relevant disclosure requirements set out in Appendix C of the Code.

**Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

20 March 2012

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

|   | Note | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------|------------------|------------------|
| Revenue   | 5    | 275,627          | 270,094          |
| Property management fees  |      | (6,351)          | (6,263)          |
| Property operating expenses   | 6    | (57,764)         | (51,300)         |
| Total property operating expenses   |      | (64,115)         | (57,563)         |
| <b>Net property income</b>  |      | <b>211,512</b>   | 212,531          |
| Interest income   |      | 2,782            | 30               |
| Manager's fee   |      | (32,569)         | (28,631)         |
| Trust and other expenses  | 7    | (6,728)          | (6,801)          |
| Increase in fair value of investment properties                                     |      | 1,044,054        | 670,207          |
| Finance costs   | 8    | (46,202)         | (65,497)         |
| <b>Profit before taxation and transactions with unitholders</b>                     |      | <b>1,172,849</b> | 781,839          |
| Taxation  | 9    | (193,757)        | (129,282)        |
| <b>Profit for the year, before transactions with unitholders</b>                    |      | <b>979,092</b>   | 652,557          |
| Distribution to unitholders   |      | (163,518)        | (147,831)        |
| <b>Profit for the year, after transactions with unitholders</b>                     |      | <b>815,574</b>   | 504,726          |
| <b>Other comprehensive income</b>   |      |                  |                  |
| Change in fair value of cashflow hedge  |      | 11,133           | 3,041            |
| Reclassification adjustment in respect of cash flow hedge                           |      | —                | 9,284            |
| <b>Total other comprehensive income</b>   |      | <b>11,133</b>    | 12,325           |
| <b>Total comprehensive income for the year, after transactions with unitholders</b> |      | <b>826,707</b>   | 517,051          |
| <b>Income available for distribution to unitholders</b>                             |      | <b>163,518</b>   | 147,831          |
| <b>Basic earnings per unit (HK\$)</b>   | 10   | <b>0.72</b>      | 0.49             |

# Distribution Statement

For the year ended 31 December 2011

|   | 2011<br>HK\$'000   | 2010<br>HK\$'000 |
|---|--------------------|------------------|
| <b>Profit for the year, before transactions with unitholders</b>                            | <b>979,092</b>     | 652,557          |
| <b>Adjustments:</b>   |                    |                  |
| Manager's fee   | <b>32,514</b>      | 28,582           |
| Increase in fair value of investment properties   | <b>(1,044,054)</b> | (670,207)        |
| Finance costs   | <b>10,137</b>      | 13,844           |
| Deferred tax  | <b>185,829</b>     | 123,055          |
| <b>Income available for distribution (note (i))</b>   | <b>163,518</b>     | 147,831          |
| <b>Distributions to unitholders:</b>  |                    |                  |
| HK\$0.0595 (2010: HK\$0.0555) per unit for<br>the six months ended 30 June (note (ii))      | <b>80,593</b>      | 74,297           |
| HK\$0.0607 (2010: HK\$0.0546) per unit for<br>the six months ended 31 December (note (iii)) | <b>82,925</b>      | 73,534           |
|   | <b>163,518</b>     | 147,831          |
| <b>Total distribution per unit (HK\$)</b>   | <b>0.1202</b>      | 0.1101           |

Notes:

(i) These adjustments for the current year include:

- manager's fee paid in units of HK\$32,514,000 (2010: HK\$28,582,000) out of the total Manager's fee of HK\$32,569,000 (2010: HK\$28,631,000) (the difference of HK\$55,000 (2010: HK\$49,000) are paid in cash);
- increase in fair value of investment properties of HK\$1,044,054,000 (2010: HK\$670,207,000);
- adjustment in respect of the difference between the accounting finance cost of HK\$46,202,000 (2010: HK\$65,497,000) less cash finance cost of HK\$36,065,000 (2010: HK\$51,653,000); and
- deferred tax provision of HK\$185,829,000 (2010: HK\$123,055,000).

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 Prosperity REIT and its subsidiaries for the relevant financial year, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) which have been recorded in the consolidated statement of comprehensive income for the relevant financial year.

- The distribution per unit of HK\$0.0595 for the six months ended 30 June 2011 (six months ended 30 June 2010: HK\$0.0555) is calculated based on Prosperity REIT's income available for distribution of HK\$80,593,000 (six months ended 30 June 2010: HK\$74,297,000) over 1,355,008,050 units (30 June 2010: 1,338,387,711 units), representing units in issue as at 30 June 2011 plus the number of units issued after the distribution period to the REIT Manager as manager's fee for its service in the second quarter of 2011. The distribution was paid to unitholders on 9 September 2011.
- The distribution per unit of HK\$0.0607 for the six months ended 31 December 2011 (six months ended 31 December 2010: HK\$0.0546) is calculated based on Prosperity REIT's income available for distribution of HK\$82,925,000 (six months ended 31 December 2010: HK\$73,534,000) over 1,365,888,233 units (31 December 2010: 1,346,635,755 units), representing units in issue as at 31 December 2011 plus the number of units issued after the distribution period to the REIT Manager as manager's fee for its service in the last quarter of the relevant distribution year.

# Consolidated Statement of Financial Position

As at 31 December 2011

|  | Note | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|--|------|------------------|------------------|
| <b>ASSETS AND LIABILITIES</b>  |      |                  |                  |
| <b>Non-current assets</b>  |      |                  |                  |
| Investment properties  | 11   | 6,991,000        | 5,934,000        |
| <b>Current assets</b>  |      |                  |                  |
| Trade and other receivables  | 12   | 8,265            | 8,002            |
| Tax recoverable  |      | 44               | 261              |
| Bank balances and cash   | 13   | 52,945           | 29,832           |
| Total current assets   |      | 61,254           | 38,095           |
| <b>Total assets</b>  |      | <b>7,052,254</b> | 5,972,095        |
| <b>Non-current liabilities, excluding net assets attributable to unitholders</b> |      |                  |                  |
| Derivative financial instruments   | 14   | 21,178           | 32,311           |
| Secured term loan  | 15   | 1,733,270        | 1,723,933        |
| Deferred tax liabilities   | 16   | 574,169          | 388,340          |
| Total non-current liabilities, excluding net assets attributable to unitholders  |      | 2,328,617        | 2,144,584        |
| <b>Current liabilities</b>   |      |                  |                  |
| Trade and other payables   | 17   | 133,038          | 115,095          |
| Amount due to related companies  | 18   | 11,431           | 8,113            |
| Secured revolving loan   | 15   | 35,000           | 26,000           |
| Provision for taxation   |      | 320              | 3,069            |
| Manager's fee payable  |      | 8,640            | 7,577            |
| Distribution payable   |      | 82,925           | 73,534           |
| Total current liabilities  |      | 271,354          | 233,388          |
| <b>Total liabilities, excluding net assets attributable to unitholders</b>       |      | <b>2,599,971</b> | 2,377,972        |
| <b>Net assets attributable to unitholders</b>                                    |      | <b>4,452,283</b> | 3,594,123        |
| <b>Units in issue ('000)</b>   | 19   | <b>1,360,443</b> | 1,342,637        |
| <b>Net asset value per unit (HK\$) attributable to unitholders</b>               | 20   | <b>3.29</b>      | 2.70             |

