

Stock Code: 808

Annual Report 2014

# Harvesting The Success

## 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 eight high-quality office, commercial, industrial/office and industrial properties in the decentralized business districts of Hong Kong, with a total gross rentable area of about 1.35 million sq. ft..

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

CARING FOR  
**COMMUNITY**

CARING FOR  
**ENVIRONMENT**

CARING FOR  
**TENANTS**

CARING FOR  
**STAFF**

CARING FOR  
**UNITHOLDERS**



**808**

**PROSPERITY REIT**

## About The REIT Manager

ARA Asset Management (Prosperity) Limited is a wholly-owned subsidiary of ARA Asset Management Limited ("ARA"), Asia's premier integrated real estate fund manager which is listed on the Main Board of the Singapore Exchange Securities Trading Limited since November 2007.

ARA currently manages REITs and private real estate funds that are invested in the office, retail, logistics/ industrial, hospitality and residential sectors in the Asia Pacific region, complemented by its in-house real estate management services and advisory services.

Established in 2002, to date it has over 1,100 professionals in 15 cities managing total assets in excess of S\$26 billion.

## 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.



In this annual report, we celebrate our admirable results with an indulgence in colors. The bright color tone used throughout the report creates a vibrant and delightful atmosphere, as we share with unitholders the joy of harvesting success.

Prosperity REIT has been growing in scale, strength and diversity over the years, underpinned by the successful revitalization of its existing property, Prosperity Place, and the addition of an asset with growth potential, 9 Chong Yip Street. Harvesting from these achievements, we are poised to bring fruitful return to unitholders as we move into our tenth year.

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# Landmark Year

with Major Acquisition and  
Refinancing Completed

# Chairman's Statement

Dear Unitholders,

On behalf of the Board of Directors (the "**Board**") of ARA Asset Management (Prosperity) Limited, the manager of Prosperity REIT, I am pleased to present the annual report of Prosperity REIT for the financial year ended 31 December 2014 (the "**Reporting Year**").

## Results and Distribution

2014 was a landmark year for Prosperity REIT. We achieved a significant milestone as the acquisition of 9 Chong Yip Street, our major acquisition, was successfully completed. Together with the successful refinancing of the bank loan facilities, we are all ready to capture growth opportunities.

During the Reporting Year, distributable income increased 10.7% year-on-year ("**YoY**") to HK\$231.4 million as a result of the additional income from 9 Chong Yip Street and the solid performance across Prosperity REIT's entire portfolio. Property valuation rose 16.1% YoY to HK\$9,890 million, mainly due to the addition of 9 Chong Yip Street. Net asset value per unit registered a mild growth of 2.8% YoY to HK\$4.70 as at 31 December 2014.

I am pleased to announce a total distribution per unit ("**DPU**") of HK\$0.1630, representing a rise of 9.0% YoY and an attractive distribution yield of 6.2%<sup>1</sup>.

## Market Review

Market sentiment in Hong Kong was affected by several factors throughout the Reporting Year, including a potential US interest rate hike as well as the slowing down of economies in China and Europe. Leasing activities generally slowed down as tenants remained cautious about the business outlook amidst an uncertain environment. In the Kowloon East district in particular, the increase in supply of strata-titled units, especially from the revitalized buildings, offered a variety of choices to office-seekers. Consequently, landlords who faced intense competition in seeking tenants have become more flexible in leasing terms.

## Operations Review

Despite the market challenges, our proactive leasing strategies, attentive property management services, as well as the premium quality of our properties led to admirable results. During the Reporting Year, revenue and net property income increased 18.0% and 16.9% to HK\$403.4 million and HK\$312.1 million respectively. A strong rental reversion rate of 32.1% across the entire portfolio was achieved. Occupancy rate remained stable at 97.7% as at 31 December 2014.

The acquisition of 9 Chong Yip Street, being the first major acquisition in Prosperity REIT's history, expanded our portfolio size by 11.2% to 1,352,174 sq. ft., added economies of scale to our operations and generated additional distribution to our unitholders. The acquisition was completed on 22 January 2014. It provided a partial contribution, accounting for 8.3% of the portfolio revenue during the Reporting Year.

<sup>1</sup> Based on Prosperity REIT's closing unit price of HK\$2.64 as at 31 December 2014.

## Chairman's Statement

### Financial Review

During the Reporting Year, new bank loans were secured in order to finance the acquisition of 9 Chong Yip Street and refinance the existing loans. Accordingly, gearing ratio increased to 28.6% as at 31 December 2014, a prudent level while still allowing sufficient future growth opportunities. As a result of the refinancing, our debt maturity profile was extended with no major refinancing needs until November 2019. There will also be financial flexibility as some previously pledged properties were released following the refinancing exercise.

### Prospects

Looking ahead, the global economy will recover at a slow pace, and uncertainties will continue to loom over Hong Kong. Nevertheless, the prospects of Kowloon East, where the majority of Prosperity REIT's properties are located in, should remain intact under this business environment. It stays on track to become the second central business district ("CBD2") of Hong Kong. The huge capital investments in the district made by multinational companies and investment funds are clear indicators of their confidence in Kowloon East.

As we remain cautiously optimistic about Hong Kong's economy, we will continue to actively manage our assets, invest prudently and closely monitor the financial risks. At the same time, we are confident that our strategically positioned portfolio, which leverages on Kowloon East's gradual emergence into a commercial hub, will continue to bring good results to our unitholders.

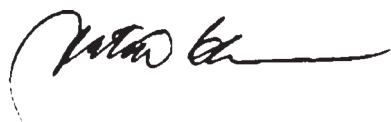


## Acknowledgements

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

Special thanks must go to the investors and analysts who voted Prosperity REIT as Hong Kong's Best Small Cap Company in *FinanceAsia's* Best Managed Companies poll 2014. Having received this prestigious award for the second consecutive year, we are pleased that our hard work has been recognized by the investment community.

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



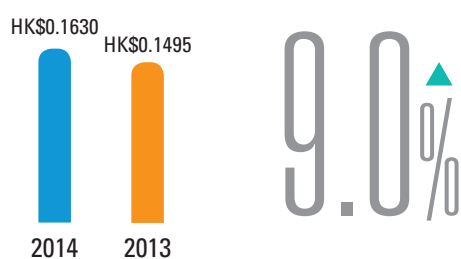
**Chiu Kwok Hung, Justin**  
Chairman  
**ARA Asset Management (Prosperity) Limited**  
as manager of Prosperity REIT

Hong Kong, 5 March 2015

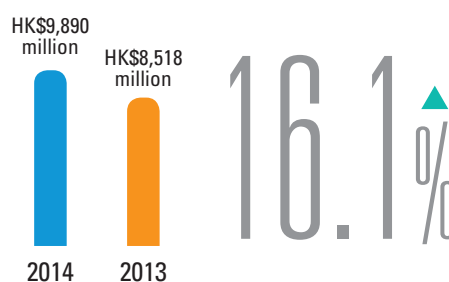


## Performance Highlights in 2014

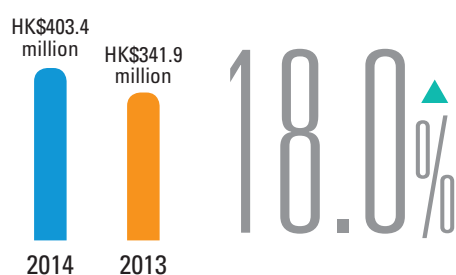
### Distribution Per Unit<sup>1</sup>



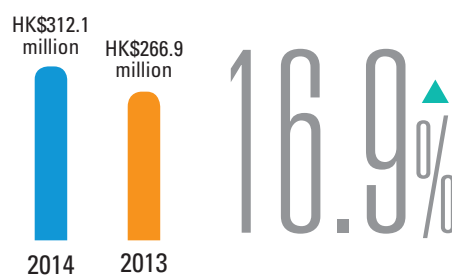
### Property Valuation<sup>2</sup>



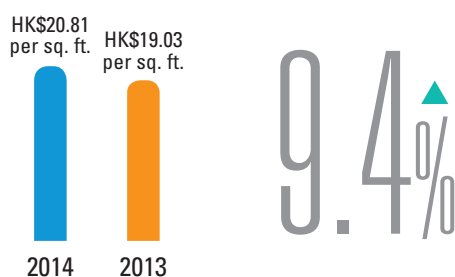
### Revenue<sup>1</sup>



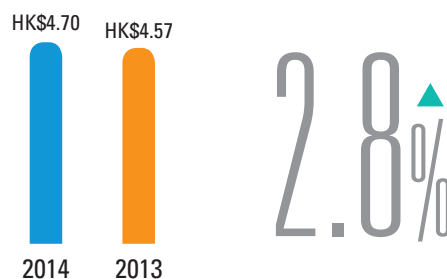
### Net Property Income<sup>1</sup>



### Average Effective Unit Rent<sup>1</sup>



### Net Asset Value Per Unit<sup>2</sup>

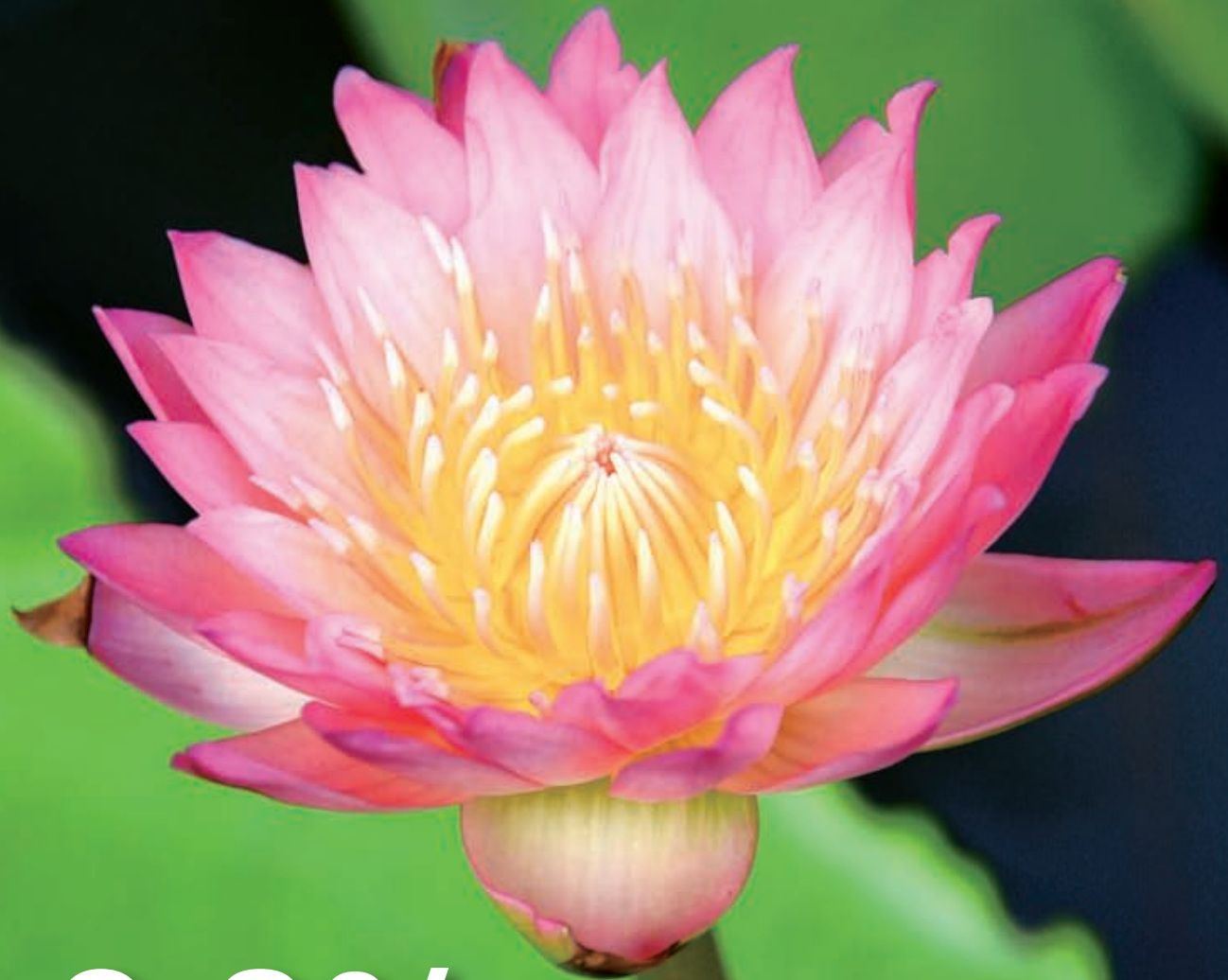


Notes:

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

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





**9.0%** year-on-year

**Uplift in Total DPU and**

**6.2%**

**Attractive Distribution Yield**

## Trust Review

### Diversified Property Portfolio

As at 31 December 2014, Prosperity REIT had a diversified portfolio comprising eight high-quality properties in the decentralized business districts of Hong Kong. The portfolio comprised all, or a portion of, three Grade A office buildings, two commercial buildings, two industrial/office buildings and one industrial building, with total gross rentable area of about 1.35 million sq. ft.. All properties in Prosperity REIT's portfolio are well served by multiple transportation networks.

These eight properties were completed during the period from 1995 to 2004. As at 31 December 2014, the appraised value of the portfolio was HK\$9,890 million. Grade A office buildings, commercial buildings, industrial/office buildings and industrial building accounted for 60.1%, 19.2%, 17.7% and 3.0% of the total appraised value respectively.

	Valuation HK\$ million	Valuation HK\$ million	Percentage change Increase/(Decrease)
	as at 31 December 2014	as at 31 December 2013	
<b>Grade A Office</b>			
The Metropolis Tower	<b>3,042</b>	2,943	3.4%
Prosperity Millennia Plaza	<b>1,824</b>	1,725	5.7%
9 Chong Yip Street <sup>1</sup>	<b>1,079</b>	N/A	N/A
<b>Commercial</b>			
Harbourfront Landmark (portion)	<b>461</b>	461	–
Prosperity Place	<b>1,436</b>	1,402	2.4%
<b>Industrial/Office</b>			
Trendy Centre	<b>955</b>	912	4.7%
Prosperity Center (portion)	<b>800</b>	786	1.8%
<b>Industrial</b>			
New Treasure Centre (portion)	<b>293</b>	289	1.4%
<b>Total</b>	<b>9,890</b>	8,518	16.1%

### Effective Lease Management

As a result of proactive tenant recruitment efforts by the REIT Manager, the portfolio's occupancy rate was maintained stably at 97.7% as at 31 December 2014. The portfolio's average effective unit rent increased by 9.4% YoY to HK\$20.81 per sq. ft., with a strong rental reversion rate of 32.1% for the leases successfully renewed in 2014.

As at 31 December 2014, leases expiring in 2015 accounted for 39.3% of the portfolio's gross rental income. Proactive leasing strategies will be continued in 2015 to deliver stable distribution to unitholders.

<sup>1</sup> 9 Chong Yip Street was acquired on 22 January 2014.

## Lease Expiry Profile by Gross Rental Income (as at 31 December 2014)

	31 December 2014 and 2015	2016	2017 and Beyond
The Metropolis Tower	52.0%	40.9%	7.1%
Prosperity Millennia Plaza	31.6%	29.4%	39.0%
9 Chong Yip Street	41.3%	31.8%	26.9%
Harbourfront Landmark (portion)	0.1%	0.0%	99.9%
Prosperity Place	42.8%	30.9%	26.3%
Trendy Centre	35.7%	46.2%	18.1%
Prosperity Center (portion)	35.5%	42.8%	21.7%
New Treasure Centre (portion)	46.8%	38.0%	15.2%
Portfolio	39.3%	34.3%	26.4%

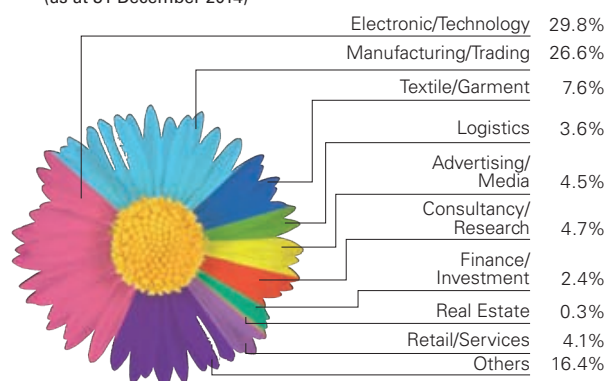
## Well-balanced Tenant Mix

As at 31 December 2014, Prosperity REIT had a total of 591 tenants. Most of these tenants were from business sectors such as electronic, technology, manufacturing, trading, as well as textile and garment. Following the wholesale conversion approval for Prosperity Place in 2012, the REIT Manager continued to secure retail and services trade tenants during the Reporting Year.

Over 60% (in terms of gross rentable area) of our tenants are medium-to-large sized enterprises. It is the long-term goal of the REIT Manager to maintain a well-balanced mix of tenants with credible financial standing to ensure a stable stream of rental income.

### Trade Mix by Gross Rentable Area

(as at 31 December 2014)



### Size of Tenant Premises on Gross Rentable Area

(as at 31 December 2014)

	Percentage
Above 10,000 sq. ft.	16.6%
5,001 sq. ft.–10,000 sq. ft.	18.8%
2,001 sq. ft.–5,000 sq. ft.	25.5%
1,001 sq. ft.–2,000 sq. ft.	26.5%
1,000 sq. ft. and below	12.6%
Total	100.0%

## Trust Review

### Close-to-Zero Rent Delinquency Rate

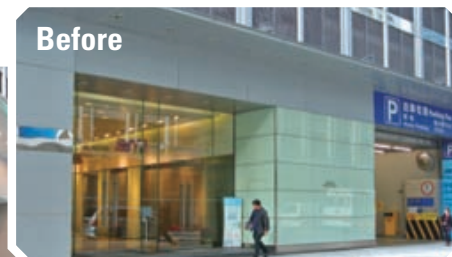
During the Reporting Year, Prosperity REIT maintained a close-to-zero rent delinquency rate. This was attributed to its strong tenant base and effective lease management mechanism.

### Asset Enhancement

It is an established strategy of the REIT Manager to provide premium rentable space in order to achieve sustainable rental growth. To this end, large-scale asset enhancement initiatives have been planned and executed on a continuous basis. During the Reporting Year, a number of asset enhancement works were carried out at 9 Chong Yip Street and Prosperity Place. Asset enhancement initiatives will continue in 2015 across the portfolio, with prudently planned payback periods.

#### 9 Chong Yip Street

Following the acquisition of 9 Chong Yip Street in January 2014, we embarked on a large-scale asset enhancement program involving the façade as well as the common areas. The goal of the asset enhancement program is to modernize the building with designs in line with neighboring office properties, thereby unlocking 9 Chong Yip Street's true potential.

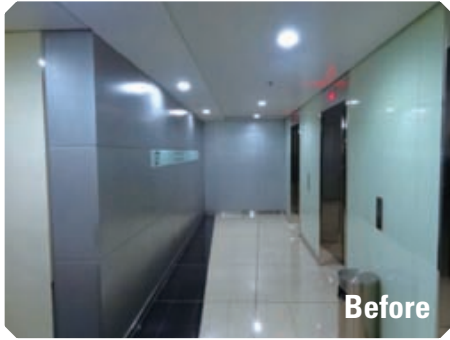


New design of the lower portion of the façade created a modern and bright image for 9 Chong Yip Street.

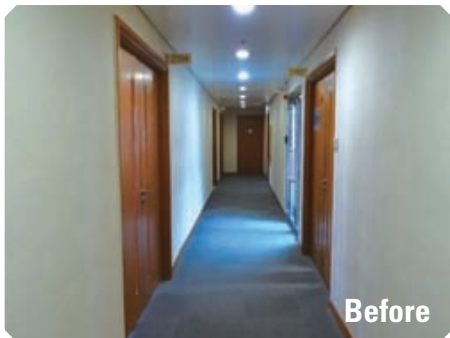


The ground floor lobby was upgraded to enhance the spacious ambience of the main entrance.





The passenger lift lobbies and common corridors on typical floors were renovated with a warm design to provide tenants with a better working environment.



### Prosperity Place

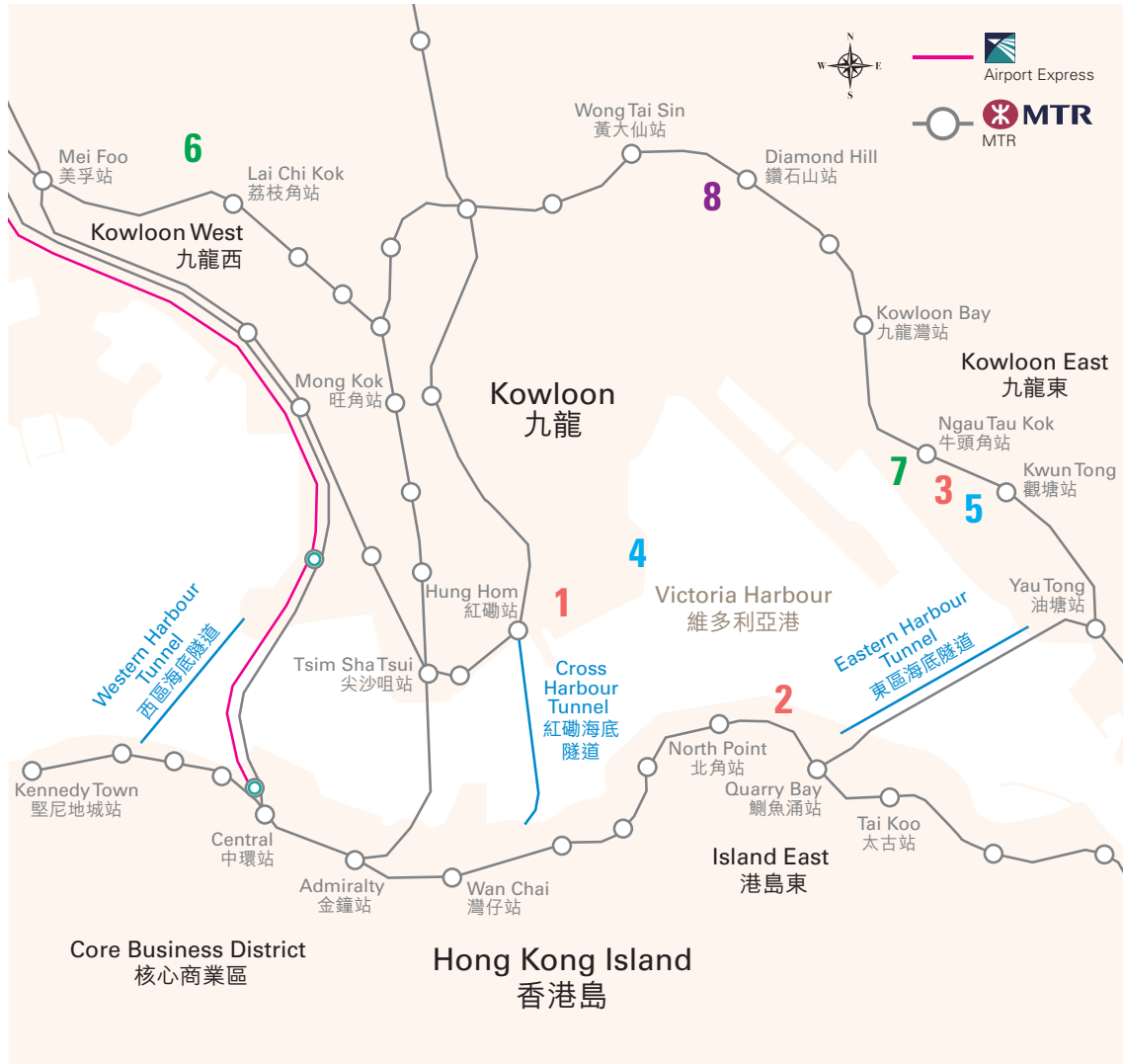
The previous chiller plant was replaced with a higher efficiency model, and thus reduced air-conditioning electricity and maintenance costs.



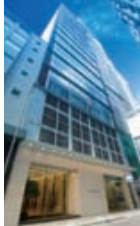







### Outlook

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 2015 through our proven expertise in professional management.

## Portfolio Map



Grade A Office			Commercial		Industrial / Office		Industrial
							
<b>1</b> The Metropolis Tower	<b>2</b> Prosperity Millennia Plaza	<b>3</b> 9 Chong Yip Street	<b>4</b> Harbourfront Landmark (portion)	<b>5</b> Prosperity Place	<b>6</b> Trendy Centre	<b>7</b> Prosperity Center (portion)	<b>8</b> New Treasure Centre (portion)



Harvesting from

**Effective** Asset Management

and

**Yield Accretive**  
Acquisition

# The Metropolis Tower



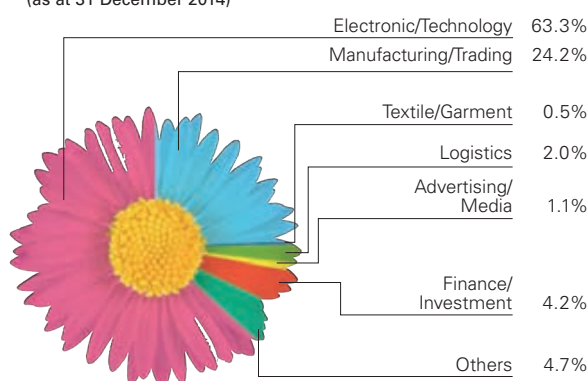
<b>Location</b>	: 10 Metropolis Drive, Hung Hom, Kowloon
<b>Year of Completion</b>	: 2001
<b>Gross Rentable Area (sq. ft.)</b>	: 271,418
<b>No. of Car Park Spaces</b>	: 98
<b>Appraised Value (HK\$ million)</b>	: 3,042
<b>Number of Tenants</b>	: 90



# Prosperity REIT Portfolio

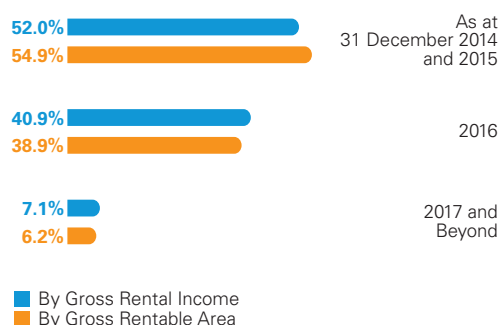
## Trade Mix by Gross Rentable Area

(as at 31 December 2014)



## Lease Expiry Profile

(as at 31 December 2014)



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

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

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

As at 31 December 2014, the occupancy rate of the property was 100.0%.

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

Tenants	Trade	GRA* (sq. ft.)	% of GRA*	% of GRI**
Canon Hongkong Company Limited	Electronic/Technology	55,535	20.5%	18.0%
NEC Hong Kong Limited	Electronic/Technology	18,161	6.7%	6.6%
Heidelberg Hong Kong Limited	Manufacturing/Trading	11,885	4.4%	4.2%
Presidio Production Limited	Electronic/Technology	11,319	4.2%	3.7%
Interush Limited	Electronic/Technology	9,200	3.4%	3.6%

\* Gross rentable area

\*\* Gross rental income

<sup>1</sup> Top 5 tenants are measured based on tenant's contribution to the total rental income of the property in December 2014.

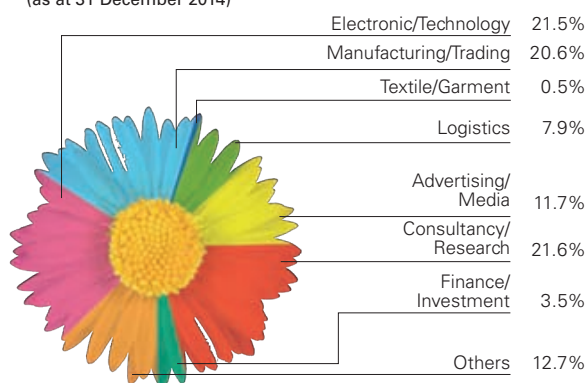
# Prosperity Millennium Plaza



<b>Location</b>	: 663 King's Road, North Point, Hong Kong
<b>Year of Completion</b>	: 1999
<b>Gross Rentable Area (sq. ft.)</b>	: 217,955
<b>No. of Car Park Spaces</b>	: 43
<b>Appraised Value (HK\$ million)</b>	: 1,824
<b>Number of Tenants</b>	: 79

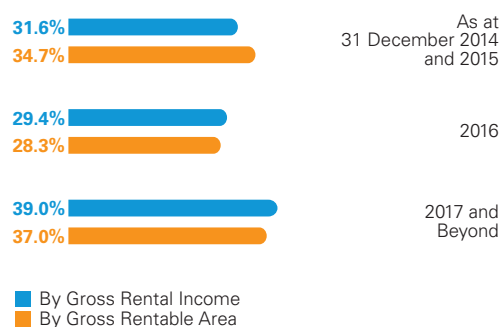
**Trade Mix by Gross Rentable Area**

(as at 31 December 2014)



**Lease Expiry Profile**

(as at 31 December 2014)



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

As at 31 December 2014, the occupancy rate of the property was 99.3%.

**Top 5 Tenants**

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
JDB Holdings Limited	Consultancy/Research	13,513	6.2%	7.1%
Lamex Trading Company Limited	Manufacturing/Trading	16,132	7.5%	6.2%
Excel Technology International (HK) Limited	Electronic/Technology	10,097	4.7%	4.5%
Havi Freight Management Limited	Logistics	8,314	3.8%	4.2%
Uni-Asia Holdings Limited & Green Ocean Shipping Limited	Logistics	8,314	3.8%	4.2%

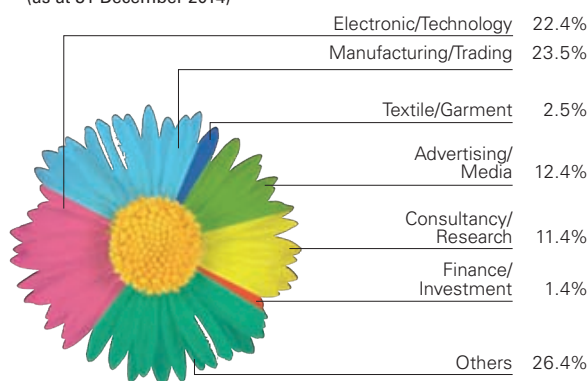
# 9 Chong Yip Street



<b>Location</b>	: 9 Chong Yip Street, Kwun Tong, Kowloon
<b>Year of Completion</b>	: 2004
<b>Gross Rentable Area (sq. ft.)</b>	: 136,595
<b>No. of Car Park Spaces</b>	: 68
<b>Appraised Value (HK\$ million)</b>	: 1,079
<b>Number of Tenants</b>	: 42

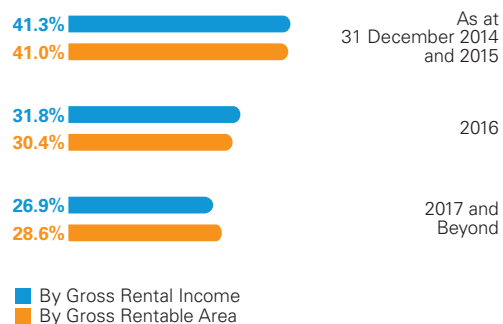
**Trade Mix by Gross Rentable Area**

(as at 31 December 2014)



**Lease Expiry Profile**

(as at 31 December 2014)



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

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

In order to fully unlock its potential and reflect its strategic location in Kowloon East, a series of asset enhancement works have been carried out at 9 Chong Yip Street during the Reporting Year. The works include renovation of the lower portion of the external façade, ground floor main lobby, passenger lift lobbies, common corridors and common washrooms on typical floors. A roof garden is now under planning. All of these asset enhancement works are expected to be completed by the first half of 2015.

As at 31 December 2014, the occupancy rate of the property was 96.6%.

**Top 5 Tenants**

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Tenant 1*	Manufacturing/Trading	6,580	5.0%	5.7%
Tact Group Limited	Advertising/Media	6,580	5.0%	5.7%
Tenant 2*	Others	6,580	5.0%	5.5%
Wing Shing Caisson and Foundation Limited	Consultancy/Research	6,580	5.0%	5.3%
Tenant 3*	Others	6,580	5.0%	5.3%

\* Tenant requested for anonymity.

# Harbourfront Landmark Property

(Portion of Harbourfront Landmark)



<b>Location</b>	: 11 Wan Hoi Street, Hung Hom, Kowloon
<b>Year of Completion</b>	: 2001
<b>Gross Rentable Area (sq. ft.)</b>	: 77,021
<b>No. of Car Park Spaces</b>	: —
<b>Appraised Value (HK\$ million)</b>	: 461
<b>Number of Tenants</b>	: 4

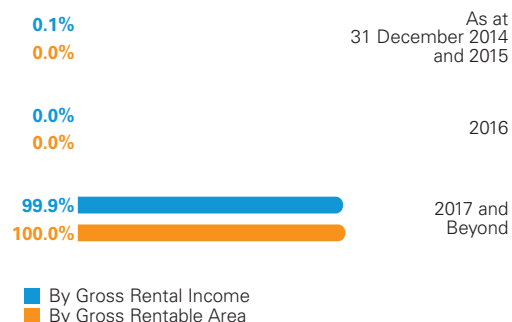
**Trade Mix by Gross Rentable Area**

(as at 31 December 2014)



**Lease Expiry Profile**

(as at 31 December 2014)



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

Harbourfront Landmark Property is just minutes away from the Hung Hom MTR East Rail Station, a transportation hub which provides direct access to Tsim Sha Tsui, the New Territories and the Mainland China. The building is also within walking distance to the future Whampoa MTR Station of the Kwun Tong Line Extension (scheduled to operate tentatively in 2016) and a five-minute drive to the Tsim Sha Tsui East district via the Hung Hom Bypass. Moreover, the nearby Cross Harbour Tunnel allows quick access to the Hong Kong Island. The Hung Hom pier is within a three-minute walk from the building, with regular ferry services to and from the Hong Kong Island business districts at North Point pier.

As at 31 December 2014, the occupancy rate of the property was 100.0%.

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Tiger Resort Asia Limited	Others	30,151	39.1%	42.3%
Hallmark Cards (HK) Limited	Manufacturing/Trading	29,063	37.8%	33.3%
The Hong Kong Polytechnic University	Others	17,807	23.1%	24.4%

# Prosperity Place

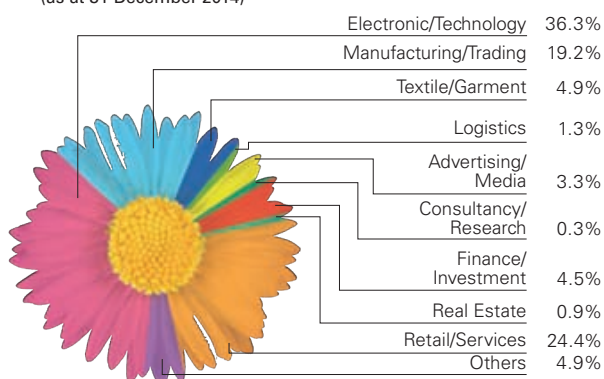


<b>Location</b>	: 6 Shing Yip Street, Kwun Tong, Kowloon
<b>Year of Completion</b>	: 1996
<b>Gross Rentable Area (sq. ft.)</b>	: 240,000
<b>No. of Car Park Spaces</b>	: 83
<b>Appraised Value (HK\$ million)</b>	: 1,436
<b>Number of Tenants</b>	: 117



**Trade Mix by Gross Rentable Area**

(as at 31 December 2014)



**Lease Expiry Profile**

(as at 31 December 2014)



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

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

Following the execution of the special waiver to convert Prosperity Place from industrial/office use to commercial use at the end of 2012, first-time commercial tenants have been introduced to the property. During the Reporting Year, an additional number of selected floors have been renovated to create a commercial outlook and widen our tenant base. In addition, we have replaced an existing chiller plant with a more energy-efficient model in the first quarter of 2014, enabling about 15% in energy cost savings for air conditioning provision.

As at 31 December 2014, retail and services trade tenants accounted for approximately 24.4% of Prosperity Place's gross rentable area. Marketing campaigns were launched during the Reporting Year in order to increase public awareness of the commercial image of Prosperity Place, attract foot traffic and promote the products/services of our tenants.

As at 31 December 2014, the occupancy rate of the property was 92.6%.

**Top 5 Tenants**

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
I-Dance Enterprise Limited	Retail/Services	10,000	4.5%	5.0%
Evlite Electronics Company Limited	Electronic/Technology	11,819	5.3%	3.8%
Dartslive International Limited	Others	5,402	2.4%	2.9%
KC Korea (International) Limited	Retail/Services	5,402	2.4%	2.8%
Radio Frequency Engineering Limited	Electronic/Technology	8,288	3.7%	2.5%

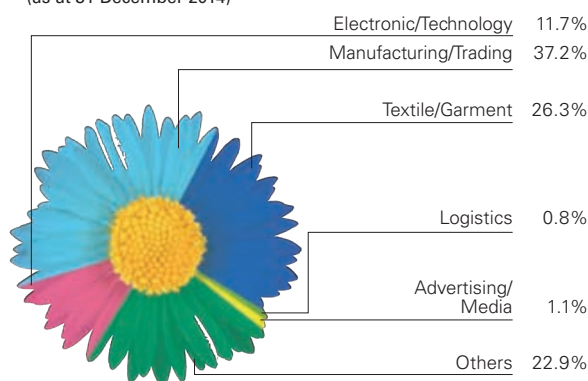
# Trendy Centre



<b>Location</b>	: 682 Castle Peak Road, Lai Chi Kok, Kowloon
<b>Year of Completion</b>	: 1998
<b>Gross Rentable Area (sq. ft.)</b>	: 173,764
<b>No. of Car Park Spaces</b>	: 79
<b>Appraised Value (HK\$ million)</b>	: 955
<b>Number of Tenants</b>	: 145

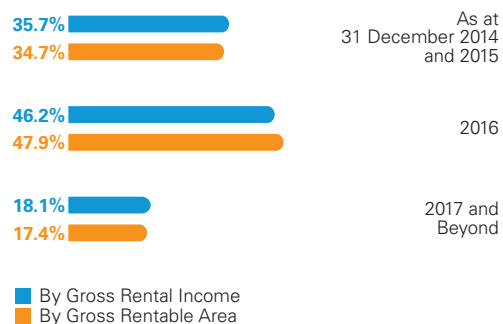
**Trade Mix by Gross Rentable Area**

(as at 31 December 2014)



**Lease Expiry Profile**

(as at 31 December 2014)



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

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

As at 31 December 2014, the occupancy rate of the property was 96.9%.

**Top 5 Tenants**

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Lush Asia Limited	Manufacturing/Trading	3,974	2.4%	4.2%
CEH Textiles Limited	Textile/Garment	6,849	4.1%	3.6%
Madrid Group Limited	Others	708	0.4%	2.7%
GFSI, Inc.	Textile/Garment	820	0.5%	1.9%
Springair Garment (H.K.) Company Limited	Textile/Garment	2,720	1.6%	1.7%

# Prosperity Center Property

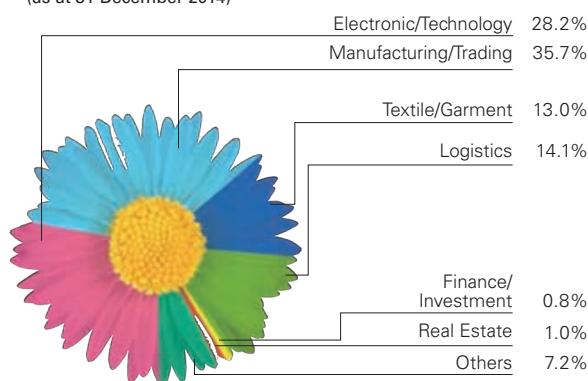
(Portion of Prosperity Center)



<b>Location</b>	: 25 Chong Yip Street, Kwun Tong, Kowloon
<b>Year of Completion</b>	: 1999
<b>Gross Rentable Area (sq. ft.)</b>	: 149,253
<b>No. of Car Park Spaces</b>	: 105
<b>Appraised Value (HK\$ million)</b>	: 800
<b>Number of Tenants</b>	: 65

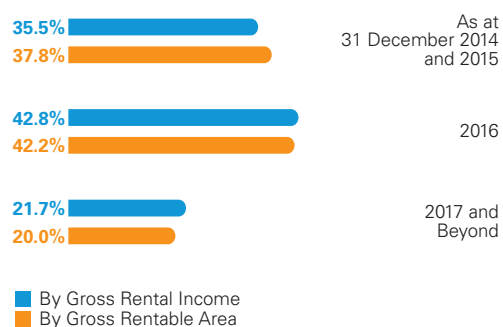
**Trade Mix by Gross Rentable Area**

(as at 31 December 2014)



**Lease Expiry Profile**

(as at 31 December 2014)



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

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

As at 31 December 2014, the occupancy rate of the property was 98.6%.

**Top 5 Tenants**

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Opsec Delta (HK) Limited	Manufacturing/Trading	10,528	7.2%	8.2%
Aurora Fashions Asia Limited	Textile/Garment	10,528	7.2%	8.2%
Senko Advanced Components (HK) Limited	Electronic/Technology	10,528	7.2%	7.8%
“A Better Way” (Hong Kong) Limited	Electronic/Technology	5,588	3.8%	3.6%
Watch Logistic International Limited	Electronic/Technology	4,415	3.0%	3.1%

# New Treasure Centre Property

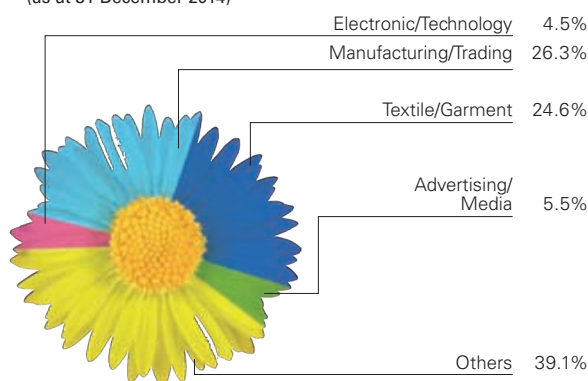
(Portion of New Treasure Centre)



<b>Location</b>	: 10 Ng Fong Street, San Po Kong, Kowloon
<b>Year of Completion</b>	: 1995
<b>Gross Rentable Area (sq. ft.)</b>	: 86,168
<b>No. of Car Park Spaces</b>	: 22
<b>Appraised Value (HK\$ million)</b>	: 293
<b>Number of Tenants</b>	: 49

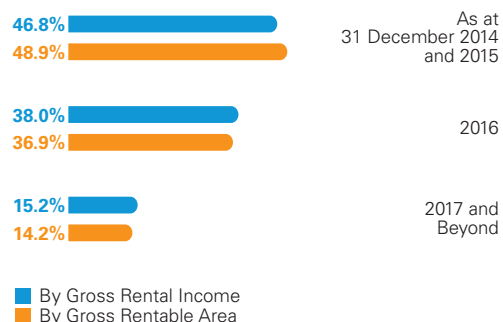
**Trade Mix by Gross Rentable Area**

(as at 31 December 2014)



**Lease Expiry Profile**

(as at 31 December 2014)



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

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

As at 31 December 2014, the occupancy rate of the property was 100.0%.

**Top 5 Tenants**

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Goodwell Property Management Limited*	Others	12,404	14.4%	11.8%
Reich Pharm Limited	Others	6,102	7.1%	7.0%
Union Apparel International Limited	Textile/Garment	2,649	3.1%	3.4%
Macrotech Security & Management Services Limited	Others	2,496	2.9%	3.3%
A. Integrity Property Services Limited	Others	2,496	2.9%	3.2%

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

A close-up photograph of several purple flowers, likely pansies, with numerous clear water droplets on their petals. The background is dark, making the vibrant purple and the glistening water droplets stand out. The text is overlaid on the upper portion of the image.