The consolidated financial statements on pages 93 to 130 were approved and authorised for issue by REIT Manager on 20 March 2012 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 2011

|  | Issued<br>units<br>HK\$'000 | Unit issue<br>costs<br>HK\$'000 | Hedging<br>reserve<br>HK\$'000 | Retained<br>profits<br>HK\$'000 | Total<br>HK\$'000 |
|--|-----------------------------|---------------------------------|--------------------------------|---------------------------------|-------------------|
| Net assets attributable to unitholders as<br>at 1 January 2011   | 2,827,131                   | (91,278)                        | (32,311)                       | 890,581                         | 3,594,123         |
| <b>OPERATIONS</b>  |                             |                                 |                                |                                 |                   |
| Profit for the year, before transactions<br>with unitholders     | —                           | —                               | —                              | 979,092                         | 979,092           |
| Distribution paid and payable                                    | —                           | —                               | —                              | (163,518)                       | (163,518)         |
| Change in fair value of cashflow hedge                           | —                           | —                               | 11,133                         | 815,574                         | 815,574           |
| Total comprehensive income for the year                          | —                           | —                               | 11,133                         | —                               | 11,133            |
| <b>UNITHOLDERS' TRANSACTIONS OTHER<br/>THAN DISTRIBUTIONS</b>    |                             |                                 |                                |                                 |                   |
| Units issued to REIT Manager                                     | 31,453                      | —                               | —                              | —                               | 31,453            |
| Net assets attributable to unitholders as at<br>31 December 2011 | 2,858,584                   | (91,278)                        | (21,178)                       | 1,706,155                       | 4,452,283         |

## For the year ended 31 December 2010

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



# Consolidated Statement of Cash Flows

For the year ended 31 December 2011

|  | 2011<br>HK\$'000   | 2010<br>HK\$'000 |
|--|--------------------|------------------|
| <b>Operating activities</b>  |                    |                  |
| Profit before taxation and transactions with unitholders                               | <b>1,172,849</b>   | 781,839          |
| Adjustments for:   |                    |                  |
| Allowance for doubtful debts   | <b>108</b>         | 27               |
| Manager's fees   | <b>32,514</b>      | 28,582           |
| Increase in fair value of investment properties  | <b>(1,044,054)</b> | (670,207)        |
| Interest income  | <b>(2,782)</b>     | (30)             |
| Finance costs  | <b>46,202</b>      | 65,497           |
| Operating cashflow before working capital changes                                      | <b>204,837</b>     | 205,708          |
| Increase in amount due to related companies  | <b>3,318</b>       | 1,193            |
| (Increase) decrease in trade and other receivables                                     | <b>(371)</b>       | 206              |
| Increase in trade and other payables   | <b>17,943</b>      | 237              |
| Increase in Manager's fee payable  | <b>2</b>           | 1                |
| Cash generated from operations   | <b>225,729</b>     | 207,345          |
| Income tax paid  | <b>(10,460)</b>    | (4,373)          |
| Net cash from operating activities   | <b>215,269</b>     | 202,972          |
| <b>Investing activities</b>  |                    |                  |
| Interest received  | <b>2,782</b>       | 30               |
| Additional expenditure to investment properties  | <b>(12,946)</b>    | (7,793)          |
| Net cash used in investing activities  | <b>(10,164)</b>    | (7,763)          |
| <b>Financing activities</b>  |                    |                  |
| Origination fees   | <b>(800)</b>       | (46,500)         |
| Drawdown of secured revolving loan   | <b>9,000</b>       | 26,000           |
| Interest payment of term loan and revolving loan                                       | <b>(36,065)</b>    | (51,653)         |
| Distribution to unitholders  | <b>(154,127)</b>   | (146,597)        |
| Net cash used in financing activities  | <b>(181,992)</b>   | (218,750)        |
| Net increase (decrease) in cash and cash equivalents                                   | <b>23,113</b>      | (23,541)         |
| Cash and cash equivalents at beginning of the year                                     | <b>29,832</b>      | 53,373           |
| <b>Cash and cash equivalents at end of year, represented by bank balances and cash</b> | <b>52,945</b>      | 29,832           |

# Notes to the Financial Statements

For the year ended 31 December 2011

## 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 deed of trust dated 29 November 2005 (as amended) (the "Trust Deed") made between ARA Asset Management (Prosperity) Limited (the "REIT Manager") and HSBC Institutional Trust Services (Asia) Limited (the "Trustee"), and the Code on Real Estate Investment Trusts issued by the Securities and Futures Commission.

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

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

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

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

### (a) Property management fees

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

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

### (b) Marketing services

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

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

## 1 General *(continued)*

### (c) Trustee's fees

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

### (d) Manager's fees

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

#### **Base fee**

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

#### **Variable fee**

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

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

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

|                               |   |
|-------------------------------|---|
| Amendments to HKFRSs          | Improvements to HKFRSs issued in 2010                       |
| HKAS 24 (as revised in 2009)  | Related Party Disclosures                                   |
| HKAS 32 (Amendments)          | Classification of Rights Issues                             |
| HK(IFRIC)-Int 14 (Amendments) | Prepayments of a Minimum Funding Requirement                |
| HK (IFRIC)-Int 19             | Extinguishing Financial Liabilities with Equity Instruments |

The application of the new and revised HKFRSs 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.