**Prudent** Financial  
Position

While Still Allowing

**Sufficient**  
Growth Opportunities



# Management Discussion and Analysis

## Performance Highlights

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

	Year ended 31 December 2014	Year ended 31 December 2013	Percentage change Increase/(Decrease)
Distribution per unit	HK\$0.1630	HK\$0.1495	9.0%

Key financial figures	As at 31 December 2014	As at 31 December 2013	Percentage change Increase/(Decrease)
Net asset value per unit	HK\$4.70	HK\$4.57	2.8%
Property valuation	HK\$9,890 million	HK\$8,518 million	16.1%
Gearing ratio <sup>1</sup>	28.6%	20.9%	7.7% <sup>2</sup>

Operation data	Year ended 31 December 2014	Year ended 31 December 2013	Percentage change Increase/(Decrease)
Revenue	HK\$403.4 million	HK\$341.9 million	18.0%
Net property income	HK\$312.1 million	HK\$266.9 million	16.9%
Average effective unit rent	HK\$20.81 per sq. ft.	HK\$19.03 per sq. ft.	9.4%
Occupancy rate (as at 31 December)	97.7%	98.9%	(1.2%) <sup>2</sup>
Rental reversion rate	32.1%	34.9%	(2.8%) <sup>2</sup>
Cost-to-revenue ratio	22.6%	21.9%	0.7% <sup>2</sup>

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

<sup>2</sup> Absolute change

## Management Discussion and Analysis

### Operations Review

As at 31 December 2014, Prosperity REIT owned a diverse portfolio of eight properties in the decentralized business districts of Hong Kong, comprising all, or a portion of, three Grade A office buildings, two commercial buildings, two industrial/office buildings and one industrial building. As at 31 December 2014, the total gross rentable area was 1,352,174 sq. ft., with a total of 498 car park spaces.

Information about the properties in the portfolio, as at 31 December 2014, was as follows:

	Location	Gross rentable area sq. ft.	No. of car park spaces	Valuation HK\$ million	Occupancy rate
<b>Grade A Office</b>					
The Metropolis Tower	Hung Hom	271,418	98	3,042	100.0%
Prosperity Millennia Plaza	North Point	217,955	43	1,824	99.3%
9 Chong Yip Street	Kwun Tong	136,595	68	1,079	96.6%
<b>Commercial</b>					
Harbourfront Landmark (portion)	Hung Hom	77,021	–	461	100.0%
Prosperity Place	Kwun Tong	240,000	83	1,436	92.6%
<b>Industrial/Office</b>					
Trendy Centre	Lai Chi Kok	173,764	79	955	96.9%
Prosperity Center (portion)	Kwun Tong	149,253	105	800	98.6%
<b>Industrial</b>					
New Treasure Centre (portion)	San Po Kong	86,168	22	293	100.0%
<b>Total</b>		<b>1,352,174</b>	<b>498</b>	<b>9,890</b>	<b>97.7%</b>

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain organic growth in the Reporting Year. A stable occupancy rate of 97.7% was recorded as at 31 December 2014, reflecting the effectiveness of the leasing strategies employed. As a result of increased revenue, coupled with efficient streamlining of operations, the cost-to-revenue ratio was maintained at a relatively low level of 22.6%.

### Investment Review

Prosperity REIT successfully completed its first major acquisition in January 2014. The acquisition of 9 Chong Yip Street was the major contributing factor to the 16.1% YoY increase in the portfolio valuation of HK\$9,890 million. With the enlarged portfolio, Prosperity REIT has further diversified its tenant base and achieved economies of scale in operation. Furthermore, the strategic location of 9 Chong Yip Street strengthened Prosperity REIT's foothold in Kowloon East, a maturing decentralized business district with bright growth prospects. With the acquisition, 33.0% of Prosperity REIT's net property income came from this burgeoning district during the Reporting Year.

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

## Financial Review

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

	Turnover	Rental related income	Revenue	Net property income
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Grade A Office</b>				
The Metropolis Tower	101,964	19,887	121,851	100,990
Prosperity Millennia Plaza	66,725	12,585	79,310	62,728
9 Chong Yip Street	30,387	3,199	33,586*	25,019
<b>Commercial</b>				
Harbourfront Landmark (portion)	16,254	5,729	21,983	14,813
Prosperity Place	55,683	452	56,135	41,998
<b>Industrial/Office</b>				
Trendy Centre	36,621	6,461	43,082	30,602
Prosperity Center (portion)	30,685	3,110	33,795	25,602
<b>Industrial</b>				
New Treasure Centre (portion)	11,922	1,749	13,671	10,304
<b>Total</b>	<b>350,241</b>	<b>53,172</b>	<b>403,413</b>	<b>312,056</b>

\* Pursuant to the deed of rental support dated 22 January 2014 entered into between Cactus Holdings Limited, Hutchison Whampoa Properties Limited, the REIT Manager, HSBC Institutional Trust Services (Asia) Limited as the trustee of Prosperity REIT (the "Trustee") and Unique Champ Investments Limited, Prosperity REIT (via its subsidiary Clifton Properties Limited) received a total sum of HK\$2,272,391.56 as the pro rated rental support payment in respect of 9 Chong Yip Street for the Reporting Year (comprising HK\$1,645,076.26 as the interim rental support payment and HK\$627,315.30 as the final rental support payment). The said sum of HK\$2,272,391.56 has been accounted for in the revenue for the Reporting Year. For further details of such rental support payment, please refer to the announcement of Prosperity REIT dated 5 March 2015.

## Revenue

During the Reporting Year, revenue improved to HK\$403.4 million, being HK\$61.5 million or 18.0% higher than that of 2013.

The revenue comprised HK\$350.2 million of rental and car park income, plus HK\$53.2 million of rental related income. Rental and car park income was HK\$58.0 million or 19.8% above that of 2013.

## Management Discussion and Analysis

### Net Property Income

For the Reporting Year, the net property income was HK\$312.1 million, exceeding that of 2013 by HK\$45.1 million or 16.9%. The growth was attributable to the additional net property income of HK\$25.0 million from 9 Chong Yip Street acquired in January 2014, as well as the strong rental reversion rate of 32.1% for the entire portfolio. The cost-to-revenue ratio was 22.6%.

### Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$231.4 million, representing a total DPU of HK\$0.1630. The distributable income for the Reporting Year is calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial year, as adjusted to eliminate the effects of certain Adjustments (as defined in the trust deed constituting Prosperity REIT (the “**Trust Deed**”)) including a finance cost of HK\$21.2 million (equivalent to HK\$0.0149 per unit), which have been recorded in the consolidated statement of profit or loss and other comprehensive income for the Reporting Year.

### Distribution

It is the policy of the REIT Manager to distribute to unitholders of Prosperity REIT an amount equal to 100% of Prosperity REIT’s annual distributable income for the financial year ended 31 December 2014. 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 2014 to 31 December 2014 is HK\$116.1 million, equivalent to a DPU of HK\$0.0815. The interim DPU from 1 January 2014 to 30 June 2014 was HK\$0.0815, and the total DPU for the Reporting Year is HK\$0.1630, which represents a distribution yield of 6.2%<sup>3</sup>. The DPU increased 9.0% YoY mainly due to the increase in net property income, as a result of the additional income contribution from 9 Chong Yip Street acquired in January 2014 and the strong rental reversion rate for the entire portfolio.

The distribution for the half year from 1 July 2014 to 31 December 2014 will be paid on Thursday, 2 April 2015.

### Liquidity and Financing

As at 31 December 2014, Prosperity REIT had facilities in aggregate of HK\$3,284 million, comprising:

- (i) A term loan and revolving credit facility of up to an aggregate principal amount of HK\$2,500 million (the “**HK\$2,500 Million Facilities**”) comprising a HK\$2,070 million secured term loan facility and a HK\$430 million secured revolving credit facility, which bear interest at a margin of 1.35% per annum over HIBOR. The term loan facility will mature and become repayable 5 years from 14 November 2014, and the revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity;
- (ii) A HK\$404 million secured term loan, which bears interest at a margin of 1.45% per annum over HIBOR, and will mature and become repayable 5 years from 16 January 2014 (the “**HK\$404 Million Facility**”); and
- (iii) A HK\$380 million unsecured term loan, which bears interest at a margin of 1.50% per annum over HIBOR, and will mature and become repayable 3 years from 16 January 2014 (the “**HK\$380 Million Facility**”).

<sup>3</sup> Based on Prosperity REIT’s closing unit price of HK\$2.64 as at 31 December 2014.

## Management Discussion and Analysis

In relation to the HK\$2,500 Million Facilities, the term loan facility of HK\$2,070 million was fully drawn on 28 November 2014 for the purposes of refinancing the facilities due to expire in August 2015. None of the revolving credit facility was drawn as at 31 December 2014.

The HK\$404 Million Facility and the HK\$380 Million Facility were fully drawn on 22 January 2014 to partly finance the acquisition of 9 Chong Yip Street.

As all facilities bear interests at a variable rate, Prosperity REIT has entered into plain vanilla interest rate swap agreements to mitigate the impact of interest rate fluctuations. As at 31 December 2014, the interest costs for approximately 55% (31 December 2013: 55%) of Prosperity REIT's outstanding term loans have been hedged through interest rate swaps.

The total borrowings of Prosperity REIT, excluding the bank facility origination fees, as a percentage of Prosperity REIT's gross assets was 28.6% as at 31 December 2014, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 33.1% as at 31 December 2014.

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\$332.1 million, based on a professional valuation performed by an independent valuer, Jones Lang LaSalle Limited. The movements of fair values are tabulated below:

	31 December 2014 HK\$'000	31 December 2013 HK\$'000
Fair value at the beginning of the year	8,518,000	7,952,000
Additional expenditure	25,845	15,409
Acquisition	1,014,054	–
Increase in fair value of investment properties	332,101	550,591
Fair value at the end of the year	9,890,000	8,518,000

### Charges on Assets

As at 31 December 2014, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$6,280 million, were pledged to secure bank loan facilities of Prosperity REIT's finance companies.

Prosperity REIT and its subsidiaries have provided guarantees for the HK\$2,500 Million Facilities, the HK\$404 Million Facility and the HK\$380 Million Facility.

## Management Discussion and Analysis

### 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 Monday, 23 March 2015 to Thursday, 26 March 2015, 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 Friday, 20 March 2015. The payment date of the final distribution will be on Thursday, 2 April 2015.

### Major Real Estate Agents and Contractors

#### Top Five Real Estate Agents

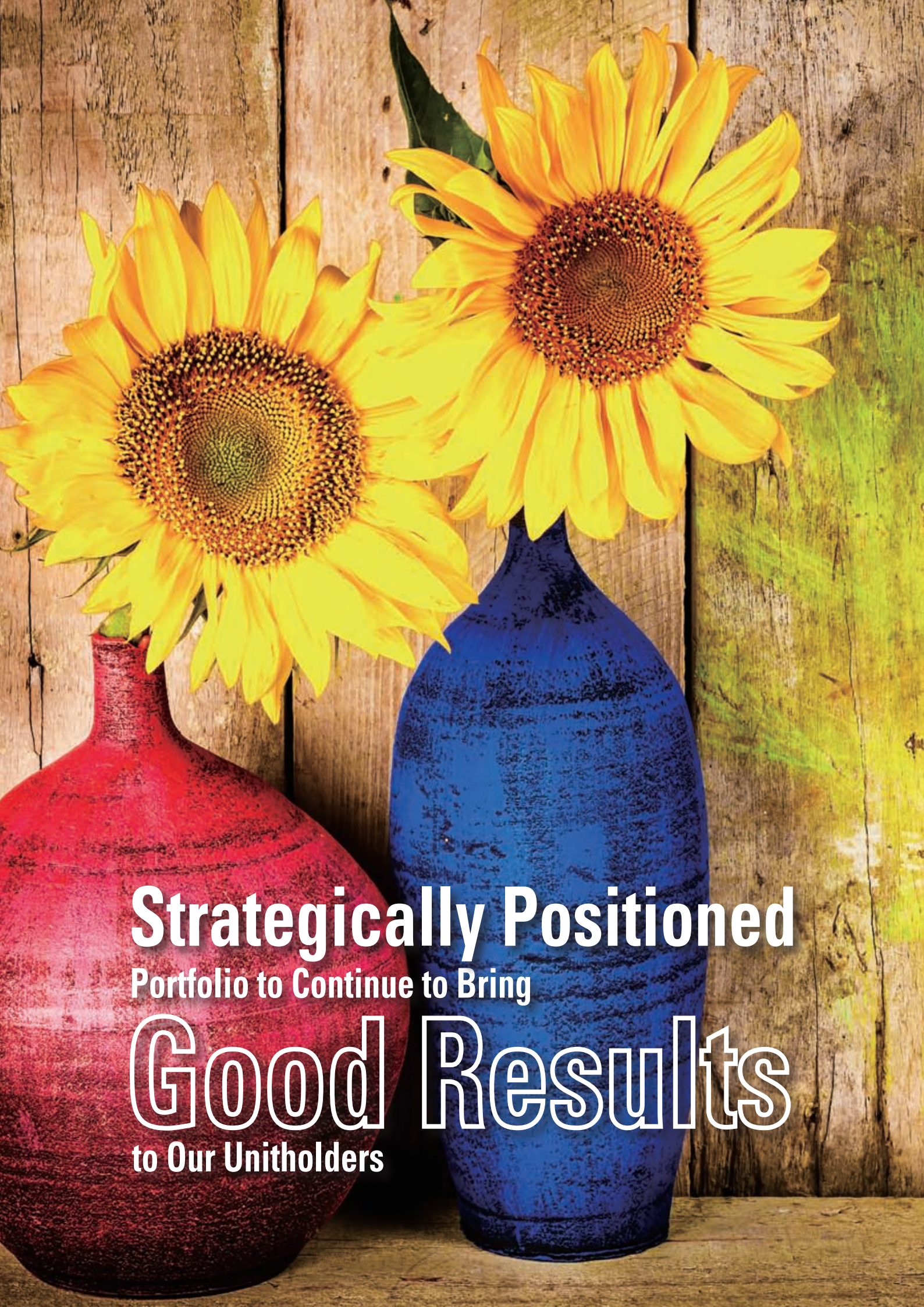
The total commission paid to real estate agents to secure new tenants during the Reporting Year was HK\$6,962,000. The commission paid to the top five real estate agents, summarized as follows, was HK\$4,714,000 and accounted for 67.7% of the total commission paid:

Real Estate Agents	Nature of Services	Commission Paid	Percentage of Total Commission Paid
		HK\$'000	
Centaline Property Agency Limited	Leasing	2,420	34.8%
Jones Lang LaSalle Limited	Leasing	1,134	16.3%
Savills (HK) Limited	Leasing	597	8.6%
Midland Realty	Leasing	393	5.6%
Golden Keys Property Consultant Limited	Leasing	170	2.4%
		<b>4,714</b>	<b>67.7%</b>

### Top Five Contractors

The total value of service contracts of contractors engaged by Prosperity REIT during the Reporting Year was HK\$63,232,000. The value of contracts of the top five contractors, summarized as follows, was HK\$53,656,000 and accounted for 84.9% of the total value of contracts:

Contractors	Nature of Services	Value of Contract	Percentage of Total Value of Contracts
		HK\$'000	
Goodwell Property Management Limited	Building management	26,826	42.4%
Citybase Property Management Limited	Building management	12,371	19.6%
Goodwell-Prosperity Property Services Limited	Building management	9,460	15.0%
Harbourfront Landmark Premium Services Limited	Building management	2,714	4.3%
E-Park Parking Management Limited	Carpark operation	2,285	3.6%
		<b>53,656</b>	<b>84.9%</b>



**Strategically Positioned**

Portfolio to Continue to Bring

**Good Results**

to Our Unitholders



## 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, an indirect wholly-owned subsidiary of Cheung Kong (Holdings) Limited, exclusively manages the property portfolio of Prosperity REIT on a dedicated basis.



- 1 CHAN Chung Ho, Terence**  
*Assistant Technical Manager*
- 2 CHU Kin Leung, Kevin**  
*Senior Property Manager*
- 3 WONG Sze Yu, Kitty**  
*Assistant Property Manager*

- 4 WONG Ling Fei**  
*Assistant Chief Manager,  
Leasing*
- 5 WONG Lai Hung, Mavis**  
*Chief Executive Officer*
- 6 DENG Chi Yung,  
Jonathan,**  
*Leasing Manager*

- 7 YEUNG Tin On, Bruce**  
*Assistant Leasing Manager*
- 8 NG Chi Wah, Kevin**  
*Manager, Asset Management*
- 9 CHAN Chun Kwok, Boris**  
*Leasing Manager*



Taking Responsible Actions to

**Create**

**Long Term Value**

## Corporate Social Responsibilities

At Prosperity REIT, we believe that continuous support from stakeholders is vital to the sustainability of our business. To this end, we integrate Corporate Social Responsibilities (“**CSR**”) in all aspects of our business, from day-to-day operations to business practices. Taking responsible actions allows us to better retain talented employees, enhance our brand reputation and earn trust from investors, thereby creating long term value. During the Reporting Year, we implemented a wide range of CSR activities towards the community, the environment, our tenants, our staff as well as our unitholders.



### Caring for Community

As our properties are commercial buildings, our operations are inevitably tied with the local communities. We therefore place great emphasis in making a positive impact on the society. Our continued efforts in helping the less fortunate in the society have earned us the Caring Company Award from The Hong Kong Council of Social Service for the fifth consecutive year.

### Volunteering

We joined hands with Evangelical Lutheran Church of Hong Kong to organize the “Make a Fairy Garden” educational event at Prosperity Place for a group of primary school pupils from low income families. Guided by our volunteering team, the children learned about the green elements at Prosperity Place, including the green wall in the lobby, variety of plants and the hydroponic farm system in the rooftop garden. After touring the building, the children and our volunteers together participated in a plant jamming workshop and created beautiful pots of plants. We are glad to have provided an enjoyable and educational experience for the children.



## Corporate Social Responsibilities

During the Reporting Year, we also visited a Tung Wah Group of Hospitals elderly day care center and volunteered in a fundraising dance event organized by Evangelical Lutheran Church of Hong Kong.



### Donations

We regularly make charitable donations. During the Reporting Year, we donated to the Tung Wah Group of Hospitals "Food-for-all" kitchen, the Skip Lunch Day, Dress Casual Day and Green Day by the Community Chest.

### Sponsorship

We sponsored an international competition organized by Hong Kong Baptist University and the Ateneo de Manila University, the Philippines during the Reporting Year. Student teams from 20 universities in 8 countries participated in the competition, and had to solve a real world business problem centering on the theme "communicating CSR to stakeholders". These students, tomorrow's business leaders, will be better prepared to meet the challenges of a rapidly changing global business environment.



## Caring for Environment

### Creating Green Space

Greening our properties offers great opportunities to protect the environment and to provide tenants with an eco-friendly workplace. Over the years, we have added a variety of green elements to our properties, such as rooftop gardens, green walls, solar panels, T5 fluorescent systems, etc.

During the Reporting Year, we built a hydroponic farm system on the rooftop garden of Prosperity Place for growing vegetables. This system centers on the idea of cultivating crops free of chemicals in a completely self-sustaining manner. Part of the system is an aesthetic fish pond, which adds to the relaxing ambience of the rooftop garden. And best of all, our tenants get to enjoy the freshly picked vegetables. In recognition of its excellence in property greening through outstanding landscape design, Prosperity Place was accredited the “Best Landscape Award (Merit)” by the Leisure and Cultural Services Department.



### Involvement of Tenants and Contractors

We are mindful that environmental protection is a joint effort. Therefore, we actively engage our tenants and contractors in protecting the environment. Measures implemented with our tenants during the Reporting Year include an ongoing computer recycling program, a mooncake box recycling campaign and participation in the Earth Hour. When performing renovation works in our properties, contractors are required to strictly adhere to our environmental protection guidelines.

## Corporate Social Responsibilities

### Caring for Tenants

Tenants form a key pillar of our business. Apart from the asset enhancement works, we believe attentive property management service is indispensable to a high quality workplace for our tenants. Throughout the years, we have received numerous awards in recognition of our property management service. During the Reporting Year, we garnered yet more recognition with Prosperity Millennia Plaza winning the “Best Managed Property” and “Best Security Staff” in the Best Security Services Awards organized by the Hong Kong Police Force.

### Interactions with Tenants

We frequently organize mingling events with tenants at our properties. We value face-to-face dialogues as a means of establishing sustainable relationship with tenants and understanding their needs for continuous improvement in our operations. During the Reporting Year, the Sport Fun Day, Chinese New Year lion dances and Christmas parties were organized.



### Complaints Handling

To ensure quality customer services, all complaints from tenants are treated seriously and handled according to a well set of procedures across all our properties.

### Caring for Staff

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



### Teamwork

In attending team building activities, our employees develop team spirit and a deeper sense of belonging. During the Reporting Year, apart from our annual spring dinner, activities such as seafood lunch and wine tasting night were well attended and enjoyed by our staff.

### Occupational Health and Safety

Work procedures and guidelines are documented in details to ensure occupational health and safety (“OHS”) at our workplace. Workshops on OHS topics were organized for all our staff to attend during the Reporting Year. In addition, our property management staff attended certified OHS courses so as to maintain their industry knowledge at a professional level. Newsletters on the latest OHS practices and trends were also distributed to the staff every quarter.

### Career Development

An appraisal process is conducted annually whereby the supervisor meets with each subordinate face-to-face and discusses his/her job performance for the year. The supervisor and subordinate are encouraged to discuss on the staff’s job performance, work environment, training, future expectation and other areas which will help career advancement.

All staff are provided with equal opportunities for training and development to update their knowledge, or to enhance their business networking. We also provide study sponsorship programs.

### Compensation and Benefits

Staff are rewarded fairly based on their ability, performance, contribution and experience. In addition to an annual salary review, a variable bonus may also be awarded subject to the company’s performance and the staff’s individual work performance.

Staff are entitled to leave benefits including annual, medical, marriage, maternity, paternity, compassionate and prolonged illness leave. Recognizing the importance of the well-being of our staff, we provide them with medical and dental benefits, as well as health screening and fitness center membership.

## Corporate Social Responsibilities

### Conducive Workplace

We adhere to established guidelines to ensure fair employment services. Recruitment and selection of staff are based on the basis of merit and regardless of age, race, gender, religion, national origin, sexual orientation, family status, disability and medical condition.

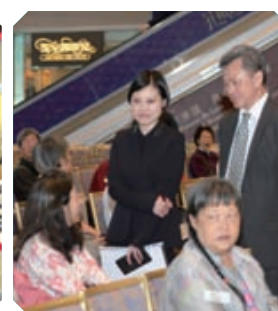
A Whistle Blowing Policy is in place to provide a communication channel for all staff who may in confidence, raise concerns about possible improprieties and obstructive action within the company. The policy protects complainants from reprisals or victimization when they whistle blow in good faith and without malice.

To promote a harmonious working relationship, a Code of Conduct is established for staff to conduct and carry themselves in a proper and courteous manner at work. The basic behavior expected of staff covers areas such as ethics, duties and responsibilities, confidentiality, restraint, bribery, prohibition of accepting gratuities, and company property.