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

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

|                                  |   |
|----------------------------------|---|
| HKFRS 1 (Amendments)             | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters <sup>1</sup> |
| HKFRS 7 (Amendments)             | Disclosures — Transfers of Financial Assets <sup>1</sup>                              |
| HKFRS 7 (Amendments)             | Disclosures — Offsetting Financial Assets and Financial Liabilities <sup>2</sup>      |
| HKFRS 9                          | Financial Instruments <sup>3</sup>  |
| HKFRS 9 and HKFRS 7 (Amendments) | Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>3</sup>           |
| HKFRS 10                         | Consolidated Financial Statements <sup>2</sup>  |
| HKFRS 11                         | Joint Arrangements <sup>2</sup>   |
| HKFRS 12                         | Disclosure of Interests in Other Entities <sup>2</sup>                                |
| HKFRS 13                         | Fair Value Measurement <sup>2</sup>   |
| HKAS 1 (Amendments)              | Presentation of Items of Other Comprehensive Income <sup>5</sup>                      |
| HKAS 12 (Amendments)             | Deferred Tax: Recovery of Underlying Assets <sup>4</sup>                              |
| HKAS 19 (Revised 2011)           | Employee Benefits <sup>2</sup>  |
| HKAS 27 (Revised 2011)           | Separate Financial Statements <sup>2</sup>  |
| HKAS 28 (Revised 2011)           | Investments in Associates and Joint Ventures <sup>2</sup>                             |
| HKAS 32 (Amendments)             | Offsetting Financial Assets and Financial Liabilities <sup>6</sup>                    |
| HK(IFRIC)-Int 20                 | Stripping Costs in the Production Phase of a Surface Mine <sup>2</sup>                |

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2013

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2015

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2012

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

<sup>6</sup> Effective for annual periods beginning on or after 1 January 2014

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The REIT Manager does not anticipate that these amendments to HKFRS 7 will have a significant effect on the Group’s disclosures for the current year. However, if the Group enters into transfers of financial assets in the future, disclosures regarding those transfers may be affected.

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

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

Key requirements of HKFRS 9 are described as follows:

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

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

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

### 3 Significant Accounting Policies

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

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

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

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 of the Group, the Group has sufficient working capital for its present requirements within one year from the end of reporting period. Hence, the consolidated financial statements have been prepared on a going concern basis.

#### (b) Basis of consolidation

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

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

#### (c) Investment properties

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

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

#### (d) Financial instruments

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

### 3 Significant Accounting Policies (continued)

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

##### **Financial assets**

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

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

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

Financial assets are assessed for indicators of impairment at the end of the reporting period. Financial assets are 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.

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

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

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

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

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

##### **Financial liabilities**

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

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

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

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

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

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

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

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

### 3 Significant Accounting Policies (continued)

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

##### **Derivative financial instruments and hedging (continued)**

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

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

Amounts accumulated in hedging reserve are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of comprehensive income as the recognised hedged item.

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

##### **Derecognition**

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

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly and accumulated in hedging reserve is recognised in profit or loss.

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



### 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) Leasing

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

#### (g) Revenue recognition

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

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

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

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

#### (h) Borrowings cost

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

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

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

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

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

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

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

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

## 4 Financial Instruments

### (a) Categories of financial instruments

|  | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|--|------------------|------------------|
| <b>Loans and receivables</b>   |                  |                  |
| Trade receivables  | 96               | 376              |
| Bank balances and cash   | 52,945           | 29,832           |
|  | <b>53,041</b>    | 30,208           |
| <b>Financial liabilities</b>   |                  |                  |
| <i>Derivative instruments in designated hedge<br/>accounting relationships</i> |                  |                  |
| Interest rate swap   | 21,178           | 32,311           |
| <b>Financial liabilities at amortised costs</b>                                |                  |                  |
| Trade payables   | 2,468            | 562              |
| Amount due to related companies  | 11,431           | 8,113            |
| Secured term loan  | 1,733,270        | 1,723,933        |
| Secured revolving loan   | 35,000           | 26,000           |
| Manager's fee payable  | 8,640            | 7,577            |
| Distribution payable   | 82,925           | 73,534           |
|  | <b>1,873,734</b> | 1,839,719        |
| Unitholders' funds   | <b>4,452,283</b> | 3,594,123        |

Details of the financial instruments are disclosed in respective notes.

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

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

## 4 Financial Instruments (continued)

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

#### (i) Interest rate risk

The Group is primarily exposed to cash flow interest rate risk in relation to variable-rate bank borrowings (see note 15 for details of these borrowings). The Group manage its exposure to interest rate movements on its bank borrowings by swapping a majority proportion of these borrowing from floating rates to fixed rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in interest rate on its secured term loan. These interest rate swaps are designated as effective hedging instruments and hedge accounting is used (see note 14 for details).

If the interest rates have been higher by 50 basis points and all other variables were held constant, the profit for the year would decrease and other comprehensive income recognised in equity would increase by approximately HK\$6,100,000 (2010: HK\$7,900,000) and HK\$25,000,000 (HK\$35,000,000) respectively arising from unhedged portion of borrowings and the fair value of interest rate swap, respectively. If the interest rates have been lower by 50 basis points and all other variable were held constant, there would be an equal and opposite impact on the profit and other comprehensive income.

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

#### (ii) Credit risk

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

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

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

## 4 Financial Instruments *(continued)*

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

#### (ii) Credit risk *(continued)*

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

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

#### (iii) Liquidity risk management

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

As at 31 December 2011, the Group has a bank loan facility of HK\$2,200,000,000, (2010: HK\$2,200,000,000) comprising a HK\$1,770,000,000 (2010: HK\$1,770,000,000) term loan and a HK\$430,000,000 (2010: HK\$430,000,000) revolving credit facility. The term loan facility was fully drawn on 16 December 2010 and revolving credit facility of HK\$35,000,000 (2010: HK\$26,000,000) was drawn as at the end of reporting period. The term loan is repayable five years from 16 August 2010. The revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity. Other than certain investment properties, with aggregate carrying value of HK\$6,933,000,000 (2010: HK\$5,887,600,000) which have been pledged to secure banking facilities granted to the Group, the Group, with a cash balance of HK\$52,945,000 (2010: HK\$29,832,000) and available unutilised revolving credit facility of approximately HK\$395,000,000 (2010: HK\$404,000,000) as at 31 December 2011, has sufficient financial resources to satisfy its commitments and working capital requirements.

#### *Liquidity risk*

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

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



## 4 Financial Instruments (continued)

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

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

##### Liquidity risk (continued)

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

|                                     | Weighted<br>average<br>interest rate<br>% | Less than<br>1 month<br>or on<br>demand<br>HK\$'000 | 1-3<br>months<br>HK\$'000 | 3 months<br>to 1 year<br>HK\$'000 | More than<br>1 year<br>HK\$'000 | Total<br>undiscounted<br>cash flow<br>HK\$'000 | Carrying<br>amount at<br>31/12/2011<br>HK\$'000 |
|-------------------------------------|---|---|---------------------------|-----------------------------------|---------------------------------|--|---|
| <b>2011</b>                         |   |   |                           |                                   |                                 |  |   |
| <b>Non-derivative</b>               |   |   |                           |                                   |                                 |  |   |
| Trade payables                      | —   | 2,468   | —                         | —                                 | —                               | 2,468  | 2,468   |
| Tenants' deposits                   | —   | 5,747   | 3,502                     | 30,237                            | 54,852                          | 94,338   | 94,338  |
| Amount due to related companies     | —   | 11,431  | —                         | —                                 | —                               | 11,431   | 11,431  |
| Secured term loan                   | 1.17%                                     | 1,699   | 3,233                     | 15,194                            | 1,824,876                       | 1,845,002                                      | 1,733,270                                       |
| Secured revolving loan              | 1.08%                                     | 35,034  | —                         | —                                 | —                               | 35,034   | 35,000  |
| Manager's fee payable               | —   | 8,640   | —                         | —                                 | —                               | 8,640  | 8,640   |
| Distribution payable                | —   | —   | —                         | 82,925                            | —                               | 82,925   | 82,925  |
| Cash outflow                        |   | 65,019  | 6,735                     | 128,356                           | 1,879,728                       | 2,079,838                                      | 1,968,072                                       |
| <b>Derivatives — net settlement</b> |   |   |                           |                                   |                                 |  |   |
| Interest rate swap, cash outflow    |   | 1,221   | 2,323                     | 10,728                            | 33,618                          | 47,890   | 21,178  |
| <b>2010</b>                         |   |   |                           |                                   |                                 |  |   |
| <b>Non-derivative</b>               |   |   |                           |                                   |                                 |  |   |
| Trade payables                      | —   | 562   | —                         | —                                 | —                               | 562  | 562   |
| Tenants' deposits                   | —   | 8,960   | 2,530                     | 16,723                            | 48,363                          | 76,576   | 76,576  |
| Amount due to related companies     | —   | 8,113   | —                         | —                                 | —                               | 8,113  | 8,113   |
| Secured term loan                   | 1.06%                                     | 1,593   | 3,033                     | 15,678                            | 1,857,319                       | 1,877,623                                      | 1,723,933                                       |
| Secured revolving loan              | 1.06%                                     | 26,013  | —                         | —                                 | —                               | 26,013   | 26,000  |
| Manager's fee payable               | —   | 7,577   | —                         | —                                 | —                               | 7,577  | 7,577   |
| Distribution payable                | —   | —   | —                         | 73,534                            | —                               | 73,534   | 73,534  |
| Cash outflow                        |   | 52,818  | 5,563                     | 105,935                           | 1,905,682                       | 2,069,998                                      | 1,916,295                                       |
| <b>Derivatives — net settlement</b> |   |   |                           |                                   |                                 |  |   |
| Interest rate swap, cash outflow    |   | 1,305   | 2,483                     | 10,342                            | 38,463                          | 52,593   | 32,311  |

## 4 Financial Instruments *(continued)*

### (c) Fair value

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

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

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

## 5 Revenue

|   | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------------------|------------------|
| Gross rental from investment properties |                  |                  |
| Rental income                           | <b>214,291</b>   | 209,683          |
| Car park income                         | <b>18,226</b>    | 17,206           |
|   | <b>232,517</b>   | 226,889          |
| Rental related income                   | <b>43,110</b>    | 43,205           |
|   | <b>275,627</b>   | 270,094          |

## 6 Property Operating Expenses

|   | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------------------|------------------|
| Building management fees                  | 27,775           | 25,623           |
| Utilities                                 | 6,506            | 6,434            |
| Government rent and rates                 | 163              | 161              |
| Car park operating expenses               | 4,137            | 3,986            |
| Marketing service fee                     | 8,665            | 5,883            |
| Lease commission                          | 2,606            | 1,726            |
| Repairs and maintenance                   | 2,522            | 2,839            |
| Legal cost and stamp duty                 | 1,374            | 958              |
| Secretarial fee                           | 619              | 563              |
| Valuation fees (paid to principal valuer) | 168              | 122              |
| Audit fee                                 | 1,074            | 1,123            |
| Tax fees                                  | 193              | 275              |
| Back-office support service fee           | 832              | 756              |
| Others                                    | 1,130            | 851              |
|   | <b>57,764</b>    | 51,300           |

## 7 Trust and Other Expenses

|                                   | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|-----------------------------------|------------------|------------------|
| Audit fee                         | 193              | 248              |
| Trustee's fee                     | 1,915            | 1,634            |
| Bank charges                      | 847              | 375              |
| Legal and professional fees       | 608              | 562              |
| Registrar fee                     | 600              | 695              |
| Back-office support service fee   | 58               | 37               |
| Public relations-related expenses | 356              | 228              |
| Trust administrative expenses     | 2,151            | 3,022            |
|                                   | <b>6,728</b>     | 6,801            |

## 8 Finance Costs

|  | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|--|------------------|------------------|
| Interest expense on:                                     |                  |                  |
| Secured term loan  | 29,441           | 17,479           |
| Release of hedging reserve                               | —                | 9,284            |
| Equalisation of interest expense through cashflow hedges | 14,898           | 38,717           |
|  | <b>44,339</b>    | 65,480           |
| Secured revolving loan                                   | 1,863            | 17               |
|  | <b>46,202</b>    | 65,497           |

## 9 Taxation

|                        | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|------------------------|------------------|------------------|
| Current tax            | 7,928            | 6,227            |
| Deferred tax (note 16) | 185,829          | 123,055          |
|                        | <b>193,757</b>   | 129,282          |

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

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

|   | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------------------|------------------|
| Income tax expense at statutory rate of 16.5%   | 193,520          | 129,003          |
| Tax effect of non-taxable income  | (459)            | (5)              |
| Tax effect of non-deductible expenses   | 1,833            | 1,798            |
| Tax effect of tax loss not recognised   | 216              | —                |
| Tax effect of utilisation of tax losses previously not recognised                       | —                | (30)             |
| Tax effect of utilisation of deductible temporary differences previously not recognised | (1,321)          | (1,353)          |
| Others  | (32)             | (131)            |
| Taxation for the year   | <b>193,757</b>   | 129,282          |

## 10 Earnings Per Unit

The basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$979,092,000 (2010: HK\$652,557,000) by the weighted average of 1,352,423,464 (2010: 1,334,817,688) 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.