### Caring for Unitholders

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

During the Reporting Year, Prosperity REIT was voted Hong Kong's Best Small Cap Company in *FinanceAsia's* Best Managed Companies poll. This is the second consecutive year Prosperity REIT won this prestigious accolade, indicating our accomplishments have been recognized by the investment community.



### Open Communication

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



## Our Awards



### Caring Company Award 2014

The Hong Kong Council of Social Services



### Best Small-Cap Company

FinanceAsia



### Best Landscape Award (Merit) – Prosperity Place

Leisure and Cultural Services Department



### Quality Water Recognition Scheme for Buildings – Gold Certificate – The Metropolis Tower

Water Supplies Department

# Directors and Senior Management Biographical Information

## Directors



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

*Chairman and Non-executive Director*

**Dr. CHIU Kwok Hung, Justin**, aged 64, is the Chairman of the REIT Manager. He is also the Chairman and Non-executive Director of ARA Asset Management Limited ("**ARA**"), the holding company of the REIT Manager, and the Chairman and Non-executive Director of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT). ARA is listed on the Main Board of Singapore Exchange Securities Trading Limited ("**SGX-ST**") and Fortune REIT is dual-listed on the Main Board of The Stock Exchange of Hong Kong Limited ("**SEHK**") and SGX-ST. Dr. Chiu is also a Director of ARA Fund Management (Asia Dragon)

Limited as the manager of the ARA Asia Dragon Fund. He was previously the Chairman and Non-executive Director of ARA Trust Management (Suntec) Limited (the manager of Singapore-listed Suntec REIT). Dr. Chiu serves as a member of the Standing Committee of the 12th Shanghai Committee of the Chinese People's Political Consultative Conference of the People's Republic of China, and is a Council Member and a Fellow of The Hong Kong Institute of Directors, a Fellow of Hong Kong Institute of Real Estate Administrators and a member of the Board of Governors of Hong Kong Baptist University Foundation.

Dr. Chiu has more than 30 years of international experience in real estate in Hong Kong and various countries and is one of the most respected professionals in the property industry in Asia. Dr. Chiu is an Executive Director and Member of Executive Committee of CK Hutchison Holdings Limited ("**CK Hutchison**") (a company listed on SEHK since 18 March 2015) and an Executive Director of Cheung Kong Property Holdings Limited. He is also an Executive Director and Member of Executive Committee of Cheung Kong (Holdings) Limited ("**Cheung Kong**"), whose listing status on SEHK was replaced by CK Hutchison on 18 March 2015. Dr. Chiu joined Cheung Kong in 1997 and has been an Executive Director since 2000, heading the real estate sales, marketing and property management teams. Prior to joining Cheung Kong, Dr. Chiu was with Sino Land Company Limited from 1994 to 1997 and Hang Lung Development Company, Limited (now known as Hang Lung Group Limited) from 1979 to 1994 responsible for the leasing and property management in both companies. Both Sino Land Company Limited and Hang Lung Group Limited are listed on the Main Board of SEHK.

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



### **LIM Hwee Chiang**

*Non-executive Director*

**Mr. LIM Hwee Chiang**, aged 58, is a Non-executive Director of the REIT Manager. He is also the Group Chief Executive Officer and an Executive Director of ARA. He has been a Director of ARA since its establishment. He is also a Director of ARA Trust Management (Suntec) Limited (the manager of Suntec REIT), ARA Asset Management (Fortune) Limited (the manager of Fortune REIT), ARA-CWT Trust Management (Cache) Limited (the manager of Cache Logistics Trust) 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 dual-listed on the Main Board of SEHK and SGX-ST, and Hui Xian REIT is listed on the Main Board of SEHK.

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 and the Chairman of the Remuneration Committee of Teckwah Industrial Corporation Limited which is listed on the Main Board of SGX-ST. He is also a Director of Chinese Chamber Realty Private Limited, a Director of the Financial Board of the Singapore Chinese Chamber of Commerce, the Chairman of the Property Management Committee of the Singapore Chinese Chamber of Commerce and Industry, and a member of the Consultative Committee to the Department of Real Estate, National University of Singapore.

## Directors and Senior Management Biographical Information

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

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



### **WONG Lai Hung, Mavis**

*Executive Director and Chief Executive Officer*

**Ms. WONG Lai Hung, Mavis**, aged 42, is an Executive Director, the Chief Executive Officer and a Responsible Officer of the REIT Manager. She is also the Chairman of the Disclosures Committee and a member of the Designated (Finance) Committee of the REIT Manager. Ms. Wong has led and/or been a key member of the Investment and Asset Management Team of the REIT Manager since Prosperity REIT was listed in December 2005. She was the Director, Investment and Asset Management of the REIT Manager overseeing the business plans of Prosperity REIT's properties including leasing, property

management and asset enhancement strategies, and is responsible for investment strategy and policy. She was then promoted as Acting Chief Executive Officer and re-designated as the Chief Executive Officer on 1 January 2013. Ms. Wong has been a Responsible Officer of the REIT Manager since July 2007.

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

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



### **MA Lai Chee, Gerald**

*Non-executive Director*

**Mr. MA Lai Chee, Gerald**, aged 47, is a Non-executive Director and a member of the Designated (Finance) Committee of the REIT Manager. He is Member of Executive Committee of CK Hutchison (a company listed on SEHK since 18 March 2015). He is also Member of Executive Committee & General Manager, Corporate Business Development Department of Cheung Kong, whose listing status on SEHK was replaced by CK Hutchison on 18 March 2015. Mr. Ma is an Alternate Director to Mr. Ip Tak Chuen, Edmond, Non-executive Director of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT), and an

Alternate Director to Mr. Lai Kai Ming, Dominic, Non-executive Director of Hutchison Telecommunications Hong Kong Holdings Limited ("**Hutchison Telecommunications**"). Fortune REIT is dual-listed on the Main Board of SEHK and SGX-ST, and Hutchison Telecommunications is listed on the Main Board of SEHK.

## Directors and Senior Management Biographical Information

Mr. Ma has over 25 years of experience in banking, investment and portfolio management, real estate development and marketing, as well as managing IT related ventures and services. He is a member of the Hospitality Services Committee of Caritas Hong Kong, a member of the President's Circle, the Dean's Advisory Board for the Faculty of Arts and the China Advisory Council for the Sauder School of Business of the University of British Columbia, Canada ("**UBC**"). He holds a Bachelor of Commerce degree in Finance and a Master of Arts degree in Global Business Management.



### **LAN Hong Tsung, David**

*Independent Non-executive Director*

**Dr. LAN Hong Tsung, David**, aged 74, is an Independent Non-executive Director, the Chairman of the Audit Committee and a member of the Designated (Finance) Committee of the REIT Manager. He is also an Independent Non-executive Director and a member of the Audit Committee of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT). Dr. Lan is a Non-executive Director and Co-Chairman of Aurum Pacific (China) Group Limited, a company listed on the Growth Enterprise Market of SEHK. He 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), Hutchison Telecommunications (in which he is a member of the Audit Committee and Chairman of the Remuneration Committee) and SJM Holdings Limited. Dr. 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 & Company (Hong Kong) Limited. Dr. Lan is also the President of the International Institute of Management.

Dr. Lan was the Secretary for Home Affairs of the Government of the Hong Kong Special Administrative Region until his retirement in July 2000. He had served as civil servant in various capacities for 39 years and was awarded the Gold Bauhinia Star Medal (GBS) on 1 July 2000. He was appointed to the 10th and 11th sessions of the National Committee Member of the Chinese People's Political Consultative Conference of the People's Republic of China, and was an Independent Non-executive Director of Hutchison Harbour Ring Limited (a company listed in Hong Kong) from 2005 to 2014. Dr. 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.

Dr. Lan received his Bachelor of Arts degree from the University of London and completed the Advanced Management Program (AMP) of the Harvard Business School, Boston. He was also awarded Fellow, Queen Elizabeth House (Oxford). Dr. Lan was conferred with Doctor of Humanities, *honoris causa* by Don Honorio Ventura Technological State University, and holder of Visiting Professorship Awards of Bulacan State University and Tarlac State University.



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

*Independent Non-executive Director*

**Mrs. SNG Sow-Mei (alias POON Sow Mei)**, aged 73, is an Independent Non-executive Director and a member of the Audit Committee of the REIT Manager. She is also an Independent Non-executive Director of CK Infrastructure and ARA Asset Management (Fortune) Limited (the manager of Fortune REIT), and the Lead Independent Director of Hutchison Port Holdings Management Pte Limited (the manager of Hutchison Port Holdings Trust ("**HPH Trust**")). CK Infrastructure is listed on the Main Board of SEHK, Fortune REIT is dual-listed on the Main Board of SEHK and SGX-ST, and HPH Trust is listed on the Main Board of SGX-

ST. Mrs. Sng is also a member of the Audit Committee of CK Infrastructure, ARA Asset Management (Fortune) Limited and Hutchison Port Holdings Management Pte Limited.

## Directors and Senior Management Biographical Information

From 2004 to 2013, Mrs. Sng was Independent Non-executive Director and member of the Audit Committee of ARA Trust Management (Suntec) Limited, the manager of Suntec REIT which is listed on the Main Board of SGX-ST. Prior to her appointments with Singapore Technologies Pte Ltd where she was Director of Special Projects (North East Asia) in 2000, and Senior Consultant (International Business) of Singapore Technologies Electronics Limited from 2001 to 2013, Mrs. Sng was the Managing Director of CapitaLand Hong Kong Ltd for investment in Hong Kong and the region including Japan and Taiwan. In Hong Kong, Mrs. Sng was a Director of INFA Systems Ltd from 2007 to 2013, the Centre Director and then Regional Director of the Singapore Economic Development Board and Trade Development Board respectively from 1983 to 1997. She was Singapore's Trade Commissioner in Hong Kong from 1990 to 1997.

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



### **WONG Kwai Lam**

*Independent Non-executive Director*

**Mr. WONG Kwai Lam**, aged 65, is an Independent Non-executive Director and a member of each of the Audit Committee and Designated (Finance) Committee of the REIT Manager. He is an Independent Non-executive Director and a member of each of the remuneration and appraisal committee and related-party transaction control committee of China Merchants Bank Co., Ltd., a company listed on the Main Board of SEHK and Shanghai Stock Exchange, and an Independent Non-executive Director and a member of each of the remuneration committee and nomination committee of K. Wah International Holdings Limited, a company listed on the Main Board of SEHK. Mr. Wong is also an Independent Non-executive Director and chairman of the audit committee of Langham Hospitality Investments Limited (a company which together with Langham Hospitality Investments listed on the Main Board of SEHK) and LHIL Manager Ltd, as trustee and manager of Langham Hospitality Investments, and a member of the remuneration committee and nomination committee of Langham Hospitality Investments Limited. Mr. Wong is currently the Chairman of IncitAdv Consultants Ltd., a director of Opera Hong Kong Limited, Vice Chairman of the Board of Trustees and a member of the Investment Committee of the Board of Trustees of New Asia College of the Chinese University of Hong Kong, a member of the Investment Sub-Committee of the Chinese University of Hong Kong, a member of Hospital Governing Committee of the Prince of Wales Hospital, and a member of the Governing Board of CUHK Medical Centre Ltd. He was formerly a member of each of the Advisory Committee and Real Estate Investment Trust (REIT) Committee of the Securities and Futures Commission in Hong Kong and a member of the China Committee of the Hong Kong Trade Development Council.

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

Mr. Wong holds Bachelor of Arts degree from the Chinese University of Hong Kong and a Ph. D from Leicester University, England. He was conferred with honorary fellowship by the Chinese University of Hong Kong.

## Directors and Senior Management Biographical Information

### Executive Officers

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

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

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

From 2000 to 2006, Mr. Cheung was the Chief Financial Controller and Company Secretary of Joinn Holdings Limited ("Joinn") (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 SEHK's Growth Enterprise Market.

Prior to joining Joinn, Mr. Cheung served as an auditor with Messrs. Ernst & Young (Hong Kong) from 1995 to 2000 and also with Messrs. Kwan, Wong, Tan & Fong (which has merged with Deloitte Touche Tohmatsu) from 1993 to 1994.

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

**Mr. CHUNG Meng Him, Vicho** is the Assistant Finance Manager of the REIT Manager. He is responsible for conducting market research and feasibility studies, performing financial due diligence and analysis, and participating in financial models for potential acquisition target. In terms of asset management, he is responsible for performing financial analysis for asset enhancement projects, thereby providing financial analysis support for budgeting rental projection and leasing strategy.

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

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

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

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

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

## Directors and Senior Management Biographical Information

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

Ms. Au was concurrently the Hong Kong-based Compliance Manager of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT) from March 2010 to April 2012. Prior to joining the REIT Manager in 2007, Ms. Au was a solicitor in private practice for over 8 years. She holds a Bachelor of Laws degree and Postgraduate Certificate in Laws. Apart from being a solicitor of the Hong Kong Special Administrative Region, she is also an associate of the Chartered Institute of Arbitrators of the United Kingdom, East Asia Branch.

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

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

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

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

## Responsible Officers

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

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

**Mr. CHUNG Meng Him, Vicho** is the Responsible Officer of the REIT Manager. Details of his working experience are set out in the sub-section "Executive Officers".

## Corporate Governance

The REIT Manager was established for the purpose of managing Prosperity REIT. The corporate governance principles of the REIT Manager emphasize a quality board of directors, sound internal control, transparency and accountability to all unitholders. The REIT Manager has adopted its compliance manual (the “**Compliance Manual**”) for use in relation to the management and operation of Prosperity REIT, which sets out the key processes, systems and measures, and certain corporate governance policies and procedures to be applied for compliance with all applicable regulations and legislation. During the Reporting Year, both the REIT Manager and Prosperity REIT have in material terms complied with the provisions of the Compliance Manual.

The REIT Manager is committed to the establishment of good corporate governance practices and procedures. It is the firm belief of the Board of Directors of the REIT Manager (the “**Board**”) that transparency, accountability, sound internal control policies and risk management systems are the essential elements for winning trust and support from retail and institutional investors. The Board keeps abreast of the latest industry trend and regulation changes in order to maintain its competence in the dynamic market condition, and ultimately upholds the best corporate governance practices. Set out below is a summary of the key components of the corporate governance policies that have been adopted and complied with by the REIT Manager and Prosperity REIT.

During the Reporting Year, the Compliance Manual was amended by (i) updating references to the predecessor Companies Ordinance to the new Companies Ordinance (Cap. 622) which took effect on 3 March 2014, (ii) updating the ownership structure to reflect the acquisition of 9 Chong Yip Street in January 2014 and (iii) updating the contingency plan in respect of disaster recovery plan to reflect the real mechanism in place.

### 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) (“**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 Chief Executive Officer (“**CEO**”) and an Executive Director, Mr. Ng Chi Wah, Kevin and Mr. Chung Meng Him, Vicho are the Responsible Officers of the REIT Manager pursuant to the requirements of section 125 of the SFO and Chapter 5.4 of the REIT Code.

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

### Roles of the Trustee and the REIT Manager

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

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

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



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

### Board of Directors of the REIT Manager

The Board is responsible for the overall governance of the REIT Manager including establishing goals for management and monitoring the achievement of these goals. The Board has established a framework for the management of Prosperity REIT, including a system of internal control 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 CEO shall be a member of the Board; and
- (3) the Board shall comprise Directors with a broad range of educational background, commercial experience including expertise in funds management and the property industry, and diversified in terms of gender, age and cultural background appropriate to the business of Prosperity REIT and the REIT Manager.

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

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

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

## Corporate Governance

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

Four full Board meetings of the REIT Manager were held during the Reporting Year and the attendance record of the Board meetings is as follows:

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

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

Pursuant to the corporate governance policy adopted by the REIT Manager, the INEDs must fulfill the independence criteria set out in the Compliance Manual. The REIT Manager has received written annual confirmation from each INED of his/her independence pursuant to the "Criteria for Independence of INEDs" set out in the Compliance Manual. Such confirmations were tabled before the Board Meeting of the REIT Manager for the full Board's review and consideration. All the INEDs contribute objective advice and independent guidance to the Board and the management team of the REIT Manager, and possess the required integrity, independence, experience and expertise.

## Appointment and Removal of Directors

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

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

## Directors' Continuous Professional Development

Directors are well aware of their responsibilities as a director of the REIT Manager and the conduct, business activities and development of Prosperity REIT. They are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. In-house briefings for Directors are arranged by the REIT Manager where appropriate. The management team of the REIT Manager is required to provide timely reports regarding the business operations and performance of Prosperity REIT, market research analysis and the relevant latest government policies to the Board. Directors are also encouraged to participate in appropriate continuous professional development programmes or the relevant training courses organized by professional institutions or conducted by qualified professionals or legal counsels to develop and refresh their knowledge and skills. In addition, they also enriched and updated their knowledge by reading relevant materials relevant to directors' duties and responsibilities. All Directors have provided the REIT Manager with their records of continuous professional development programmes during the Reporting Year.

During the Reporting Year, in-house briefings were given by Company Secretary and/or the in-house counsel of the REIT Manager to Directors in respect of the REIT Code amendments to allow real estate investment trusts to invest in property development activities and financial instruments. A tax advisor was also engaged to conduct training to Directors on the US Foreign Account Tax Compliance Act and its impact on Prosperity REIT. Besides, the external auditor of Prosperity REIT also gave briefings on updates of accounting standards and principles to the members of the Audit Committee.

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

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

### 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 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 auditor of Prosperity REIT periodically, as well as reviewing and supervising the internal control procedures and risk management systems.

The Audit Committee's responsibilities also include:

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

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

The Audit Committee meets on a half yearly basis for considering and reviewing the 2013 final results, 2014 interim results and other internal controls, risk management and compliance matters of Prosperity REIT. The attendance record of the Audit Committee meetings is as follows:

Members of the Audit Committee	Attendance
Dr. Lan Hong Tsung, David	2/2
Mrs. Sng Sow-Mei (alias Poon Sow Mei)	2/2
Mr. Wong Kwai Lam	2/2

The external auditor of Prosperity REIT attended the two Audit Committee meetings to report any major audit issues and findings, and provide its opinion on the accounting issues to the Audit Committee. The Audit Committee also met with the external auditor without the presence of the management team of the REIT Manager once during the Reporting Year.

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

## Disclosures Committee

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

The Disclosures Committee's responsibilities also include:

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

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

## Corporate Governance

The Disclosures Committee meets on a half yearly basis and otherwise on an as-needed basis. The Disclosures Committee held two meetings during the Reporting Year for considering and reviewing the 2013 final results announcement and 2014 interim results announcement, the 2013 annual report and 2014 interim report of Prosperity REIT, and other corporate disclosure issues of Prosperity REIT. The Disclosures Committee also reviewed all public announcements issued by Prosperity REIT throughout the Reporting Year. The attendance record of the Disclosures Committee meetings is as follows:

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

## Designated (Finance) Committee

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

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

The meetings of the Designated (Finance) Committee are convened as and when necessary. The Designated (Finance) Committee held two meetings during the Reporting Year for considering and reviewing the refinancing and hedging proposals submitted by the management team. The attendance record of the Designated (Finance) Committee meetings is as follows:

Members of the Designated (Finance) Committee	Attendance
Ms. Wong Lai Hung, Mavis	2/2
Mr. Ma Lai Chee, Gerald	2/2
Dr. Lan Hong Tsung, David	2/2
Mr. Wong Kwai Lam	2/2

## Management of Business Risk

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

The REIT Manager has appointed experienced and well-qualified management team to handle the day-to-day operations of the REIT Manager and Prosperity REIT. The management team provides the Board with monthly updates giving a balanced and understandable assessment of Prosperity REIT's performance and current financial position. In assessing business risk, the Board considers the economic environment and the property industry risk. It reviews management reports and feasibility studies on individual development project prior to approving any major transactions.

## Conflicts of Interest

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

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

In addition, Directors are requested to give general notice to the REIT Manager stating his/her interests in transactions, arrangements or contracts of any description which may subsequently be made by the REIT Manager pursuant to sections 536 to 542 under Part 11 – Division 5 of the Companies Ordinance (Cap. 622) and the articles of association of the REIT Manager.

## Communication with Unitholders and Investors

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

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

The 2014 Annual General Meeting ("**AGM**") was held on 9 May 2014 and 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 15 January 2014 for approving the transactions in relation to the acquisition of 9 Chong Yip Street. Apart from Mr. Lim Hwee Chiang and Mr. Ma Lai Chee, Gerald, all the Directors (including the Chairman of the Board and chairmen of the respective board committees) attended the AGM and the EGM, and were available to answer questions. The external auditor of Prosperity REIT attended the AGM and the EGM; while the legal advisor and independent financial advisor of Prosperity REIT attended the EGM.

Prosperity REIT maintains a website at [www.prosperityreit.com](http://www.prosperityreit.com) where updated information on Prosperity REIT's business operations and developments, financial information and other information are posted. The REIT Manager has been actively participating in regular press conferences and meetings with investors and analysts in order to update the interested parties on the performance of Prosperity REIT. The REIT Manager values suggestions from unitholders on its efforts to promote transparency and foster investor relationships. Comments and suggestions are welcome and they can be addressed to the Investor Relations Manager by mail, phone or email according to the information set out in the Corporate Information section.

### Reporting and Transparency

Prosperity REIT prepares its accounts in accordance with the generally accepted accounting principles in Hong Kong with a financial year-end of 31 December and a financial half-year of 30 June. In accordance with the REIT Code, the annual report and interim report of Prosperity REIT 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 2014. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the ability of Prosperity REIT to continue as a going concern.

The statement of the auditor of Prosperity REIT about its reporting responsibilities on the financial statements is set out in the Independent Auditor's Report.

### Issues of Further Units Post-Listing

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

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

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

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



Management Persons who are aware of or privy to any negotiations or agreements related to intended acquisitions or disposals which are notifiable transactions under Chapter 14 of the Listing Rules or connected party transactions under the REIT Code or any inside information (as defined in the Listing Rules) must refrain from dealing in the securities of Prosperity REIT as soon as they become aware of them or privy to them until the information has been announced. Management Persons who are privy to relevant negotiations or agreements or any inside information should caution those Management Persons who are not so privy that there may be inside information and that they must not deal in the securities of Prosperity REIT for a similar period.

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

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

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

Specific enquiry has been made with the Management Persons, executive officers and other employees of the REIT Manager, who confirmed that they have complied with the required standard set out in the Units Dealing Code.