## 11 Investment Properties

|   | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------------------|------------------|
| FAIR VALUE                                      |                  |                  |
| At beginning of the year                        | 5,934,000        | 5,256,000        |
| Additional expenditure                          | 12,946           | 7,793            |
| Increase in fair value of investment properties | 1,044,054        | 670,207          |
| At end of the year                              | 6,991,000        | 5,934,000        |

On 31 December 2011, an independent valuation was undertaken by Colliers International (Hong Kong) Limited (2010: Savills Valuation and Professional Services Limited). The firm is an independent qualified professional valuer not connected to the Group and have appropriate professional qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation of the properties was arrived at using the basis of capitalisation of the net income. In the valuation, the market rentals of all lettable units of the properties are assessed and capitalised at market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in other lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yields derived from analysing the sales transactions and the valuer's knowledge of the market expectation from property investors.

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

Certain of the Group's investment properties as at 31 December 2011, with aggregate carrying value of HK\$6,933,000,000 (2010: HK\$5,887,600,000), have been pledged to secure banking facilities granted to the Group.



## 12 Trade and Other Receivables

|                                    | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|------------------------------------|------------------|------------------|
| Trade receivables                  | 204              | 376              |
| Less: allowance for doubtful debts | (108)            | —                |
|                                    | 96               | 376              |
| Deposit and prepayments            | 8,169            | 7,626            |
|                                    | 8,265            | 8,002            |

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

|                 | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|-----------------|------------------|------------------|
| Current—1 month | 96               | 223              |
| 2–3 months      | —                | 153              |
|                 | 96               | 376              |

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

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

Movement in the allowance for doubtful debt:

|   | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------------------|------------------|
| Balance at beginning of the year            | —                | 67               |
| Impairment losses recognised on receivables | (108)            | 27               |
| Amounts written off as uncollectible        | —                | (94)             |
| Balance at the end of the year              | 108              | —                |

### 13 Bank Balances and Cash

|   | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------------------|------------------|
| Cash at bank  | 50,945           | 27,832           |
| Fixed deposits with financial institutions with original maturity within 3 months | 2,000            | 2,000            |
|   | <b>52,945</b>    | 29,832           |

Fixed deposits with financial institutions at the end of the year consist of deposits bearing interest at approximately 0.15% (2010: 0.13 %) per annum.

Fixed deposits and cash at bank, with aggregate value of HK\$52,945,000 (2010: HK\$29,832,000) are placed with The Hongkong and Shanghai Banking Corporation Limited, a related company of the Trustee.

### 14 Derivative Financial Instruments

|   | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------------------|------------------|
| Cash flow hedges — interest rate swaps<br>Non-current liabilities | 21,178           | 32,311           |

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

Contracts with notional amount of HK\$1,416,000,000 entered in 2010 will mature on 16 June 2015. This contract has fixed interest payments at 1.34% per annum and have floating interest receipts at three months HIBOR for periods until 16 June 2015. The REIT Manager designated that the interest rate swaps are effective hedging instruments.

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

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

## 15 Borrowings

|   | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------------------|------------------|
| Secured term loan                                 | <b>1,770,000</b> | 1,770,000        |
| Origination fees                                  | <b>(36,730)</b>  | (46,067)         |
|   | <b>1,733,270</b> | 1,723,933        |
| Secured revolving loan                            | <b>35,000</b>    | 26,000           |
|   | <b>1,768,270</b> | 1,749,933        |
| Carrying amount repayable:                        |                  |                  |
| Within one year                                   | <b>35,000</b>    | 26,000           |
| More than two years, but not exceeding five years | <b>1,733,270</b> | 1,723,933        |
|   | <b>1,768,270</b> | 1,749,933        |

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

The terms and conditions of the facilities are as follows:

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

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

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

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

## 16 Deferred Tax Liabilities

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

|                          | Accelerated tax<br>depreciation<br>HK\$'000 | Revaluation of<br>investment<br>properties<br>HK\$'000 | Tax losses<br>HK\$'000 | Total<br>HK\$'000 |
|--------------------------|---|--|------------------------|-------------------|
| As at 31 December 2009   | 105,457                                     | 171,836  | (12,008)               | 265,285           |
| Charge to profit or loss | 11,379                                      | 110,157  | 1,519                  | 123,055           |
| As at 31 December 2010   | 116,836                                     | 281,993  | (10,489)               | 388,340           |
| Charge to profit or loss | 11,022                                      | 172,399  | 2,408                  | 185,829           |
| As at 31 December 2011   | 127,858                                     | 454,392  | (8,081)                | 574,169           |

At the end of the reporting period, tax loss amounting to approximately HK\$4,599,000 (31 December 2010: HK\$3,287,000) were not recognised, due to unpredictability of future profits stream.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK\$18,224,000 (2010: HK\$14,344,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

## 17 Trade and Other Payables

|                            | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|----------------------------|------------------|------------------|
| Trade payables             | <b>2,468</b>     | 562              |
| Tenants' deposits          |                  |                  |
| — Outside parties          | <b>93,927</b>    | 76,165           |
| — Related parties          | <b>411</b>       | 411              |
| Rental received in advance |                  |                  |
| — Outside parties          | <b>3,062</b>     | 1,430            |
| Other payables             | <b>33,170</b>    | 36,527           |
|                            | <b>133,038</b>   | 115,095          |

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

|                 | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|-----------------|------------------|------------------|
| Current—1 month | <b>2,217</b>     | 249              |
| 2–3 months      | <b>134</b>       | 186              |
| Over 3 months   | <b>117</b>       | 127              |
|                 | <b>2,468</b>     | 562              |

Tenants' deposits represent the deposits refundable to tenants upon termination or cancellation of operating lease arrangements and amounts outstanding for ongoing costs. The tenants' deposits are refundable to tenants within 45 days upon the termination of the tenancy agreement. The tenants' deposits to be settled after twelve months from the reporting period based on the lease terms amounted to HK\$54,852,000 (2010: HK\$48,363,000)

## 18 Amount Due to Related Companies

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

## 19 Units in Issue

|  | Number of units      | HK\$'000  |
|--|----------------------|-----------|
| Balance as at 31 December 2009   | <b>1,323,581,882</b> | 2,799,290 |
| Payment of manager's base fee and variable fee through issuance of new units during the year | <b>19,054,800</b>    | 27,841    |
| Balance as at 31 December 2010   | <b>1,342,636,682</b> | 2,827,131 |
| Payment of manager's base fee and variable fee through issuance of new units during the year | <b>17,805,847</b>    | 31,453    |
| Balance as at 31 December 2011   | <b>1,360,442,529</b> | 2,858,584 |

Subsequent to the end of the reporting period, 5,445,704 units (2010: 3,999,073 units) at HK\$1.5838 (2010: HK\$1.8914) per unit were issued to the Manager as partial settlement of base fee and variable fee for the period from 1 October 2011 to 31 December 2011. The unitholders' fund per unit, based on the closing market price of Prosperity REIT as at 31 December 2011 was HK\$1.50 (31 December 2010: HK\$1.76).