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

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 auditor and appoint other auditor or (ii) remove the Trustee or the REIT Manager. The quorum for passing a special resolution is two or more unitholders present in person or by proxy registered as holding together not less than 25% of the units of Prosperity REIT in issue.

### Changes of Directors' Information

Subsequent to publication of the 2014 Interim Report of Prosperity REIT, the REIT Manager received notifications regarding the following changes of Directors' information:

1. Dr. Chiu Kwok Hung, Justin was appointed as Council Member of The Hong Kong Institute of Directors with effect from 9 July 2014. He was also appointed as an Executive Director and Member of Executive Committee of CK Hutchison Holdings Limited (a company listed on SEHK since 18 March 2015) and an Executive Director of Cheung Kong Property Holdings Limited.
2. Mr. Lim Hwee Chiang ceased to be a Director of Am ARA REIT Managers Sdn Bhd, the manager of AmFIRST REIT which is listed in Malaysia, with effect from 1 August 2014.
3. Mr. Ma Lai Chee, Gerald was appointed as Member of Executive Committee of CK Hutchison Holdings Limited (a company listed on SEHK since 18 March 2015).
4. Dr. Lan Hong Tsung, David ceased to be an Independent Non-executive Director of Hutchison Harbour Ring Limited (a company listed on SEHK) with effect from 19 December 2014, and has been acting as a Non-executive Director and Co-Chairman of Aurum Pacific (China) Group Limited (a company listed on SEHK) since 6 March 2015.

### Review of Annual Report

The annual report of Prosperity REIT for the Reporting Year has been reviewed by the Audit Committee and the Disclosures Committee.

### Public Float of the Units

As far as the REIT Manager is aware, more than 25% of the issued units of Prosperity REIT were held in public hands as of 31 December 2014.

## Connected Party Transactions

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

### Connected Party Transactions — Income

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

Name of Connected 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 2014 HK\$	Rental deposit received as at 31 December 2014 HK\$
Goodwell Property Management Limited	Subsidiary of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>5</sup>	1,523,388	404,415
Hutchison Telephone Company Limited	Associate of a significant holder <sup>2</sup>	Licence of property of Prosperity REIT <sup>6</sup>	91,200	24,144
Hutchison China MediTech (HK) Limited	Associate of a significant holder <sup>3</sup>	Tenancy of property of Prosperity REIT <sup>7</sup>	485,271	–
Hutchison Hain Organic (Hong Kong) Limited	Associate of a significant holder <sup>4</sup>	Tenancy of property of Prosperity REIT <sup>8</sup>	99,816	161,568
<b>Total</b>			<b>2,199,675</b>	<b>590,127</b>

Notes:

1. Significant holder being Cheung Kong (Holdings) Limited (“**Cheung Kong**”).
2. The connected party was 49% owned by Hutchison Whampoa Limited (“**HWL**”), which in turn was 49.9% owned by a significant holder of Prosperity REIT, namely Cheung Kong.
3. As confirmed by the connected party, HWL’s ownership in the connected party was about 70%. HWL was 49.9% owned by a significant holder of Prosperity REIT, namely Cheung Kong.
4. As confirmed by the connected party, HWL’s ownership in the connected party was about 35%. HWL was 49.9% owned by a significant holder of Prosperity REIT, namely Cheung Kong.
5. For 2/F, Units 302-3, 306-7, New Treasure Centre.
6. For installation of micro-transmission station equipment at Prosperity Place and indoor antennae at Harbourfront Landmark.
7. For 1703B and 1704, 9 Chong Yip Street (the lease expired on 30 October 2014).
8. For 1703B and 1704, 9 Chong Yip Street (the lease commenced on 1 November 2014).

## Connected Party Transactions

### 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 2014 HK\$
Goodwell Property Management Limited <sup>1</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of DMC Manager	188,077
Goodwell Property Management Limited <sup>2</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of Carpark Manager	7,525
Citybase Property Management Limited <sup>1</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of DMC Manager	285,462
Citybase Property Management Limited <sup>2</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of Carpark Manager	68,095
Harbourfront Landmark Premium Services Limited <sup>1</sup>	Associate of a significant holder <sup>3</sup>	Remuneration of DMC Manager	328,269
<b>Total</b>			<b>877,428</b>

Notes:

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

## 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 2014 HK\$
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder <sup>1</sup>	Property management and lease management fee	9,460,422
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder <sup>1</sup>	Marketing service fee	10,280,982
E-Park Parking Management Limited	Subsidiary of a significant holder <sup>1</sup>	Carpark lease agency fee	2,284,605
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee fee	2,860,984
ARA Asset Management (Prosperity) Limited	REIT Manager	Base fee and variable fees	48,054,370
ARA Asset Management (Prosperity) Limited	REIT Manager	Acquisition fee	10,100,000
Cheung Kong Companies <sup>2</sup>	Associates or subsidiaries of a significant holder <sup>1</sup>	Back-office support service fee	58,979
<b>Total</b>			<b>83,100,342</b>

Notes:

1. Significant holder being Cheung Kong.
2. Cheung Kong Companies included 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) during the Reporting Year.

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

## Connected Party Transactions

### Other Connected Party Transactions

The following companies had provided back-office support services, carpark management services and property management services to Prosperity REIT during the Reporting Year and hence amounts due from Prosperity REIT as at 31 December 2014 were as follows:

Name of Connected Party	Amount payable HK\$
Goodwell-Prosperity Property Services Limited	4,816,336
Goodwell Property Management Limited	6,327,692
E-Park Parking Management Limited	392,784
Citybase Property Management Limited	204,825
Harbourfront Landmark Premium Services Limited	511,083
Total	12,252,720

### Confirmation by the INEDs

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

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

### Confirmation by the Auditor of Prosperity REIT

Messrs. Deloitte Touche Tohmatsu, auditor of Prosperity REIT, was engaged to report on Prosperity REIT and its subsidiaries' continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions on leasing/licensing transactions, property management arrangements, third party services and other operational transactions and transactions involving ordinary banking and financial services disclosed by Prosperity REIT and its subsidiaries from pages 65 to 68 of the Annual Report in accordance with the waiver from strict compliance with disclosure requirements under Chapter 8 of the REIT Code granted by the SFC. A copy of auditor's letter has been provided by Prosperity REIT to the SFC.

## Confirmation by the REIT Manager and the Trustee of Corporate Finance Transaction with the HSBC Group

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

## Repurchase, Sale or Redemption of Units

During the Reporting Year, other than the disposal of 28,817,000 units of Prosperity REIT by the REIT Manager which the REIT Manager had received as payment of its management fee and acquisition fee, there was no repurchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or its subsidiaries.

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

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

Name	As at 31 December 2014		As at 31 December 2013
	Number of Units	Percentage of Unitholdings <sup>5</sup>	Number of Units
Total Win Group Limited <sup>1</sup>	176,328,129	12.42%	176,328,129
Wide Option Investments Limited <sup>1</sup>	98,883,559	6.97%	98,883,559
HKSCC Nominees Limited <sup>2</sup>	1,056,197,192	74.40%	1,034,899,908
HSBC <sup>3</sup>	44,180,250	3.11%	250
ARA Asset Management (Prosperity) Limited <sup>4</sup>	852	0.00006%	5,360,975

Notes:

- Total Win Group Limited (“**Total Win**”) was a connected person of Prosperity REIT as it was a significant holder (as defined under the REIT Code) of Prosperity REIT as at 31 December 2014. Total Win was 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 2014. Total Win was an indirect wholly-owned subsidiary of Cheung Kong as at 31 December 2014.

Wide Option Investments Limited (“**Wide Option**”) was a connected person of Prosperity REIT as it was an associate (as defined under the REIT Code) of Total Win as at 31 December 2014. Wide Option was a wholly-owned subsidiary of HWL as at 31 December 2014, which in turn was 49.9% owned by Cheung Kong as at that day.

Cheung Kong was therefore deemed to hold 275,211,688 units as at 31 December 2014, of which 176,328,129 units were held by Total Win and 98,883,559 units were held by Wide Option.

- HKSCC Nominees Limited was a connected person of Prosperity REIT as it was a significant holder (as defined under the REIT Code) of Prosperity REIT as at 31 December 2014. So far as the REIT Manager is aware of, HKSCC Nominees Limited held such units as a nominee.

## Connected Party Transactions

3. HSBC Holdings plc. and other members of its group ("**HSBC**") were connected persons of Prosperity REIT as HSBC Institutional Trust Services (Asia) Limited, the Trustee, was an indirect subsidiary of HSBC Holdings plc. So far as the REIT Manager is aware of, the Trustee had no beneficial interest in any units as at 31 December 2014 and 31 December 2013. The Trustee's directors, senior executives, officers and their associates were not beneficially interested in any units as at 31 December 2014 and 31 December 2013. The controlling entity, holding company, subsidiary or associated company of the Trustee were beneficially interested in 44,180,250 units as at 31 December 2014 and 250 units 31 December 2013.
4. ARA Asset Management (Prosperity) Limited was a connected person of Prosperity REIT as it was the management company (as defined under the REIT Code) of Prosperity REIT as at 31 December 2014.
5. The total number of issued units as at 31 December 2014 was 1,419,635,074.

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 2014.

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

As at 31 December 2014, the interests of the REIT Manager, Directors and chief executive of the REIT Manager in the units of Prosperity REIT as recorded in the Register of Interests maintained by the REIT Manager under clause 30.3 of the Trust Deed were as follows:

Name	Number of Units		Percentage of Unitholdings <sup>Note</sup>
	Direct Interest	Indirect Interest	
ARA Asset Management (Prosperity) Limited	852	–	0.00006%

Note:

The total number of issued units as at 31 December 2014 was 1,419,635,074.

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 2014.



Our Ref.: 2/14/00276  
CKL/DC/JW/ay

18 February 2015

**ARA Asset Management (Prosperity) Limited**

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

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

(As Trustee of Prosperity Real Estate Investment Trust)  
17th Floor, Towers 2 and 3  
HSBC Centre  
1 Sham Mong Road Kowloon

## Re: Prosperity REIT — Year End Valuation as at 31 December 2014

### 1.0 Instructions

We refer to the instruction from **ARA Asset Management (Prosperity) Limited** ("the Manager"), acting as the manager of **Prosperity Real Estate Investment Trust** ("Prosperity REIT"), and **HSBC Institutional Trust Services (Asia) Limited** ("the Trustee") to conduct property valuation ("the Valuation") for the Prosperity REIT's property portfolio ("the Portfolio") for the Annual Report of Prosperity REIT for the financial year ending on 31 December 2014, and for accounting, mortgage security and testing financial covenants purposes.

The Portfolio as identified to us for this valuation is listed in Section 2.0 below.

We confirm that we have inspected the Portfolio, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing our opinion of market value of the Portfolio, with the benefit of existing tenancies, as at 31 December 2014 ("the Date of Valuation").

### 2.0 The Portfolio

The Portfolio comprises the following property interests:

- 1 The Metropolis Tower, 10 Metropolis Drive, Hung Hom, Kowloon
- 2 Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong
- 3 9 Chong Yip Street, Kwun Tong, Kowloon
- 4 Commercial Units on 3rd, 5th and 6th Floors, Harbourfront Landmark, 11 Wan Hoi Street, Hung Hom, Kowloon
- 5 Prosperity Place, 6 Shing Yip Street, Kwun Tong, Kowloon

- 6 Trendy Centre, 682 Castle Peak Road, Lai Chi Kok, Kowloon
- 7 Various Portions of Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon
- 8 Various Portions of New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon

### 3.0 Basis of Valuation

All work is carried out in accordance with the "HKIS Valuation Standards 2012 Edition" published by The Hong Kong Institute of Surveyors ("HKIS"), the "International Valuation Standards" published by the International Valuation Standards Council ("IVSC") and the "RICS Valuation — Professional Standards" published by the Royal Institution of Chartered Surveyors ("RICS") subject to variation to meet local established law. Unless otherwise stated, our valuations are undertaken as External Valuers as defined in the relevant Valuation Standards.

Our valuation is made on the basis of Market Value as defined by IVSC and adopted by HKIS and RICS, set out as:

*"the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion."*

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

### 4.0 Valuation Methodologies

We have made use of the Income Capitalisation Method cross-referenced with the Direct Comparison Method.

#### 4.1 Income Capitalisation Method

The income capitalisation method is based on the capitalisation of the current passing rental income and potential reversionary income over the remaining tenure of the Portfolio from the date of valuation at appropriate investment yields to arrive at the capital value. The appropriate adjustments/deductions for rent free period, ongoing vacancy voids/marketing periods and non recoverable expenses for the vacant space have been allowed.

The income capitalisation method can more accurately reflect these property specific factors by utilising various specific assumptions which have been derived via analysis of market evidence. The ability to apply these assumptions in the capitalisation method is by far more appropriate for valuing an investment property where investors' emphasis on delivering returns is of paramount importance.

## 4.2 Direct Comparison Method

The direct comparison method is the most widely used method of valuation in Hong Kong and is based on comparing the properties to be valued directly with other comparable properties which recently changed hands or leased. These premises are generally located in the surrounding areas or in another market which is comparable to the properties. However, because of the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative and quantitative differences that may affect the price/rental likely to be achieved by the properties under consideration.

Factors such as tenants covenants, trade mix are difficult to be quantified in the overall unit value of the comparables. Furthermore, good comparables may not be readily available in the market. In the light of the characteristics of the Portfolio, we have therefore placed more weighting on the reliance on the income capitalisation method in arriving at our valuation conclusion.

## 4.3 Valuation Reconciliation

The results of the two valuation methods will be reconciled and the assessed value will be analysed in terms of estimated net property yield.

# 5.0 Valuation Assumptions

## 5.1 Valuation Assumptions

Our report is qualified by certain assumptions, definitions and limiting conditions.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the Portfolio nor for any expenses or taxation which may be incurred in effecting sales. Unless otherwise stated, it is assumed that the Portfolio is free of encumbrances, restrictions and outgoings of an onerous nature which could affect the capital values of the Portfolio.

## 5.2 Title Investigation and Encumbrances

We have conducted land searches of the Portfolio with the Land Registry. However, we have not examined the original documents to verify ownership or to ascertain the existence of any lease amendments, which may not appear on the copies handed to us. All documents and leases have been used for reference only and all dimensions, measurements and areas are approximate.

## 5.3 Source of Information

We have relied to a considerable extent on the information provided by the Manager and have accepted advice given to us on such matters as identification of the Portfolio, planning approvals, statutory notices, easements, tenure, occupation, floor plans, floor areas, tenancy schedule and all other relevant matters.

In the course of our valuation, we have also made reference to inter alia, the following information provided by the Manager:

1. Copy of the Rent Rolls of the Portfolio as at 30 November 2014 and 31 December 2014;
2. Copy of the Carpark income & expense of the Portfolio from September 2014 to December 2014;
3. Copy of layout plans of the Portfolio.

Dimensions, measurements and areas included in the report are based on information contained in copies of documents provided to us and are therefore only approximations. No on site measurements have been taken. We have not been instructed to independently verify the information provided to us. Our valuation is totally dependent on the adequacy and accuracy of the information supplied and/or the assumptions made. Should these prove to be incorrect or inadequate, the accuracy of the valuation may be affected.

We have not seen original planning and/or development and occupation consents. We have assumed that the Portfolio has been erected, being occupied and used in accordance with such consents and that there are no outstanding statutory notices.

### 5.4 Property Inspection

We have inspected the exterior, and where possible the interior of the Portfolio between 4 December to 5 December 2014.

We have not conducted formal site and structural surveys and, as such, we cannot report that the Portfolio is free from rot, infestation or any other structural defects. We have not carried out a building survey, nor have we inspected those parts of the Portfolio which are covered, unexposed or inaccessible and such parts have been assumed to be in good repair and condition. We cannot express an opinion about or advise upon the condition of uninspected parts and this report should not be taken as making any implied representation or statement about such parts. No tests have been carried out to any of the services.

We have not arranged for any investigation to be carried out to determine whether or not any deleterious or hazardous material has been used in the construction of the Portfolio, or has since been incorporated, and we are therefore unable to report that the Portfolio are free from risk in this respect. For the purpose of this valuation we have assumed that such investigations would not disclose the presence of any such material to any significant extent.

### 5.5 Site Investigation

We have not carried out any investigations on site in order to determine the suitability of ground conditions and services etc. for future redevelopment, nor did we undertake archaeological, ecological or environmental surveys. Our valuation is on the basis that these aspects are satisfactory and that where developments are contemplated, no extraordinary expenses or delays will be incurred during the construction period due to these, or to archaeological or ecological matters. In the course of our assessments, we have assumed that no contamination affecting the Portfolio or the neighbouring land. However, should it be established subsequently that contamination exists at the Portfolio or on any neighbouring land, or that the premises have been or are being put to any contaminative use, we reserve the right to adjust the values reported herein.

## 5.6 Plant and Machinery

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

## 5.7 Telecommunication Facilities

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

# 6.0 Office Market Overview

## 6.1 Office Demand

All submarkets, with the exception of Tsimshatsui and Hong Kong East, recorded negative net take-up in the fourth quarter of 2014. However, stronger-than-expected demand in Central, Tsimshatsui and Hong Kong East helped offset larger lease expiries. As a result, the overall occupier market contracted by only 75,200 sq ft, trimming net take-up for the full year to 724,000 sq ft.

In Central, demand for larger office space was led by tenants outside of the banking and finance sector. Pure Yoga, for example, leased 15,100 sq ft at Hutchison House in Central while two floors at Citibank Plaza were leased to a medical clinic-Hong Kong Integrated Oncology Centre.

## 6.2 Office Supply

The completion of The Octagon in Tsuen Wan and 10 Shing Yip Street in Kwun Tong in the fourth quarter of 2014 brought the total new supply for the year to 1.0 million sq ft, which is half of the ten-year average annual supply.

The government released two commercial development sites for sale via public tender during the last quarter of 2014, both with tender deadlines in January 2015. Both sites are located in decentralised areas — KCTL 495 in Kwai Chung and NKIL 6512 in Kwun Tong, and have maximum permitted Gross Floor Area of 228,000 sq ft and 883,900 sq ft respectively. There are no restriction on stratification for the two sites, unlike that last two commercial sites sold in Kowloon East — NKIL6312 (Swire Properties) and KTIL 761 (Mapletree). The tender of KCTL 495 was awarded to Hon Kwok Land at a price of HK\$686.8 million (or an AV of HK\$3,012/sq ft). The developer plans to build a commercial building comprising office and warehousing facilities for long term investment. The tender of NKIL 6512 was awarded to a joint venture company between The Link REIT and Nan Fung Group at a consideration of HK\$5.86 billion (or an AV of HK\$6,630/sq ft). According to the announcement by the Link REIT, it is planned that a Grade-A commercial complex comprising two office towers with retail and car park elements would be built.

## 6.3 Office Rental Performance

All office submarkets, with the exception of Hong Kong East and Kowloon East, posted marginal rental growth in the fourth quarter of 2014, padded by a tight vacancy environment. Supply competition arising from refurbished industrial projects continued to weigh on Kowloon East rentals.

The investment market was relatively quiet ahead of the holiday season. Investment sentiment, nonetheless, remained intact as transaction volumes continued to be largely supported by end-user demand, especially in decentralised locations. Chinese developer, Evergrande Group, for example, purchased two floors at the top zone of Global Trade Square in Wong Chuk Hang for HK\$317.7 million (HK\$18,600 per sq ft), reportedly for its head office in the city. Capital values remained broadly stable across the submarket on the back of low holding costs.

### 6.4 Office Outlook

The overall occupier market is forecast to grow by about 2 million sq ft in 2015, its highest level since 2011. However, about 60% of the demand will be from the realization of pre-committed space in three upcoming developments. Excluding these pre-commitments, demand for office space should be moderately higher in 2015 on the back of stronger local economic growth, which should lend support to modest rental growth across all submarkets with the exception of Kowloon East, where rental growth may continue to be affected by industrial refurbishment projects.

Investors will continue to be on the lookout for long-term investment properties. Chinese insurer, China Life, for example, reportedly is in negotiation to purchase Wheelock Properties' One Harbourgate in Hung Hom. The investment should receive a boost with the launch of several upcoming Grade A projects. As such, capital values are expected to hold firm over the next 12 months.

## 7.0 Industrial Market Overview

### 7.1 Industrial Demand

Improving trade with the United States helped offset a slowdown in trade with the European Union and Mainland China, contributing to the value of exports and imports to grow by 1.5% year-on-year and 4.0% year-on-year, respectively, through October-November 2014. During the same two-month period, air-freight cargo grew by 5.0% year-on-year while container throughput retreated by 4.6% year-on-year, which if sustained, would mark the second consecutive quarter of contraction.

Third party logistics providers affected by the slowdown in external trade growth and thinning profit margins were less active in the leasing market with demand in the fourth quarter of 2014 largely underpinned by requirements from corporate end-users.

With revitalization and redevelopment of warehouse/industrial premises proving increasingly popular, some vendors sold their holdings to investors eyeing the redevelopment potential of their premises. Tenants of these buildings were forced to relocate creating more demand in the market.

### 7.2 Industrial Supply

Goodear's new warehouse development in Tsing Yi — SF Centre, was issued its Occupation Permit in October, adding about 1.5 million sq ft of prime warehousing space to the market. No additional new supply is scheduled for completion until China Merchants' logistics development in Tsing Yi in late-2016.

### 7.3 Industrial Asset Performance

Rents continued to reach record highs, drive by strong growth among warehouses with only cargo-lift access.

Sales activity in the space of buildings with revitalization potential helped push capital value higher. Among notable en-bloc transactions, Emperor Group purchased Topy Tower for HK\$418 million via equity transfer while a local investor acquired Oriental Logistics Centre for HK\$750 million. Both buildings are located in Kwai Chung.

### 7.4 Industrial Outlook

Hong Kong's merchandise trade is expected to continue to gather momentum over the next 12 months and grow by 8.2% in 2015, on the back of continued improvements across the advanced economies such as US and Europe. On the domestic front, the retail sector is forecasted to recover from its slightly disappointing performance in 2014. With no new supply expected to be added to the market until late 2016, vacancy in the overall market is expected to gradually tighten over the course of 2015 while rents are expected to grow in the range of 0% to 5%.

Although interest rates are expected to start increasing from mid-2015, the positive yield spread over other industrial asset classes should continue to attract investors towards the warehouse market; pushing capital values higher and further compressing yields over the near term. Investors may show particularly strong interest in buildings with redevelopment/refurbishment potential given the upcoming expiry of the government's revitalization policies in early-2016.