## 20 Net Asset Value Per Unit Attributable to Unitholders

The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve, amounting to HK\$21,178,000 (2010: HK\$32,311,000), and the total number of 1,360,442,529 units in issue as at 31 December 2011 (1,342,636,682 units in issue as at 31 December 2010).

## 21 Major Non-Cash Transaction

During the year, the REIT Manager earned a fee of HK\$32,569,000 (2010: HK\$28,631,000) of which HK\$32,514,000 (2010: HK\$28,582,000) was paid through the issuance of units to the REIT Manager. An amount of HK\$23,889,000 (2010: HK\$21,018,000) had been settled through the issuance of units to the REIT Manager while the balance of HK\$8,625,000 (2010: HK\$7,564,000) included in other payables will be paid in units subsequent to the year end.



## 22 Key Sources of Estimation Uncertainty

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

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

As described in note 14, the fair value of derivative financial instruments that are not quoted in active markets are determined by using certain valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel. All models are calibrated to ensure that outputs reflect actual data and comparative market prices.

## 23 Net Current Liabilities

At the end of the reporting period, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$210,100,000 (2010: HK\$195,293,000). Other than certain investment properties, with aggregate carrying value of HK\$6,933,000,000 (2010: HK\$5,887,600,000), which have been pledged to secure banking facilities granted to the Group (as disclosed in note 11), the Group has in place a revolving credit facility (as disclosed in note 15) to meet its liabilities as they fall due.

## 24 Total Assets Less Current Liabilities

At the end of the reporting period, the Group's total assets less current liabilities amounted to HK\$6,780,900,000 (2010: HK\$5,738,707,000).

## 25 Segmental Reporting

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

### Segment revenue and results

For the year ended 31 December 2011

|  | The Metropolis Tower<br>HK\$'000 | Prosperity Millennia Plaza<br>HK\$'000 | Portion of Harbourfront Landmark<br>HK\$'000 | Prosperity Place<br>HK\$'000 | Trendy Centre<br>HK\$'000 | Portion of Prosperity Center<br>HK\$'000 | Portion of New Treasure Centre<br>HK\$'000 | Consolidated<br>HK\$'000 |
|--|----------------------------------|--|--|------------------------------|---------------------------|--|--|--------------------------|
| Segment Revenue in Hong Kong                             | 88,631                           | 57,855                                 | 18,223                                       | 39,924                       | 34,358                    | 25,810                                   | 10,826                                     | 275,627                  |
| Segment profit   | 69,276                           | 44,557                                 | 13,995                                       | 29,741                       | 27,123                    | 19,181                                   | 7,639                                      | 211,512                  |
| Interest income  |                                  |  |  |                              |                           |  |  | 2,782                    |
| Manager's fee  |                                  |  |  |                              |                           |  |  | (32,569)                 |
| Trust and other expenses                                 |                                  |  |  |                              |                           |  |  | (6,728)                  |
| Increase in fair value of investment properties          |                                  |  |  |                              |                           |  |  | 1,044,054                |
| Finance costs  |                                  |  |  |                              |                           |  |  | (46,202)                 |
| Profit before taxation and transactions with unitholders |                                  |  |  |                              |                           |  |  | 1,172,849                |

For the year ended 31 December 2010

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

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

## 25 Segmental Reporting *(continued)*

### Segment assets

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

|                                  | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|----------------------------------|------------------|------------------|
| The Metropolis Tower             | <b>2,508,000</b> | 2,225,000        |
| Prosperity Millennia Plaza       | <b>1,480,000</b> | 1,276,000        |
| Portion of Harbourfront Landmark | <b>397,000</b>   | 344,000          |
| Prosperity Place                 | <b>1,006,000</b> | 767,000          |
| Trendy Centre                    | <b>732,000</b>   | 623,000          |
| Portion of Prosperity Center     | <b>636,000</b>   | 504,000          |
| Portion of New Treasure Centre   | <b>232,000</b>   | 195,000          |
| Total segment assets             | <b>6,991,000</b> | 5,934,000        |
| Other assets                     | <b>61,254</b>    | 38,095           |
| Consolidated assets              | <b>7,052,254</b> | 5,972,095        |

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

## 26 Operating Lease Commitments

|  | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|--|------------------|------------------|
| Minimum lease income under operating leases included in the consolidated statement of comprehensive income | <b>214,291</b>   | 209,683          |

|   | 2011<br>HK\$'000 | 2010<br>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   | <b>163,609</b>   | 166,295          |
| In the second to fifth year inclusive   | <b>108,997</b>   | 72,586           |
| Total   | <b>272,606</b>   | 238,881          |

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.

## 27 Connected and Related Party Transactions

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

|   | Note | 2011<br>HK\$'000 | 2010<br>HK\$'000 |
|---|------|------------------|------------------|
| Rent and rental related income from   |      |                  |                  |
| E-Park Parking Management Limited   | (a)  | 233              | 233              |
| Goodwell Property Management Limited  | (a)  | 1,254            | 1,347            |
| Hutchison Telephone Company Limited   | (b)  | 48               | 48               |
| Tremayne Investments Limited  | (b)  | 14,438           | 18,798           |
| Carpark lease agency fee for the operations of<br>the Group's carpark         |      |                  |                  |
| E-Park Parking Management Limited   | (a)  | 1,461            | 1,379            |
| Property management fee   |      |                  |                  |
| Goodwell-Prosperity Property Services Limited                                 | (a)  | 6,351            | 6,263            |
| Marketing service fee   |      |                  |                  |
| Goodwell-Prosperity Property Services Limited                                 | (a)  | 8,665            | 5,883            |
| Trustee's fee   |      |                  |                  |
| HSBC Institutional Trust Services (Asia) Limited                              |      | 1,915            | 1,634            |
| Manager's fee   |      |                  |                  |
| ARA Asset Management (Prosperity) Limited                                     |      | 32,569           | 28,631           |
| Back-office support service fee   |      |                  |                  |
| Cheung Kong Companies   | (c)  | 890              | 793              |
| Balances as at year end with connected and related<br>parties are as follows: |      |                  |                  |
| Amount due to   |      |                  |                  |
| Cheung Kong (Holdings) Limited  | (a)  | 2                | 2                |
| Citybase Property Management Limited  | (a)  | 1,136            | 1,410            |
| Goodwell-Prosperity Property Services Limited                                 | (a)  | 3,262            | 2,056            |
| Goodwell Property Management Limited  | (a)  | 6,067            | 3,989            |
| Harbourfront Landmark Premium Services Limited                                | (b)  | 705              | 411              |
| E-Park Parking Management Limited   | (a)  | 259              | 245              |
| Deposits placed with the Group for the lease of<br>the Group's properties     |      |                  |                  |
| E-Park Parking Management Limited   | (a)  | 61               | 61               |
| Hutchison Telephone Company Limited   | (b)  | 15               | 15               |
| Goodwell Property Management Limited  | (a)  | 335              | 335              |