## 8.0 Disclosure of Interest

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

## 9.0 Satisfaction of Property Valuer Criteria in REIT Code

Jones Lang LaSalle and the qualifications of directors of our firm, are in a position to fulfill and comply fully with paragraphs 6.4, 6.5, 6.6 and 6.7 of the Code on Real Estate Investment Trusts ("REIT Code").

### 10.0 Valuation

A summary of our opinion of the market value of each property, subject to the existing tenancies, as at 31 December 2014, are as follows:

No.	Property Name	Approximate Gross Area  (sq.ft.)	No. of CPS  (spaces)	Market Value as at 31 December 2014 (HK\$)
1	The Metropolis Tower	271,418	98	3,042,000,000
2	Prosperity Millennia Plaza	217,955	43	1,824,000,000
3	9 Chong Yip Street	136,595	68	1,079,000,000
4	Harbourfront Landmark Property	77,021	0	461,000,000
5	Prosperity Place	240,000	83	1,436,000,000
6	Trendy Centre	173,764	79	955,000,000
7	Prosperity Center Property	149,253	105	800,000,000
8	New Treasure Centre Property	86,168	22	293,000,000
<b>Total</b>		<b>1,352,174</b>	<b>498</b>	<b>9,890,000,000</b>

We are of the opinion that the market value of the unencumbered leasehold interest of the Portfolio, subject to the existing tenancies, as at 31 December 2014, was in the sum of **HK\$9,890,000,000 (HONG KONG DOLLARS NINE BILLION EIGHT HUNDRED AND NINETY MILLION)**.

Please refer to the attached valuation reports for property particulars of each of the properties.

### 11.0 Conversion Factors

#### Conversion factors

1 square metre	=	10.764 square feet
1 metre	=	3.2808 feet

Yours faithfully  
For and on behalf of  
**Jones Lang LaSalle Limited**

**Dorothy Chow** *BSc(Hons), MSc, MHKIS, MRICS, RPS (GP)*  
National Director  
Licence No.: E-182969



## Summary Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2014
<p>1. The Metropolis Tower, 10 Metropolis Drive, Hung Hom, Kowloon</p> <p>24,734/247,769th equal and undivided parts or shares of and in Kowloon Inland Lot No. 11077</p>	<p>The Metropolis Tower is a 15-storey office building comprising 11th to 28th Floors (13th, 14th and 24th floor numbers are omitted) built over a multi-storey retail/carparking podium on a registered site area of approximately 50,058 sq m (538,824.3 sq ft). The building was built in 2001.</p> <p>The Metropolis Tower is the office portion of the comprehensive mixed-use complex, called The Metropolis. The Metropolis comprises other components including a shopping centre (Fortune Metropolis), two 18-storey residential towers (The Metropolis Residence) and a 12-storey hotel (Harbour Plaza Metropolis).</p> <p>The Metropolis Tower comprises the entire office units from the 11th to 28th Floors with a total gross area of approximately 25,215.3 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 of 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 from 14 February 1997 to 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The office portion of the property is let under various tenancies for various terms with the latest expiry in November 2017, yielding a total monthly rental income of approximately HK\$8,530,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The property (excluding carparking spaces) was fully let as at the date of valuation.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$312,609 during the period from January 2014 to December 2014.</p>	<p>HK\$3,042,000,000</p> <p>(HONG KONG DOLLARS THREE BILLION AND FORTY TWO MILLION)</p> <p>Estimated net property yield was approximately 3.5%.</p>

## Valuation Report

Notes:

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

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

- (2) The property is currently zoned for "Other Specified Uses" purposes under the Hung Hom Outline Zoning Plan No. S/K9/24 dated 15 October 2010.
- (3) The following major encumbrance is registered against the property upon our recent Land Registry search:
- Mortgage in favour of DBS Bank Ltd., Hong Kong Branch, in its capacity as security trustee for the loan secured parties for consideration see Memorial vide various Memorial Nos. (14122402450673, 14122402450684, 14122402450691, 14122402450701, 14122402450715, 14122402450726, 14122402450736, 14122402450746, 14122402450752, 14122402450764, 14122402450779, 14122402450782, 14122402450798, 14122402450809 & 14122402450818) dated 28 November 2014.
- (4) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (5) The estimated net property yield is based on the monthly net rental income for December 2014 and average net monthly car parking income for the period of January 2014 to December 2014.
- (6) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces) is set out below:

### Tenancy Commencement Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2012 and before	112,665	41.5%	3,253,200	38.1%	25	26.0%
2013	102,305	37.7%	3,315,810	38.9%	42	43.8%
2014	56,448	20.8%	1,963,400	23.0%	29	30.2%
<b>TOTAL</b>	<b>271,418</b>	<b>100.0%</b>	<b>8,532,410</b>	<b>100.0%</b>	<b>96</b>	<b>100.0%</b>

## Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2014 & 2015	149,011	54.9%	4,437,710	52.0%	50	52.1%
2016	105,600	38.9%	3,489,000	40.9%	36	37.5%
2017 & beyond	16,807	6.2%	605,700	7.1%	10	10.4%
<b>TOTAL</b>	<b>271,418</b>	<b>100.0%</b>	<b>8,532,410</b>	<b>100.0%</b>	<b>96</b>	<b>100.0%</b>

## Tenancy Duration Profile

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2 years and below	32,316	11.9%	1,056,810	12.4%	20	20.8%
> 2 years up to 3 years	239,102	88.1%	7,475,600	87.6%	76	79.2%
more than 3 years	0	0.0%	0	0.0%	0	0.0%
<b>TOTAL</b>	<b>271,418</b>	<b>100.0%</b>	<b>8,532,410</b>	<b>100.0%</b>	<b>96</b>	<b>100.0%</b>

## Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2014
2. Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong  3,741/10,000th equal and undivided parts or shares of and in Inland Lot No. 8885	<p>Prosperity Millennia Plaza is a 32-storey office building (including 3 mechanical floors and a refuge floor) together with a 2-level basement carport. It is erected on portion of a site with a registered site area of approximately 3,404 sq m (36,640.7 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 consists of 43 carparking spaces within the 2-level basement.</p> <p>Inland Lot No. 8885 is held under Conditions of Exchange No. 12374 for a term from 24 January 1996 to 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The office portion of the property is let under various tenancies for various terms with the latest one expiring in August 2018, yielding a total monthly rental income is approximately HK\$5,829,800, exclusive of Government rates and rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the date of valuation (excluding carparking spaces) was approximately 99.3%.</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average net monthly income of approximately HK\$262,108 during the period from January 2014 to December 2014.</p>	<p>HK\$1,824,000,000</p> <p>(HONG KONG DOLLARS ONE BILLION EIGHT HUNDRED AND TWENTY FOUR MILLION)</p> <p>Estimated net property yield was approximately 4.0%.</p>

### Notes:

- (1) The registered owner of the property is Conestoga Limited.
- (2) The property is currently zoned for "Commercial" purposes under the North Point Outline Zoning Plan No. S/H8/24 dated 10 December 2010.
- (3) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.
- (4) The estimated net property yield is based on the monthly net rental income for December 2014 and average net monthly car parking income for the period of January 2014 to December 2014.

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

#### Tenancy Commencement Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2012 and before	47,015	21.7%	1,121,400	19.2%	9	10.3%
2013	59,295	27.4%	1,579,400	27.1%	30	34.5%
2014	110,130	50.9%	3,128,983	53.7%	48	55.2%
<b>TOTAL</b>	<b>216,440</b>	<b>100.0%</b>	<b>5,829,783</b>	<b>100.0%</b>	<b>87</b>	<b>100.0%</b>

#### Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2014 & 2015	75,161	34.7%	1,840,800	31.6%	29	33.3%
2016	61,218	28.3%	1,711,080	29.3%	29	33.3%
2017 & beyond	80,061	37.0%	2,277,903	39.1%	29	33.4%
<b>TOTAL</b>	<b>216,440</b>	<b>100.0%</b>	<b>5,829,783</b>	<b>100.0%</b>	<b>87</b>	<b>100.0%</b>

#### Tenancy Duration Profile

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2 years and below	28,483	13.1%	814,400	14.0%	17	19.6%
> 2 years up to 3 years	159,872	73.9%	4,232,783	72.6%	65	74.7%
more than 3 years	28,085	13.0%	782,600	13.4%	5	5.7%
<b>TOTAL</b>	<b>216,440</b>	<b>100.0%</b>	<b>5,829,783</b>	<b>100.0%</b>	<b>87</b>	<b>100.0%</b>

## Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2014
3. 9 Chong Yip Street, Kwun Tong, Kowloon  Kwun Tong Inland Lot No. 444	<p>9 Chong Yip Street is a 25-storey Grade A office building with ancillary parking erected on a registered site area of approximately 965.6 sq m (10,393.8 sq ft). The property was built in 2004.</p> <p>Portion of the Ground Floor and 1st to 3rd Floors are for carparking and mechanical plant room whereas the remaining portion of the Ground Floor is used for a lobby. The upper floors from the 5th to 27th Floors (4th, 14th and 24th floor numbers are omitted) are designated for office purposes.</p> <p>The total gross area of the property (excluding parking lots) is approximately 12,690.0 sq m (136,595 sq ft). The total saleable area is approximately 9,229.7 sq m (99,349 sq ft).</p> <p>The property also consists of 64 carparking spaces, 4 loading/unloading spaces and 5 motor cycle parking spaces.</p> <p>Kwun Tong Inland Lot No. 444 is held under Government Lease for a term of 99 years less the last 3 days thereof commencing from 1 July 1898. The lease has been extended to expire on 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The office portion of the property is let under various tenancies for various terms with the latest one expiring in November 2017, yielding a total monthly rental of approximately HK\$2,667,300, exclusive of Government rates and rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the date of valuation (excluding carparking spaces) was approximately 96.6%.</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average net monthly income of approximately HK\$132,829 during the period from January 2014 to December 2014.</p>	<p>HK\$1,079,000,000</p> <p>(HONG KONG DOLLARS ONE BILLION AND SEVENTY NINE MILLION)</p> <p>Estimated net property yield was approximately 3.1%.</p>

### Notes:

- (1) The registered owner of the property is Clifton Properties Limited.
- (2) The property is currently zoned for "Other Specified Uses" purposes under the draft Kwun Tong South Outline Zoning Plan No. S/K14S/19 dated 18 July 2014.
- (3) The following encumbrance is registered against the property upon our recent Land Registry search:
  - Property Mortgage in favour of Standard Chartered Bank (Hong Kong) Limited for a consideration of HK\$404,000,000 vide Memorial No. 14012402290020 dated 22 January 2014.
- (4) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.
- (5) The estimated net property yield is based on the monthly net rental income for December 2014 and average net monthly car parking income for the period of January 2014 to December 2014.

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

#### Tenancy Commencement Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2012 and before	12,026	9.1%	195,830	7.4%	4	9.3%
2013	42,025	31.9%	899,226	33.7%	13	30.2%
2014	77,859	59.0%	1,572,285	58.9%	26	60.5%
<b>TOTAL</b>	<b>131,910</b>	<b>100.0%</b>	<b>2,667,341</b>	<b>100.0%</b>	<b>43</b>	<b>100.0%</b>

#### Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2014 & 2015	54,051	41.0%	1,100,844	41.3%	17	39.6%
2016	40,098	30.4%	848,497	31.8%	13	30.2%
2017 & beyond	37,761	28.6%	718,000	26.9%	13	30.2%
<b>TOTAL</b>	<b>131,910</b>	<b>100.0%</b>	<b>2,667,341</b>	<b>100.0%</b>	<b>43</b>	<b>100.0%</b>

#### Tenancy Duration Profile

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2 years and below	55,109	41.8%	1,187,943	44.5%	18	41.9%
> 2 years up to 3 years	76,801	58.2%	1,479,398	55.5%	25	58.1%
more than 3 years	0	0.0%	0	0.0%	0	0.0%
<b>TOTAL</b>	<b>131,910</b>	<b>100.0%</b>	<b>2,667,341</b>	<b>100.0%</b>	<b>43</b>	<b>100.0%</b>

## Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2014
4. Commercial Units on 3rd, 5th and 6th Floors, Harbourfront Landmark, 11 Wan Hoi Street, Hung Hom, Kowloon  7,031/74,479th equal and undivided parts or shares of and in Kowloon Inland Lot No. 11055	<p>The property comprises the 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 1 level of clubhouse, 3 levels of carpark (including a basement). It is erected on a registered site area of approximately 7,402 sq m (79,675.1 sq ft), and was built in 2001.</p> <p>The Basement and the Lower 1st Floor of the development are used for carparking purposes whilst the Upper 1st Floor is used 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 7,155.4 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. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The property is let under various tenancies with the latest expiry in December 2017, yielding a total monthly rental income of approximately HK\$1,852,000 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The property was fully let as at the date of valuation.</p>	<p>HK\$461,000,000</p> <p>(HONG KONG DOLLARS FOUR HUNDRED AND SIXTY ONE MILLION)</p> <p>Estimated net property yield was approximately 4.8%.</p>

### Notes:

- (1) The registered owner of the property is Harbour Champ Limited.
- (2) The property is currently zoned for "Residential (Group A) 3" purposes under the Hung Hom Outline Zoning Plan No. S/K9/24 dated on 5 October 2010.
- (3) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.



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

#### Tenancy Commencement Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2012 and before	0	0.0%	0	0.0%	0	0.0%
2013	0	0.0%	1,600	0.1%	1	25.0%
2014	77,021	100.0%	1,852,000	99.9%	3	75.0%
<b>TOTAL</b>	<b>77,021</b>	<b>100.0%</b>	<b>1,853,600</b>	<b>100.0%</b>	<b>4</b>	<b>100.0%</b>

#### Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2014 & 2015	0	0.0%	1,600	0.1%	1	25.0%
2016	0	0.0%	0	0.0%	0	0.0%
2017 & beyond	77,021	100.0%	1,852,000	99.9%	3	75.0%
<b>TOTAL</b>	<b>77,021</b>	<b>100.0%</b>	<b>1,853,600</b>	<b>100.0%</b>	<b>4</b>	<b>100.0%</b>

#### Tenancy Duration Profile

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2 years and below	0	0.0%	0	0.0%	0	0.0%
> 2 years up to 3 years	77,021	100.0%	1,853,600	100.0%	4	100.0%
more than 3 years	0	0.0%	0	0.0%	0	0.0%
<b>TOTAL</b>	<b>77,021</b>	<b>100.0%</b>	<b>1,853,600</b>	<b>100.0%</b>	<b>4</b>	<b>100.0%</b>

## Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2014
5. Prosperity Place, 6 Shing Yip Street, Kwun Tong, Kowloon  Kun Tong Inland Lot No. 62	<p>Prosperity Place is a 27-storey commercial building with ancillary parking and loading/unloading facilities erected on a registered site area of approximately 1,858.05 sq m (20,000.1 sq ft). The building was built in 1996.</p> <p>Prosperity Place has been granted a waiver letter in September 2012 with conversion from industrial/office uses to commercial uses under the revitalization of industrial buildings policy by the Government.</p> <p>Ground Floor of the building is for entrance lobby, commercial and loading/unloading purposes; 1st and 2nd Floors of the building are for carparking and/or loading/unloading purposes; whereas the remaining upper floors from the 3rd to 29th Floors (4th, 14th and 24th floor numbers are omitted) are for commercial purposes.</p> <p>The property comprises the entire commercial units with a total gross area of approximately 22,296.5 sq m (240,000 sq ft). The total saleable area is approximately 14,754.09 sq m (158,813 sq ft). The property also consists of a total of 83 carparking spaces.</p> <p>Kun Tong Inland Lot No. 62 is held under a Government Lease for a term of 21 years and renewable for another 21 years commencing from 1 July 1955. The lease has been extended to expire on 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The commercial portion of the property is let under various tenancies for various terms with the latest one expiring in October 2017, yielding a total monthly rental income of approximately HK\$3,827,700, exclusive of Government rates and rent, management fees and utility charges.</p> <p>The property was also subject to various licences yielding a total monthly licence fee of approximately HK\$76,500.</p> <p>The occupancy rate of the property as at the date of valuation (excluding carparking spaces) was approximately 92.6%.</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average net monthly income of approximately HK\$343,074 during the period from January 2014 to December 2014.</p>	<p>HK\$1,436,000,000</p> <p>(HONG KONG DOLLARS ONE BILLION FOUR HUNDRED AND THIRTY SIX MILLION)</p> <p>Estimated net property yield was approximately 3.5%.</p>

### Notes:

- (1) The registered owner of the property is Bandick Limited.
- (2) The property is currently zoned for "Other Specified Uses" purposes under the draft Kwun Tong (South) Outline Zoning Plan No. S/K14S/19 dated 18 July 2014.
- (3) The following encumbrance is registered against the property upon our recent Land Registry search:
  - Mortgage in favour of DBS Bank Ltd., Hong Kong Branch, in its capacity as security trustee for the loan secured parties for a consideration see Memorial vide Memorial No. 14122402450653 dated 28 November 2014 (Deed pending registration).
- (4) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.

- (5) The estimated net property yield is based on the monthly net rental income for December 2014 and average net monthly car parking income for the period of January 2014 to December 2014.
- (6) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces) is set out below:

#### Tenancy Commencement Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2012 and before	59,718	26.9%	810,576	21.2%	31	24.8%
2013	80,878	36.4%	1,449,486	37.9%	39	31.2%
2014	81,696	36.7%	1,567,682	40.9%	55	44.0%
<b>TOTAL</b>	<b>222,292</b>	<b>100.0%</b>	<b>3,827,744</b>	<b>100.0%</b>	<b>125</b>	<b>100.0%</b>

#### Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2014 & 2015	106,152	47.8%	1,609,529	42.0%	60	48.0%
2016	61,540	27.7%	1,180,865	30.9%	44	35.2%
2017 & beyond	54,600	24.5%	1,037,350	27.1%	21	16.8%
<b>TOTAL</b>	<b>222,292</b>	<b>100.0%</b>	<b>3,827,744</b>	<b>100.0%</b>	<b>125</b>	<b>100.0%</b>

#### Tenancy Duration Profile

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2 years and below	37,042	16.7%	690,381	18.0%	26	20.8%
> 2 years up to 3 years	169,848	76.4%	2,849,318	74.5%	97	77.6%
more than 3 years	15,402	6.9%	288,045	7.5%	2	1.6%
<b>TOTAL</b>	<b>222,292</b>	<b>100.0%</b>	<b>3,827,744</b>	<b>100.0%</b>	<b>125</b>	<b>100.0%</b>

## Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2014
6. Trendy Centre, 682 Castle Peak Road, Lai Chi Kok, Kowloon  New Kowloon Inland Lot No. 6224	<p>Trendy Centre is a 30-storey industrial/office building with ancillary parking and loading/unloading facilities erected on a registered site area of approximately 1,393.5 sq m (15,000.0 sq ft). The property was built in 1998.</p> <p>Portion of the Ground Floor and 1st to 3rd Floors are for carparking and/or loading/unloading purposes whereas the remaining portion of the Ground Floor is used for lobby and retail shops. The upper floors from the 5th to 33rd Floors (4th, 13th, 14th and 24th floor number is omitted) are designed for industrial/office purposes.</p> <p>The property comprises the entire units within the building with a total gross area of approximately 16,143.1 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.</p> <p>New Kowloon Inland Lot No. 6224 is held under Conditions of Exchange No. 12399 for a term from 24 July 1996 to 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The industrial/office portion of the property is let under various tenancies for various terms with the latest expiry in September 2017, yielding a total monthly rental income of approximately HK\$2,855,200 exclusive of Government rates and rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at date of valuation (excluding carparking spaces) was approximately 96.9%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$370,935 from January 2014 to December 2014.</p>	<p>HK\$955,000,000</p> <p>(HONG KONG DOLLARS NINE HUNDRED AND FIFTY FIVE MILLION)</p> <p>Estimated net property yield was approximately 4.1%.</p>

### Notes:

- (1) The registered owner of the property is Top Easy Profits Limited.
- (2) The property is currently zoned for "Other Specified Uses (Business 1)" purposes under The Cheung Sha Wan Outline Zoning Plan No. S/K5/35 dated on 10 January 2014.
- (3) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (4) The estimated net property yield is based on the monthly net rental income for December 2014 and average net monthly car parking income for the period of January 2014 to December 2014.

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

#### Tenancy Commencement Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2012 and before	16,154	9.6%	329,200	11.5%	15	9.9%
2013	69,132	41.0%	1,132,200	39.7%	55	36.2%
2014	83,139	49.4%	1,393,800	48.8%	82	53.9%
<b>TOTAL</b>	<b>168,425</b>	<b>100.0%</b>	<b>2,855,200</b>	<b>100.0%</b>	<b>152</b>	<b>100.0%</b>

#### Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2014 & 2015	58,439	34.7%	1,018,900	35.7%	51	33.6%
2016	80,627	47.9%	1,320,300	46.2%	76	50.0%
2017 & beyond	29,359	17.4%	516,000	18.1%	25	16.4%
<b>TOTAL</b>	<b>168,425</b>	<b>100.0%</b>	<b>2,855,200</b>	<b>100.0%</b>	<b>152</b>	<b>100.0%</b>

#### Tenancy Duration Profile

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2 years and below	43,661	25.9%	691,200	24.2%	43	28.3%
> 2 years up to 3 years	124,764	74.1%	2,164,000	75.8%	109	71.7%
more than 3 years	0	0.0%	0	0.0%	0	0.0%
<b>TOTAL</b>	<b>168,425</b>	<b>100.0%</b>	<b>2,855,200</b>	<b>100.0%</b>	<b>152</b>	<b>100.0%</b>

## Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2014
7. Portion of Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon (see note (1))  12,014/22,510th equal and undivided parts or shares of and in Kwun Tong Inland Lot No. 729	<p>The property comprises various office/workshop units and retained areas within Prosperity Center, which is a 26-storey industrial/office building with ancillary parking and loading/unloading facilities. It is erected on a registered site area of approximately 1,889 sq m (20,333.2 sq ft), and was built in 1999.</p> <p>Portion of the Ground Floor, 2nd to 5th Floors of the building (1st and 4th floor numbers are omitted) are for carparking and/or loading/unloading purposes whereas the remaining portion of the Ground Floor and upper floors from the 6th to 30th Floors (13th, 14th and 24th floor numbers are omitted) are for office/workshop purposes.</p> <p>The property comprises portion of Prosperity Center with a total gross area of approximately 13,865.9 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. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The office/workshop portion of the property is let under various tenancies for various terms with the latest one expiring in November 2017, yielding a total monthly rental income of approximately HK\$2,371,800, exclusive of Government rates and rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the date of valuation (excluding carparking spaces) was approximately 98.6%.</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average net monthly income of approximately HK\$321,743 during the period from January 2014 to December 2014.</p>	<p>HK\$800,000,000 (HONG KONG DOLLARS EIGHT HUNDRED MILLION)</p> <p>Estimated net property yield was approximately 4.0%.</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 on each floor), the Retained Areas on 6th Floor, 8th-12th Floors, 15th-16th Floors, 18th-19th Floors, 23rd Floor, 25th-27th Floors and 105 carparking spaces, Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon.