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

Notes:

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

Under the Code on Real Estate Investment Trusts, the deed of mutual covenant which binds the REIT Manager and all the owners of a development and their successors-in-title which include members of CKH group technically constitutes a contract between the Group and CKH group. Remuneration to the building managers, which are the wholly-owned subsidiaries of CKH, for the building management services provided constitutes a connected transaction. During the year, remuneration paid from the funds of the buildings, attributable to the properties owned by the Group, to the building managers amounted to HK\$601,000 (2010: HK\$576,000)



# List of Subsidiaries

As at 31 December 2011 and 31 December 2010

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

List of Subsidiaries (continued)

As at 31 December 2011 and 31 December 2010

| Name of company              | Place of incorporation | Effective equity interest held by Prosperity REIT |              | Share capital | Principal activities in Hong Kong |
|------------------------------|------------------------|---|--------------|---------------|-----------------------------------|
|                              |                        | Directly %  | Indirectly % |               |                                   |
| Wisdom Champion (21) Limited | British Virgin Islands | 100   | —            | US\$1         | Property investment               |
| Wisdom Champion (22) Limited | British Virgin Islands | 100   | —            | US\$1         | Property investment               |
| Wisdom Champion (23) Limited | British Virgin Islands | 100   | —            | US\$1         | Property investment               |
| Wisdom Champion (25) Limited | British Virgin Islands | 100   | —            | US\$1         | Property investment               |
| Wisdom Champion (26) Limited | British Virgin Islands | 100   | —            | US\$1         | Property investment               |
| Wisdom Champion (27) Limited | British Virgin Islands | 100   | —            | US\$1         | Property investment               |
| Wisdom Champion (28) Limited | British Virgin Islands | 100   | —            | US\$1         | Property investment               |

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

# Performance Table

## Results Analysis for the year ended 31 December

|   | Year ended<br>31 December<br>2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 | Year ended<br>31 December<br>2009<br>HK\$'000 | Year ended<br>31 December<br>2008<br>HK\$'000 | Year ended<br>31 December<br>2007<br>HK\$'000 |
|---|---|---|---|---|---|
| Gross rental from investment properties                             | <b>232,517</b>                                | 226,889                                       | 222,444                                       | 221,870                                       | 205,861                                       |
| Net property income   | <b>211,512</b>                                | 212,531                                       | 206,900                                       | 208,677                                       | 192,780                                       |
| Profit/(loss) for the year, before<br>transactions with unitholders | <b>979,092</b>                                | 652,557                                       | 421,827                                       | (257,222)                                     | 327,012                                       |
| Distribution to unitholders   | <b>163,518</b>                                | 147,831                                       | 145,365                                       | 164,516                                       | 165,727                                       |
| Earnings/(loss) per unit (HK\$)                                     | <b>0.72</b>                                   | 0.49  | 0.32  | (0.20)  | 0.26  |
| Distribution per unit (HK\$)  | <b>0.1202</b>                                 | 0.1101  | 0.1098  | 0.1268  | 0.1298  |

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

|   | 2011<br>HK\$'000           | 2010<br>HK\$'000 | 2009<br>HK\$'000 | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|---|----------------------------|------------------|------------------|------------------|------------------|
| Investment properties   | <b>6,991,000</b>           | 5,934,000        | 5,256,000        | 4,839,000        | 5,225,000        |
| Secured bank loans, excluding origination fees                        | <b>(1,805,000)</b>         | (1,796,000)      | (1,770,000)      | (1,770,000)      | (1,795,000)      |
| Net asset value   | <b>4,452,283</b>           | 3,594,123        | 3,049,231        | 2,724,913        | 3,138,053        |
| Net asset value per unit (HK\$)<br>(Note 20)                          | <b>3.29</b>                | 2.70             | 2.34             | 2.15             | 2.50             |
| <b>Other Information</b>  |                            |                  |                  |                  |                  |
| The highest traded price during the year (HK\$)                       | <b>2.00</b>                | 1.77             | 1.38             | 1.72             | 1.85             |
| The highest (discount)/premium of the traded price to net asset value | <b>(39.2%)</b>             | (34.4%)          | (41.0%)          | (20.0%)          | (26.0%)          |
| The lowest traded price during the year (HK\$)                        | <b>1.33</b>                | 1.31             | 0.84             | 0.59             | 1.52             |
| The lowest discount of the traded price to net asset value            | <b>(59.6%)</b>             | (51.5%)          | (64.1%)          | (72.6%)          | (39.2%)          |
| The net yield per unit based on market price at the end of year       | <b>8.0%</b> <sup>(1)</sup> | 6.3%             | 8.3%             | 14.1%            | 8.4%             |

<sup>1</sup> Based on the distribution per unit of HK\$0.1202 for the year ended 31 December 2011 and the closing market price of HK\$1.50 as at 30 December 2011.

# Investment Properties Portfolio

As at 31 December 2011

| Property                           | Type | Lease term        | Lease expiry date | Location   | Valuation<br>2011<br>HK\$ Million |
|------------------------------------|------|-------------------|-------------------|--|-----------------------------------|
| The Metropolis Tower               | O    | Medium-term lease | 30 June 2047      | 10<br>Metropolis Drive<br>Hung Hom<br>Kowloon<br>Hong Kong     | 2,508                             |
| Prosperity Millennia Plaza         | O    | Medium-term lease | 30 June 2047      | 663<br>King's Road<br>North Point<br>Hong Kong                 | 1,480                             |
| Harbourfront Landmark<br>(portion) | O    | Medium-term lease | 30 June 2047      | 11<br>Wan Hoi Street<br>Hung Hom<br>Kowloon<br>Hong Kong       | 397                               |
| Prosperity Place                   | I/O  | Medium-term lease | 30 June 2047      | 6<br>Shing Yip Street<br>Kwun Tong<br>Kowloon<br>Hong Kong     | 1,006                             |
| Trendy Centre                      | I/O  | Medium-term lease | 30 June 2047      | 682<br>Castle Peak Road<br>Lai Chi Kok<br>Kowloon<br>Hong Kong | 732                               |
| Prosperity Center (portion)        | I/O  | Medium-term lease | 30 June 2047      | 25<br>Chong Yip Street<br>Kwun Tong<br>Kowloon<br>Hong Kong    | 636                               |
| New Treasure Centre<br>(portion)   | I    | Medium-term lease | 30 June 2047      | 10<br>Ng Fong Street<br>San Po Kong<br>Kowloon<br>Hong Kong    | 232                               |
| <b>Total</b>                       |      |                   |                   |  | <b>6,991</b>                      |