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

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

- (3) The property is currently zoned for "Other Specified Uses" purposes under the draft Kwun Tong (South) Outline Zoning Plan No. S/K14S/19 dated 18 July 2014.
- (4) The following encumbrance is registered against the property upon our recent Land Registry search:
- Mortgage in favour of DBS Bank Ltd., Hong Kong Branch, in its capacity as security trustee for the loan secured parties for a consideration see Memorial vide Memorial no. 14122402450664 dated 28 November 2014 (Deed pending registration).
- (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) The estimated net property yield is based on the monthly net rental income for December 2014 and average net monthly car parking income for the period of January 2014 to December 2014.
- (7) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces) is set out below:

#### Tenancy Commencement Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2012 and before	31,990	21.7%	450,000	19.0%	20	28.6%
2013	48,986	33.3%	777,600	32.8%	22	31.4%
2014	66,183	45.0%	1,144,200	48.2%	28	40.0%
<b>TOTAL</b>	<b>147,159</b>	<b>100.0%</b>	<b>2,371,800</b>	<b>100.0%</b>	<b>70</b>	<b>100.0%</b>

#### Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2014 & 2015	55,697	37.8%	842,400	35.5%	34	48.6%
2016	62,105	42.2%	1,014,700	42.8%	23	32.9%
2017 & beyond	29,357	20.0%	514,700	21.7%	13	18.5%
<b>TOTAL</b>	<b>147,159</b>	<b>100.0%</b>	<b>2,371,800</b>	<b>100.0%</b>	<b>70</b>	<b>100.0%</b>

#### Tenancy Duration Profile

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2 years and below	39,177	26.6%	678,100	28.6%	15	21.4%
> 2 years up to 3 years	97,454	66.2%	1,498,700	63.2%	54	77.2%
more than 3 years	10,528	7.2%	195,000	8.2%	1	1.4%
<b>TOTAL</b>	<b>147,159</b>	<b>100.0%</b>	<b>2,371,800</b>	<b>100.0%</b>	<b>70</b>	<b>100.0%</b>

## Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2014
8. Portion of New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon (see note (1))	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 1,304.3 sq m (14,040 sq ft), and was built in 1995.	The factory portion of the property is let under various tenancies for various terms with the latest expiry in November 2017, yielding a total monthly rental income of approximately HK\$900,400 exclusive of Government rates and rent, management fees and utility charges.	HK\$293,000,000 (HONG KONG DOLLARS TWO HUNDRED AND NINETY THREE MILLION)
11,163/26,198th equal and undivided parts or shares of and in New Kowloon Inland Lot No. 4864	<p>Portion of the Ground Floor and Mezzanine Floor of the building are for carparking and/or loading/unloading purposes whereas the remaining upper floors from the 1st to 31st Floors (4th, 14th and 24th floor numbers are omitted) are used for factory purposes.</p> <p>The property has a total gross area of approximately 8,005.2 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 the residue of a term of 99 years less the last three days thereof commencing from 1 July 1898. The lease has been extended to expire on 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The property (excluding carparking spaces) was fully let as at the date of valuation.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$133,414 from January 2014 to December 2014.</p>	Estimated net property yield was approximately 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 currently zoned for “Other Specified Uses (Business)” purposes under the Tsz Wan Shan, Diamond Hill & San Po Kong Outline Zoning Plan No. S/K11/26 dated 30 May 2014.
- (4) In accordance with the property owner’s standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.



- (5) The estimated net property yield is based on the monthly net rental income for December 2014 and average net monthly car parking income for the period of January 2014 to December 2014.
- (6) Based on the tenancy information provided, our analysis of the existing tenancy profile (excluding carparking spaces) is set out below:

#### Tenancy Commencement Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2012 and before	16,021	18.6%	138,600	15.4%	3	5.7%
2013	32,206	37.4%	344,300	38.2%	23	43.4%
2014	37,941	44.0%	417,500	46.4%	27	50.9%
<b>TOTAL</b>	<b>86,168</b>	<b>100.0%</b>	<b>900,400</b>	<b>100.0%</b>	<b>53</b>	<b>100.0%</b>

#### Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2014 & 2015	42,123	48.9%	421,100	46.8%	22	41.5%
2016	31,764	36.9%	342,400	38.0%	24	45.3%
2017 & beyond	12,281	14.2%	136,900	15.2%	7	13.2%
<b>TOTAL</b>	<b>86,168</b>	<b>100.0%</b>	<b>900,400</b>	<b>100.0%</b>	<b>53</b>	<b>100.0%</b>

#### Tenancy Duration Profile

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2 years and below	39,324	45.6%	425,100	47.2%	29	54.7%
> 2 years up to 3 years	46,844	54.4%	475,300	52.8%	24	45.3%
more than 3 years	0	0.0%	0	0.0%	0	0.0%
<b>TOTAL</b>	<b>86,168</b>	<b>100.0%</b>	<b>900,400</b>	<b>100.0%</b>	<b>53</b>	<b>100.0%</b>

## Report of the Trustee

We hereby confirm that, in our opinion, the manager of Prosperity Real Estate Investment Trust has, in all material respects, managed Prosperity Real Estate Investment Trust in accordance with the provisions of the Trust Deed dated 29 November 2005, as amended by the first supplemental deed dated 12 December 2005, the second supplemental deed dated 15 May 2007, the third supplemental deed dated 14 May 2008, the fourth supplemental deed dated 23 July 2010 and the fifth supplemental deed dated 29 December 2011, for the financial year ended 31 December 2014.

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

in its capacity as the trustee of Prosperity Real Estate Investment Trust  
Hong Kong, 5 March 2015

## **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 99 to 138, which comprise the consolidated statement of financial position as at 31 December 2014, and consolidated statement of profit or loss and other 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 2014 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, 5 March 2015

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2014

	Note	2014 HK\$'000	2013 HK\$'000
Revenue	5	403,413	341,883
Property management fees		(9,460)	(7,836)
Property operating expenses	6	(81,897)	(67,116)
Total property operating expenses		(91,357)	(74,952)
<b>Net property income</b>		<b>312,056</b>	266,931
Interest income		1	25
Manager's fee		(48,054)	(41,353)
Trust and other expenses	7	(22,139)	(9,834)
Change in fair value of investment properties		332,101	550,591
Change in fair value of derivative financial instruments		(6,567)	–
Finance costs	8	(69,281)	(41,967)
<b>Profit before taxation and transactions with unitholders</b>		<b>498,117</b>	724,393
Taxation	9	(31,624)	(28,664)
<b>Profit for the year, before transactions with unitholders</b>		<b>466,493</b>	695,729
Distribution to unitholders		(231,364)	(209,056)
<b>Profit for the year, after transactions with unitholders</b>		<b>235,129</b>	486,673
<b>Other comprehensive income – Item that may be reclassified subsequently to profit or loss:</b>			
Change in fair value of cashflow hedge		3,665	15,035
Reclassification of hedging reserve to profit or loss		12,799	–
<b>Other comprehensive income for the year</b>		<b>16,464</b>	15,035
<b>Total comprehensive income for the year, after transactions with unitholders</b>		<b>251,593</b>	501,708
<b>Income available for distribution to unitholders</b>		<b>231,364</b>	209,056
<b>Basic earnings per unit (HK\$)</b>	10	<b>0.33</b>	0.50

# Distribution Statement

For the year ended 31 December 2014

	2014 HK\$'000	2013 HK\$'000
<b>Profit for the year, before transactions with unitholders</b>	<b>466,493</b>	695,729
<b>Adjustments:</b>		
Manager's fee	<b>46,973</b>	41,283
Acquisition fee	<b>10,100</b>	–
Change in fair value of investment properties	<b>(332,101)</b>	(550,591)
Change in fair value of derivative financial instruments	<b>6,567</b>	–
Finance costs	<b>21,222</b>	10,126
Deferred tax	<b>12,110</b>	12,509
<b>Income available for distribution (note (i))</b>	<b>231,364</b>	209,056
<b>Distributions to unitholders:</b>		
HK\$0.0815 (2013: HK\$0.0744) per unit for the six months ended 30 June (note (ii))	<b>115,302</b>	103,568
HK\$0.0815 (2013: HK\$0.0751) per unit for the six months ended 31 December (note (iii))	<b>116,062</b>	105,488
	<b>231,364</b>	209,056
<b>Total distribution per unit (HK\$)</b>	<b>0.1630</b>	0.1495

## Notes:

- (i) In accordance with the Trust Deed, Prosperity REIT is required to distribute to unitholders not less than 90% of its distributable income for each financial period and it is the REIT Manager's stated policy to distribute 100% of the distributable income. Pursuant to the Trust Deed, distributable income is defined as the amount calculated by the REIT Manager as representing the consolidated profit after tax of 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 profit or loss and other comprehensive income for the relevant financial year.

These adjustments for the current year comprise:

- (a) manager's fees paid/payable in units of HK\$46,973,000 (2013: HK\$41,283,000) out of the total manager's fee of HK\$48,054,000 (2013: HK\$41,353,000) (the differences of HK\$1,081,000 (2013: HK\$70,000) are paid in cash), and acquisition fee paid in units of HK\$10,100,000 (2013: Nil);
- (b) change in fair value of investment properties of HK\$332,101,000 (2013: HK\$550,591,000), and change in fair value of derivative financial instruments of HK\$6,567,000 (2013: Nil);
- (c) adjustment in respect of the difference between the accounting finance cost of HK\$69,281,000 (2013: HK\$41,967,000) less cash finance cost of HK\$48,059,000 (2013: HK\$31,841,000); and
- (d) deferred tax provision of HK\$12,110,000 (2013: HK\$12,509,000).
- (ii) The distribution per unit of HK\$0.0815 for the six months ended 30 June 2014 (six months ended 30 June 2013: HK\$0.0744) is calculated based on Prosperity REIT's income available for distribution of HK\$115,302,000 (six months ended 30 June 2013: HK\$103,568,000) over 1,414,948,774 units (30 June 2013: 1,391,683,715 units), representing units in issue as at 30 June 2014 plus the number of units issued after the distribution period to the REIT Manager as payment of base fee and variable fee in the second quarter of 2014. The distribution was paid to unitholders on 8 September 2014.
- (iii) The distribution per unit of HK\$0.0815 for the six months ended 31 December 2014 (six months ended 31 December 2013: HK\$0.0751) is calculated based on Prosperity REIT's income available for distribution of HK\$116,062,000 (six months ended 31 December 2013: HK\$105,488,000) over 1,423,889,157 units (31 December 2013: 1,405,349,897 units), representing units in issue as at 31 December 2014 plus the number of units to be issued after the distribution period to the REIT Manager as payment of base fee and variable fee in the last quarter of the relevant distribution year.

# Consolidated Statement of Financial Position

As at 31 December 2014

	Note	2014 HK\$'000	2013 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	11	9,890,000	8,518,000
<b>Current assets</b>			
Trade and other receivables	12	10,016	8,676
Bank balances and cash	13	65,184	58,096
Total current assets		75,200	66,772
<b>Total assets</b>		<b>9,965,200</b>	<b>8,584,772</b>
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Derivative financial instruments	14	560	17,024
Term loans	15	2,800,611	1,753,549
Deferred tax liabilities	16	157,342	145,232
Total non-current liabilities, excluding net assets attributable to unitholders		2,958,513	1,915,805
<b>Current liabilities</b>			
Trade and other payables	17	187,920	154,062
Amount due to related companies	18	12,253	8,778
Derivative financial instruments	14	6,567	–
Secured revolving loan	15	–	25,000
Provision for taxation		2,910	3,591
Manager's fee payable		12,289	10,646
Distribution payable		116,062	105,488
Total current liabilities		338,001	307,565
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>3,296,514</b>	<b>2,223,370</b>
<b>Net assets attributable to unitholders</b>		<b>6,668,686</b>	<b>6,361,402</b>
<b>Units in issue ('000)</b>	19	<b>1,419,635</b>	1,396,178
<b>Net asset value per unit (HK\$) attributable to unitholders</b>	20	<b>4.70</b>	4.57

The consolidated financial statements on pages 99 to 138 were approved and authorised for issue by ARA Asset Management (Prosperity) Limited on 5 March 2015 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 2014

	Issued units HK\$'000	Unit issue costs HK\$'000	Hedging reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2014	2,934,637	(91,278)	(17,024)	3,535,067	6,361,402
<b>OPERATIONS</b>					
Profit for the year, before transactions with unitholders	–	–	–	466,493	466,493
Distribution paid and payable	–	–	–	(231,364)	(231,364)
	–	–	–	235,129	235,129
Other comprehensive income for the year	–	–	16,464	–	16,464
Total comprehensive income for the year	–	–	16,464	235,129	251,593
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>					
Units issued to REIT Manager (note 19)	55,691	–	–	–	55,691
Net assets attributable to unitholders as at 31 December 2014	2,990,328	(91,278)	(560)	3,770,196	6,668,686



## Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 31 December 2013

	Issued units HK\$'000	Unit issue costs HK\$'000	Hedging reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
Net assets attributable to unitholders as at 1 January 2013	2,894,125	(91,278)	(32,059)	3,048,394	5,819,182
<b>OPERATIONS</b>					
Profit for the year, before transactions with unitholders	–	–	–	695,729	695,729
Distribution paid and payable	–	–	–	(209,056)	(209,056)
	–	–	–	486,673	486,673
Other comprehensive income for the year	–	–	15,035	–	15,035
Total comprehensive income for the year	–	–	15,035	486,673	501,708
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>					
Units issued to REIT Manager (note 19)	40,512	–	–	–	40,512
Net assets attributable to unitholders as at 31 December 2013	2,934,637	(91,278)	(17,024)	3,535,067	6,361,402

# Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	2014 HK\$'000	2013 HK\$'000
<b>Operating activities</b>		
Profit before taxation and transactions with unitholders	498,117	724,393
Adjustments for:		
(Reversal of allowance) Allowance for doubtful debts	(56)	117
Manager's fees paid/payable in units	46,973	41,283
Acquisition fee paid in units	10,100	–
Change in fair value of investment properties	(332,101)	(550,591)
Change in fair value of derivative financial instruments	6,567	–
Interest income	(1)	(25)
Finance costs	69,281	41,967
Operating cashflow before working capital changes	298,880	257,144
Increase (Decrease) in amount due to related companies	3,475	(1,467)
Decrease (Increase) in trade and other receivables	3,060	(1,121)
Increase in trade and other payables	22,087	16,697
Increase in Manager's fee payable	261	–
Cash generated from operations	327,763	271,253
Income tax paid	(20,195)	(15,645)
Net cash from operating activities	307,568	255,608
<b>Investing activities</b>		
Interest received	1	25
Acquisition	(222,627)	–
Additional expenditure to investment properties	(25,845)	(15,409)
Net cash used in investing activities	(248,471)	(15,384)
<b>Financing activities</b>		
Drawdown of secured revolving loan	405,000	123,000
Repayment of secured revolving loan	(160,000)	(118,000)
Bank facility origination fees	(28,160)	–
Interest payment of term loans and revolving loan	(48,059)	(31,841)
Distribution to unitholders	(220,790)	(199,592)
Net cash used in financing activities	(52,009)	(226,433)
Net increase in cash and cash equivalents	7,088	13,791
Cash and cash equivalents at beginning of the year	58,096	44,305
<b>Cash and cash equivalents at end of year, represented by bank balances and cash</b>	<b>65,184</b>	<b>58,096</b>

## 1 General

Prosperity REIT is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units have been listed on The Stock Exchange of Hong Kong Limited (the "HKSE") since 16 December 2005. Prosperity REIT is governed by the Trust Deed made between the REIT Manager and HSBC Institutional Trust Services (Asia) Limited (the "Trustee"), and the Code.

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

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

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

### (a) Property management fees

Under the Property Management Agreement, 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.

## Notes to the Financial Statements

For the year ended 31 December 2014

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

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

In the current year, the Group has applied the following new and amendments to HKFRSs and a new interpretation issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for accounting period that begins on or after 1 January 2014:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)-Int 21	Levies

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 financial statements.

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

### New and revised HKFRSs issued but not effective

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

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>3</sup>
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations <sup>5</sup>
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation <sup>5</sup>
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants <sup>5</sup>
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions <sup>4</sup>
Amendments to HKAS 27	Equity Method in Separate Financial Statements <sup>5</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>5</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle <sup>6</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle <sup>4</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012–2014 Cycle <sup>5</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>2</sup> Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2016

<sup>6</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

### HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a ‘fair value through other comprehensive income’ (FVTOCI) measurement category for certain simple debt instruments.

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

### HKFRS 9 Financial Instruments *(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. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability to be presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities’ credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an ‘economic relationship’. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

The REIT Manager anticipates that the application of HKFRS 9 will not have significant impact on amounts reported in respect of the financial assets and financial liabilities.

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

### Annual Improvements to HKFRSs 2011–2013 Cycle

The Annual Improvements to HKFRSs 2011–2013 Cycle include a number of amendments to various HKFRSs, which include the amendments to HKAS 40 to clarify that HKAS 40 and HKFRS 3 are not mutually exclusive and application of both standards may be required. Consequently, an entity acquiring investment property must determine whether:

- (a) the property meets the definition of investment property in terms of HKAS 40; and
- (b) the transaction meets the definition of a business combination under HKFRS 3.

The REIT Manager anticipates that the application of these amendments in the future will not have a material effect on the Group’s consolidated financial statements.

## 3 Significant Accounting Policies

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

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

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements are drawn up in accordance with the relevant provisions of the Trust Deed and include the relevant disclosure requirements set out in Appendix C of the Code.

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

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

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

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

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

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

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

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

#### (b) Basis of consolidation

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

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

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

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

On acquisition, the assets and liabilities of the relevant subsidiaries are measured at their fair values at the date of acquisition. Income and expenses of the subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

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

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



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

#### (c) Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

#### (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 bank facility 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. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

##### **Financial assets**

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

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

##### **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.

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

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

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

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.

##### **Financial liabilities**

Debt is classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability.

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

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

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

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

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.

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

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

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

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

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

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

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

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

## Notes to the Financial Statements

For the year ended 31 December 2014

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

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

##### **Derecognition** *(continued)*

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

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

#### (e) Unit issue costs

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

#### (f) Leasing

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

#### (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 profit or loss and other 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.

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

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

#### (i) Taxation

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

The tax currently payable is based on taxable profit for the period. Taxable profit differs from "profit before taxation and transactions with unitholders" as reported in the consolidated statement of profit or loss and other comprehensive income because 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 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 the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

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

Deferred tax 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.

## Notes to the Financial Statements

For the year ended 31 December 2014

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

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

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

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

### 4 Financial Instruments

#### (a) Categories of financial instruments

	2014 HK\$'000	2013 HK\$'000
<b>Loans and receivables</b>		
Trade receivables	375	633
Bank balances and cash	65,184	58,096
	<b>65,559</b>	58,729
<b>Financial liabilities</b>		
<i>Derivative instruments</i>		
Interest rate swap	7,127	17,024
<b>Financial liabilities at amortised costs</b>		
Trade payables	2,874	914
Amount due to related companies	12,253	8,778
Secured term loans	2,425,775	1,753,549
Secured revolving loan	–	25,000
Unsecured term loan	374,836	–
Manager's fee payable	12,289	10,646
Distribution payable	116,062	105,488
	<b>2,944,089</b>	1,904,375
Unitholders' funds	<b>6,668,686</b>	6,361,402

Details of the financial instruments are disclosed in respective notes.

## 4 Financial Instruments *(continued)*

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

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

#### (i) Interest rate risk

The Group is primarily exposed to cash flow interest rate risk in relation to variable-rate secured term loans (see note 15 for details of these borrowings). The Group manages its exposure to interest rate movements on its bank borrowings by swapping a majority proportion of these borrowings from floating rates to fixed rates. In order to achieve this result, the Group entered into interest rate swaps to hedge against its exposures to changes in interest rate on its secured term loans. 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 and other comprehensive income recognised in equity would increase (decrease) as follows.

	Term loans (excluding effective hedge portion) HK\$'000	Fair value of interest rate swap	
		Effective portion HK\$'000	Ineffective portion HK\$'000
<b>2014</b>			
Profit for the year	(13,520)	–	1,780
Other comprehensive income recognised in equity	–	2,887	–
<b>2013</b>			
Profit for the year	(1,770)	–	–
Other comprehensive income recognised in equity	–	11,000	–

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

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

## 4 Financial Instruments *(continued)*

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

#### (ii) Credit risk

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

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

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

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

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

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

As at 31 December 2014, the Group has three bank loan facilities of HK\$3,284,000,000, comprising three term loans with total of HK\$2,854,000,000 and a revolving credit facility of HK\$430,000,000. During the year ended 31 December 2014, a secured term loan and an unsecured term loan with total of HK\$784,000,000 were fully drawn on 22 January 2014, and the remaining secured term loan of HK\$2,070,000,000 was fully drawn on 28 November 2014 of which HK\$2,040,000,000 was used to repay the existing borrowings as set out in note 21. None of the revolving credit facility was drawn as at the end of the reporting period. Details of the borrowing are set out in note 15.

As at 31 December 2013, the Group had a bank loan facility of HK\$2,200,000,000, comprising a HK\$1,770,000,000 term loan and a HK\$430,000,000 revolving credit facility. The term loan facility was fully drawn and revolving credit facility of HK\$25,000,000 was drawn.



## 4 Financial Instruments *(continued)*

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

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

Certain investment properties, with aggregate carrying value of HK\$6,280,000,000 (2013: HK\$8,444,000,000) have been pledged to secure the banking credit facilities granted to the Group. The Group, with a cash balance of HK\$65,184,000 (2013: HK\$58,096,000) and available unutilised revolving credit facility of approximately HK\$430,000,000 (2013: HK\$405,000,000) as at 31 December 2014, has sufficient financial resources and facilities to satisfy its commitments and working capital requirements.

#### *Liquidity risk*

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

For derivative financial 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.