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

## Summary Financial Information

Following is a summary of the consolidated statements of comprehensive income and the consolidated statements of financial position of Prosperity REIT for the past financial years prepared on a basis as consistent to the financial year ended 2011:

### Consolidated Statements of Comprehensive Income

|   | Year ended<br>31 December<br>2011<br>HK\$'000 | Year ended<br>31 December<br>2010<br>HK\$'000 | Year ended<br>31 December<br>2009<br>HK\$'000 | Year ended<br>31 December<br>2008<br>HK\$'000 | Year ended<br>31 December<br>2007<br>HK\$'000 |
|---|---|---|---|---|---|
| Revenue   | <b>275,627</b>                                | 270,094                                       | 263,624                                       | 263,146                                       | 244,628                                       |
| Profit/(loss) before taxation and transactions with unitholders   | <b>1,172,849</b>                              | 781,839                                       | 497,266                                       | (315,930)                                     | 381,014                                       |
| Taxation  | <b>(193,757)</b>                              | (129,282)                                     | (75,439)                                      | 58,708  | (54,002)                                      |
| Profit/(loss) for the years, before transactions with unitholders | <b>979,092</b>                                | 652,557                                       | 421,827                                       | (257,222)                                     | 327,012                                       |
| Distribution to unitholders                                       | <b>163,518</b>                                | 147,831                                       | 145,365                                       | 164,516                                       | 165,727                                       |
| Distribution per unit (HK\$)                                      | <b>0.1202</b>                                 | 0.1101  | 0.1098  | 0.1268  | 0.1298  |

### Consolidated Statement of Financial Positions

|   | 2011<br>HK\$'000 | 2010<br>HK\$'000 | 2009<br>HK\$'000 | 2008<br>HK\$'000 | 2007<br>HK\$'000 |
|---|------------------|------------------|------------------|------------------|------------------|
| Non-current assets                            | <b>6,991,000</b> | 5,934,000        | 5,256,000        | 4,839,000        | 5,333,288        |
| Current assets                                | <b>61,254</b>    | 38,095           | 62,001           | 76,326           | 32,012           |
| Current liabilities                           | <b>271,354</b>   | 233,388          | 2,003,485        | 204,303          | 218,433          |
| <b>Net assets attributable to unitholders</b> | <b>4,452,283</b> | 3,594,123        | 3,049,231        | 2,724,913        | 3,138,053        |



# 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<sup>(1)</sup>

*Executive Director and Acting 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<sup>(2)</sup>

*Independent Non-executive Director*

*Mr. Stephen Henry Chu was the Executive Director and Chief Executive Officer before he resigned on 8 April 2011.*

*Mr. Robert Douglas Pope was one of the Independent Non-executive Directors before he passed away on 6 March 2011.*

<sup>(1)</sup> Appointed on 8 April 2011

<sup>(2)</sup> Appointed on 6 July 2011

## Company Secretary of the REIT Manager

Seng Sze Ka Mee, Natalia

## Trustee

HSBC Institutional Trust Services (Asia) Limited

## Auditor of Prosperity REIT

Deloitte Touche Tohmatsu

## Principal Valuer

Colliers International (Hong Kong) Limited

## Principal Bankers

DBS Bank Limited

Standard Chartered Bank (Hong Kong) Limited

Sumitomo Mitsui Banking Corporation

The Hongkong and Shanghai Banking Corporation Limited

## Legal Advisers

Baker & McKenzie

P.C. Woo & Co.

## Registered Office

Units 5508–09, 55/F, The Center

99 Queen's Road Central

Hong Kong

## Unit Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited

Shops 1712–16, 17/F, Hopewell Centre

183 Queen's Road East, Wanchai

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

## Website

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

## Key Dates

|   |  |
|---|--|
| Annual Results Announcement                                   | 20 March 2012                                |
| Closure of Register of Unitholders for final distribution     | 10 to 13 April 2012<br>(both days inclusive) |
| Payment of Final Distribution                                 | 19 April 2012                                |
| Closure of Register of Unitholders for Annual General Meeting | 8 to 11 May 2012<br>(both days inclusive)    |
| Annual General Meeting  | 11 May 2012                                  |

# Notice of Annual General Meeting

**NOTICE IS HEREBY GIVEN** that an Annual General Meeting of unitholders of Prosperity Real Estate Investment Trust ("**Prosperity REIT**") will be held at Exhibition Venue A on Level 7, Fortune Metropolis, 6 Metropolis Drive, Hung Hom, Kowloon, Hong Kong on Friday, 11 May 2012 at 2:30 p.m. for the following purposes:

- (1) To note the audited financial statements of Prosperity REIT together with the Auditors' Report for the year ended 31 December 2011; and
- (2) To note the appointment of Auditors of Prosperity REIT and the fixing of their remuneration.

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

Hong Kong, 10 April 2012

*Notes:*

- (a) *The Register of Unitholders of Prosperity REIT will be closed from Tuesday, 8 May 2012 to Friday, 11 May 2012, both days inclusive, during which period no transfer of units will be effected. In order to qualify for attending the Annual General Meeting, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's Unit Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 7 May 2012.*
- (b) *Reference is made to the announcement made by ARA Asset Management (Prosperity) Limited as manager of Prosperity REIT (the "REIT Manager") on 20 March 2012. The Register of Unitholders of Prosperity REIT will be closed from Tuesday, 10 April 2012 to Friday, 13 April 2012, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution per unit of HK\$0.0607 payable to unitholders on Thursday, 19 April 2012, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's Unit Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 5 April 2012.*
- (c) *Any unitholder entitled to attend the Annual General Meeting is entitled to appoint a proxy to attend in his/her stead.*
- (d) *In order to be valid, an instrument of proxy, together with any power of attorney or other authority, if any, under which it is signed or a notarially certified copy of such power of attorney or authority, if any, must be deposited at Prosperity REIT's Unit Registrar, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Annual General Meeting.*

*The annual report 2011 (“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 The Stock Exchange of Hong Kong 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).*



Manager



ARA Asset Management (Prosperity) Limited

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

商界展關懷

caringcompany<sup>®</sup> 2011/12

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