As at 31 December 2014, the Group has the following outstanding term loans.

- (i) HK\$2,070,000,000 secured term loan bears interest at floating interest rate of HIBOR+1.35% per annum and is repayable in full on 14 November 2019;
- (ii) HK\$404,000,000 secured term loan bears interest at floating interest rate of HIBOR+1.45% per annum and is repayable in full on 16 January 2019; and
- (iii) HK\$380,000,000 unsecured term loan bears interest at floating interest rate of HIBOR+1.50% per annum and is repayable in full on 16 January 2017.

As at 31 December 2013, the secured term loan bears interest at floating interest rate of HIBOR+0.81% per annum and is repayable in full on 16 August 2015.

## Notes to the Financial Statements

For the year ended 31 December 2014

### 4 Financial Instruments *(continued)*

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

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

*Liquidity risk (continued)*

	Weighted average interest rate %	Less than 1 month or on demand HK\$'000	1 to 3 months HK\$'000	3 months to 1 year HK\$'000	2 to 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31/12/2014 HK\$'000
<b>2014</b>							
<b>Non-derivative</b>							
Trade payables	-	1,751	932	191	-	2,874	2,874
Tenants' deposits	-	8,757	2,061	39,010	85,776	135,604	135,604
Amount due to related companies	-	12,253	-	-	-	12,253	12,253
Term loans	1.62%	3,835	7,561	34,821	3,009,098	3,055,315	2,800,611
Manager's fee payable	-	12,289	-	-	-	12,289	12,289
Distribution payable	-	-	-	116,062	-	116,062	116,062
Cash outflow		38,885	10,554	190,084	3,094,874	3,334,397	3,079,693
<b>Derivatives – net settlement</b>							
Interest rate swap, cash outflow		-	3,717	4,946	2,190	10,853	7,127
<b>2013</b>							
<b>Non-derivative</b>							
Trade payables	-	914	-	-	-	914	914
Tenants' deposits	-	6,195	1,727	31,959	71,636	111,517	111,517
Amount due to related companies	-	8,778	-	-	-	8,778	8,778
Secured term loan	1.19%	1,794	3,385	15,723	1,783,549	1,804,451	1,753,549
Secured revolving loan	1.03%	25,022	-	-	-	25,022	25,000
Manager's fee payable	-	10,646	-	-	-	10,646	10,646
Distribution payable	-	-	-	105,488	-	105,488	105,488
Cash outflow		53,349	5,112	153,170	1,855,185	2,066,816	2,015,892
<b>Derivatives – net settlement</b>							
Interest rate swap, cash outflow		1,149	2,217	10,388	5,982	19,736	17,024

## 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

	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Gross rental from investment properties		
Rental income	<b>326,229</b>	271,598
Car park income	<b>24,011</b>	20,642
	<b>350,240</b>	292,240
Rental related income	<b>53,173</b>	49,643
	<b>403,413</b>	341,883

## Notes to the Financial Statements

For the year ended 31 December 2014

### 6 Property Operating Expenses

	2014 HK\$'000	2013 HK\$'000
Audit fee	1,303	1,156
Building management fees	35,994	31,877
Car park operating expenses	6,151	5,139
Government rent and rates	552	274
Lease commission	6,962	4,717
Legal cost and stamp duty	1,459	1,050
Marketing service fee	10,281	8,203
Others	1,373	1,249
Repairs and maintenance	8,660	4,459
Secretarial fee	608	574
Tax fees	229	225
Utilities	8,056	8,073
Valuation fees (paid to principal valuer)	269	120
	<b>81,897</b>	67,116

### 7 Trust and Other Expenses

	2014 HK\$'000	2013 HK\$'000
Acquisition expenses	3,900	2,505
Acquisition fee (paid in units)	10,100	–
Audit fee	262	212
Back-office support service fee	59	52
Bank charges	1,277	1,215
Legal and professional fees	764	130
Public relations-related expenses	286	505
Registrar fee	602	600
Trust administrative expenses	2,028	2,126
Trustee's fee	2,861	2,489
	<b>22,139</b>	9,834

## 8 Finance Costs

	2014 HK\$'000	2013 HK\$'000
Interest expense on:		
Secured term loans	44,753	28,255
Unsecured term loan	8,581	–
Equalisation of interest expense through cashflow hedges	13,655	13,457
	<b>66,989</b>	41,712
Secured revolving loan	2,292	255
	<b>69,281</b>	41,967

## 9 Taxation

	2014 HK\$'000	2013 HK\$'000
Current tax	19,752	16,353
Over-provision in prior year	(238)	(198)
Deferred tax (note 16)	12,110	12,509
	<b>31,624</b>	28,664

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 or have tax losses brought forward to set off their assessable profits for the year. Deferred tax is provided on temporary differences using the current applicable rates. The taxation for the year can be reconciled to the profit before taxation and transactions with unitholders as per the consolidated statement of profit or loss and other comprehensive income as follows:

	2014 HK\$'000	2013 HK\$'000
Income tax expense at statutory rate of 16.5%	82,189	119,525
Over-provision in prior year	(238)	(198)
Tax effect of non-taxable income	(54,797)	(90,852)
Tax effect of non-deductible expenses	7,191	2,525
Tax effect of utilisation of tax losses previously not recognised	(700)	(174)
Tax effect of tax loss not recognised	634	–
Tax effect of utilisation of deductible temporary differences previously not recognised	(2,169)	(1,698)
Others	(486)	(464)
Taxation for the year	<b>31,624</b>	28,664

## Notes to the Financial Statements

For the year ended 31 December 2014

### 10 Earnings Per Unit

The basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$466,493,000 (2013: HK\$695,729,000) by the weighted average of 1,413,401,652 (2013: 1,391,911,584) units in issue during the year, taking into account the units issuable as manager's fee for its service in the last quarter of the relevant distribution year.

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

### 11 Investment Properties

	2014 HK\$'000	2013 HK\$'000
FAIR VALUE		
At beginning of the year	8,518,000	7,952,000
Additional expenditure	25,845	15,409
Acquisition	1,014,054	–
Increase in fair value of investment properties	332,101	550,591
At end of the year	9,890,000	8,518,000

On 22 January 2014, Prosperity REIT completed the acquisition of 9 Chong Yip Street from Cactus Holdings Limited, a subsidiary of Hutchison Whampoa Limited on that day, through the acquisition of the entire equity interest in Clifton Properties Limited. Details of the acquisition are set out in note 28.

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.

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

On 31 December 2014, an independent valuation on the investment properties was undertaken by Jones Lang LaSalle Limited (2013: Colliers International (Hong Kong) Limited). The firm is an independent qualified professional valuer not connected to the Group and has appropriate professional qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation of the properties was arrived at using the basis of capitalisation of the net income and cross-checked by sales evidences available on the market. In the valuation, the market rentals of all lettable units of the properties are assessed and capitalised at market yield expected by investors for this type of properties. The market rentals are assessed by reference to the rentals achieved in other lettable units of the properties as well as other lettings of similar properties in the neighbourhood. The market yield, which is 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 to reflect factors specific to the Group's investment properties. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

## 11 Investment Properties *(continued)*

The adopted capitalisation rates in the valuation range from 3.70% to 4.20% (2013: 3.00% to 3.80%) for capitalisation of the current passing rental income over the existing lease term and 3.70% to 4.20% (2013: 3.65% to 4.00%) for potential future reversionary rental income. The capitalisation rate is one of the key parameters in the valuation method of income capitalisation and they involve professional judgment in relation to the adjustments made by the independent valuer.

Certain of the Group's investment properties as at 31 December 2014, with aggregate carrying value of HK\$6,280,000,000 (2013: HK\$8,444,000,000), have been pledged to secure banking facilities granted to the Group.

## 12 Trade and Other Receivables

	2014 HK\$'000	2013 HK\$'000
Trade receivables	438	752
Less: allowance for doubtful debts	(63)	(119)
	<b>375</b>	633
Deposit and prepayments	<b>9,641</b>	8,043
	<b>10,016</b>	8,676

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

	2014 HK\$'000	2013 HK\$'000
Current-1 month	374	338
2-3 months	1	295
	<b>375</b>	633

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:

	2014 HK\$'000	2013 HK\$'000
Balance at beginning of the year	119	2
Impairment losses (reversed) recognised on receivables	(56)	117
Balance at the end of the year	<b>63</b>	119

## Notes to the Financial Statements

For the year ended 31 December 2014

### 13 Bank Balances and Cash

	<b>2014</b> <b>HK\$'000</b>	2013 HK\$'000
Cash at bank	<b>65,184</b>	58,096

Cash at bank, with aggregate value of HK\$65,184,000 (2013: HK\$58,096,000) are placed with The Hongkong and Shanghai Banking Corporation Limited, a related company of the Trustee.

### 14 Derivative Financial Instruments

	<b>2014</b> <b>HK\$'000</b>	2013 HK\$'000
Derivative financial instruments are analysed as:		
Derivatives under hedge accounting:		
Cash flow hedges — interest rate swaps	<b>560</b>	17,024
Derivatives not under hedge accounting:		
Interest rate swaps	<b>6,567</b>	–
	<b>7,127</b>	17,024
Reflected on consolidated statement of financial position based on remaining contractual maturity as:		
Non-current liabilities	<b>560</b>	17,024
Current liabilities	<b>6,567</b>	–
	<b>7,127</b>	17,024

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.

Derivatives under hedge accounting:

Contracts with notional amount of HK\$150,000,000 (2013: HK\$1,416,000,000) entered in December 2014 (2013: December 2010) will mature on 18 December 2018 (2013: 16 June 2015). These contracts have fixed interest payments at 1.483% (2013: 1.335%) per annum and have floating interest receipts at three months HIBOR for periods until 18 December 2018 (2013: 16 June 2015). The REIT Manager designated that the interest rate swaps are effective hedging instruments.

Derivatives not under hedge accounting:

In relation to the renewal of the banking facilities as set out in note 15, the interest rate swap contract entered in 2010, previously designated under hedge accounting, were no longer qualified for hedge accounting. Accordingly, the cumulative loss in the hedging reserve amounting to HK\$12,799,000 was recognised in the profit or loss.

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

The fair value of the 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

	2014 HK\$'000	2013 HK\$'000
Secured term loans	2,474,000	1,770,000
Unsecured term loan	380,000	–
Bank facility origination fees	(53,389)	(16,451)
	<b>2,800,611</b>	1,753,549
Secured revolving loan	–	25,000
	<b>2,800,611</b>	1,778,549
Carrying amount repayable:		
Within one year	–	25,000
Within a period of more than one year but not exceeding five years	2,800,611	1,753,549
	<b>2,800,611</b>	1,778,549

On 22 January 2014, the Group has been granted two new facilities of HK\$404,000,000 secured term loan and HK\$380,000,000 unsecured term loan respectively, which have been fully utilised by the Group for the acquisition as set out in note 28.

On 14 November 2014, the Group has been granted a new facility of HK\$2,500,000,000, comprising a HK\$2,070,000,000 secured term loan and a HK\$430,000,000 revolving credit facility to repay its existing banking 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 which was entered in 2010. The amount outstanding under the new facilities drawn down by the Group as at 31 December 2014 was HK\$2,854,000,000.

Details of the terms and conditions of the Group's facilities as at 31 December 2014 are as follows:

- (i) HK\$2,070,000,000 secured term loan bears interest at floating interest rate of HIBOR+1.35% per annum and is repayable in full on 14 November 2019;
- (ii) HK\$430,000,000 revolving loan bears interest at floating rate of HIBOR+1.35% per annum and is repayable on demand;
- (iii) HK\$404,000,000 secured term loan bears interest at floating interest rate of HIBOR+1.45% per annum and is repayable in full on 16 January 2019; and
- (iv) HK\$380,000,000 unsecured term loan bears interest at floating interest rate of HIBOR+1.50% per annum and is repayable in full on 16 January 2017.

Except for the HK\$380,000,000 unsecured term loan, the remaining balances are secured by certain investment properties of the Group as disclosed in note 11. In addition, Prosperity REIT and certain of its subsidiaries provide a guarantee for all the facilities.

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.

## Notes to the Financial Statements

For the year ended 31 December 2014

### 15 Borrowings *(continued)*

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

	<b>2014</b> <b>HK\$'000</b>	2013 HK\$'000
Balance at beginning of the year	<b>16,451</b>	26,577
Addition	<b>58,160</b>	–
Amortised during the year	<b>(21,222)</b>	(10,126)
Balance at the end of the year	<b>53,389</b>	16,451

### 16 Deferred Tax Liabilities

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

	<b>Accelerated tax depreciation</b> HK\$'000	<b>Tax losses</b> HK\$'000	<b>Total</b> HK\$'000
As at 1 January 2013	139,136	(6,413)	132,723
Charge to profit or loss	11,362	1,147	12,509
As at 31 December 2013	150,498	(5,266)	145,232
Charge to profit or loss	22,340	(10,230)	12,110
As at 31 December 2014	172,838	(15,496)	157,342

At the end of the reporting period, tax loss amounting to approximately HK\$6,574,000 (31 December 2013: HK\$2,705,000) were not recognised, due to unpredictability of future profits stream.

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

At the end of the reporting period, the Group has deductible temporary differences of approximately HK\$33,576,000 (2013: HK\$22,425,000). No deferred tax asset has been recognised in relation to such deductible temporary difference as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

## 17 Trade and Other Payables

	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Trade payables	<b>2,874</b>	914
Tenants' deposits		
— Outside parties	<b>135,014</b>	111,092
— Related parties	<b>590</b>	425
Rental received in advance		
— Outside parties	<b>3,117</b>	2,555
Other payables	<b>46,325</b>	39,076
	<b>187,920</b>	154,062

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

	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
Current—1 month	<b>1,751</b>	327
2–3 months	<b>932</b>	376
Over 3 months	<b>191</b>	211
	<b>2,874</b>	914

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\$85,776,000 (2013: HK\$71,636,000).

## 18 Amount due to Related Companies

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

## Notes to the Financial Statements

For the year ended 31 December 2014

### 19 Units in Issue

	Number of units	HK\$'000
Balance as at 1 January 2013	1,379,867,101	2,894,125
Payment of manager's base fee and variable fee through issuance of new units during the year	16,311,096	40,512
Balance as at 31 December 2013	1,396,178,197	2,934,637
Payment of acquisition fee through issuance of new units during the year	4,431,768	10,100
Payment of manager's base fee and variable fee through issuance of new units during the year	19,025,109	45,591
Balance as at 31 December 2014	1,419,635,074	2,990,328

Subsequent to the end of the reporting period, 4,254,083 units (2013: 4,739,932 units) at HK\$2.8237 (2013: HK\$2.2426) per unit were issued to the REIT Manager as partial settlement of base fee and variable fee for the period from 1 October 2014 to 31 December 2014. The unitholders' fund per unit, based on the closing market price of Prosperity REIT as at 31 December 2014 was HK\$2.64 (31 December 2013: HK\$2.26).

### 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\$560,000 (2013: HK\$17,024,000), and the total number of 1,419,635,074 units in issue as at 31 December 2014 (1,396,178,197 units in issue as at 31 December 2013).

### 21 Major Non-Cash Transaction

During the year, the REIT Manager earned manager's fee and acquisition fee of HK\$58,154,000 (2013: HK\$41,353,000) of which HK\$57,073,000 (2013: HK\$41,283,000) was paid or payable through the issuance of units to the REIT Manager. An amount of HK\$45,062,000 (2013: HK\$30,654,000) had been settled through the issuance of units to the REIT Manager while the balance of HK\$12,011,000 (2013: HK\$10,629,000) were paid in units subsequent to the year end.

Drawdown of secured term loan of HK\$404,000,000 and unsecured term loan of HK\$380,000,000 was paid to Cactus Holdings Limited directly from the bank.

In addition, during the year, the Group has drawn down on the new term loan of HK\$2,070,000,000 as set out in note 15 to repay the existing HK\$1,770,000,000 term loan and HK\$270,000,000 revolving loan. The remaining HK\$30,000,000 was deducted directly for the upfront fee paid.

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

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

## 23 Net Current Liabilities

At the end of the reporting period, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$262,801,000 (2013: HK\$240,793,000). Other than certain investment properties, with aggregate carrying value of HK\$6,280,000,000 (2013: HK\$8,444,000,000), which have been pledged to secure banking facilities granted to the Group (as disclosed in note 11), the Group has in place a revolving credit facility (as disclosed in note 15) to meet its liabilities as they fall due.

## 24 Total Assets less Current Liabilities

At the end of the reporting period, the Group's total assets less current liabilities amounted to HK\$9,627,199,000 (2013: HK\$8,277,207,000).

## Notes to the Financial Statements

For the year ended 31 December 2014

### 25 Segmental Reporting

During the year, Prosperity REIT invested in eight (2013: seven) office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennia Plaza, 9 Chong Yip Street (acquired on 22 January 2014), a portion of Harbourfront Landmark, Prosperity Place, Trendy Centre, a portion of Prosperity Center and a portion of New Treasure Centre. These properties are the basis on which the REIT Manager, being the chief operating decision maker, reports Prosperity REIT's segment information for the purpose of resource allocation and performance assessment.

#### Segment revenue and results

For the year ended 31 December 2014

	The Metropolis Tower HK\$'000	Prosperity Millennia Plaza HK\$'000	9 Chong Yip Street HK\$'000	Harbourfront Landmark (portion) HK\$'000	Prosperity Place HK\$'000	Trendy Centre HK\$'000	Prosperity Center (portion) HK\$'000	New Treasure Centre (portion) HK\$'000	Consolidated HK\$'000
Segment revenue in Hong Kong	121,851	79,310	33,586	21,983	56,135	43,082	33,795	13,671	403,413
Segment profit	100,990	62,728	25,019	14,813	41,998	30,602	25,602	10,304	312,056
Interest income									1
Manager's fee									(48,054)
Trust and other expenses									(22,139)
Change in fair value of investment properties									332,101
Change in fair value of derivative financial instruments									(6,567)
Finance costs									(69,281)
Profit before taxation and transactions with unitholders									498,117

For the year ended 31 December 2013

	The Metropolis Tower HK\$'000	Prosperity Millennia Plaza HK\$'000	Harbourfront Landmark (portion) HK\$'000	Prosperity Place HK\$'000	Trendy Centre HK\$'000	Prosperity Center (portion) HK\$'000	New Treasure Centre (portion) HK\$'000	Consolidated HK\$'000
Segment revenue in Hong Kong	113,754	72,787	22,194	49,661	39,909	30,981	12,597	341,883
Segment profit	91,409	58,363	16,942	37,254	30,103	23,431	9,429	266,931
Interest income								25
Manager's fee								(41,353)
Trust and other expenses								(9,834)
Change in fair value of investment properties								550,591
Finance costs								(41,967)
Profit before taxation and transactions with unitholders								724,393

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

## 25 Segmental Reporting *(continued)*

### Segment assets

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

	2014 HK\$'000	2013 HK\$'000
The Metropolis Tower	3,042,000	2,943,000
Prosperity Millennia Plaza	1,824,000	1,725,000
9 Chong Yip Street	1,079,000	–
Portion of Harbourfront Landmark	461,000	461,000
Prosperity Place	1,436,000	1,402,000
Trendy Centre	955,000	912,000
Portion of Prosperity Center	800,000	786,000
Portion of New Treasure Centre	293,000	289,000
Total segment assets	9,890,000	8,518,000
Other assets	75,200	66,772
Consolidated assets	9,965,200	8,584,772

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

## 26 Operating Lease Commitments

	2014 HK\$'000	2013 HK\$'000
Minimum lease income under operating leases included in the consolidated statement of profit or loss and other comprehensive income	326,229	271,598

	2014 HK\$'000	2013 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	279,792	230,707
In the second to fifth year inclusive	215,493	152,597
Total	495,285	383,304

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

## Notes to the Financial Statements

For the year ended 31 December 2014

### 27 Connected and Related Party Transactions

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

	Note	2014 HK\$'000	2013 HK\$'000
Rent and rental related income from			
Goodwell Property Management Limited	(a)	<b>1,523</b>	1,449
Hutchison Telephone Company Limited	(b)	<b>91</b>	91
Hutchison China MediTech (HK) Limited	(b)	<b>485</b>	–
Hutchison Hain Organic (Hong Kong) Limited	(b)	<b>100</b>	–
Carpark lease agency fee for the operations of the Group's carpark			
E-Park Parking Management Limited	(a)	<b>2,285</b>	1,964
Property management fee			
Goodwell-Prosperity Property Services Limited	(a)	<b>9,460</b>	7,836
Marketing service fee			
Goodwell-Prosperity Property Services Limited	(a)	<b>10,281</b>	8,203
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited		<b>2,861</b>	2,489
Manager's fee			
ARA Asset Management (Prosperity) Limited		<b>48,054</b>	41,353
Acquisition fee			
ARA Asset Management (Prosperity) Limited		<b>10,100</b>	–
Back-office support service fee			
Cheung Kong Companies	(c)	<b>59</b>	52
Balances as at year end with connected and related parties are as follows:			
Amount due to			
Citybase Property Management Limited	(a)	<b>205</b>	229
Goodwell-Prosperity Property Services Limited	(a)	<b>4,816</b>	3,266
Goodwell Property Management Limited	(a)	<b>6,328</b>	4,265
Harbourfront Landmark Premium Services Limited	(b)	<b>511</b>	672
E-Park Parking Management Limited	(a)	<b>393</b>	346
Deposits placed with the Group for the lease of the Group's properties			
Goodwell Property Management Limited	(a)	<b>404</b>	401
Hutchison Telephone Company Limited	(b)	<b>24</b>	24
Hutchison Hain Organic (Hong Kong) Limited	(b)	<b>162</b>	–



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

Notes:

- (a) These companies were 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) These companies were the subsidiaries, associates or jointly controlled entities of Hutchison Whampoa Limited, which was 49.9% owned by CKH and is described as an associate of CKH in the published 2013 interim report of CKH.
- (c) These companies were the subsidiaries, an associate and a jointly controlled entity of CKH being 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 included members of CKH group technically constitutes a contract between the Group and CKH group. Remuneration to the building managers, which were 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\$877,000 (2013: HK\$888,000).

## Notes to the Financial Statements

For the year ended 31 December 2014

### 28 Acquisition

On 22 January 2014, Prosperity REIT completed the acquisition of 9 Chong Yip Street from Cactus Holdings Limited, a subsidiary of Hutchison Whampoa Limited on that day, through the acquisition of the entire equity interest in Clifton Properties Limited for a cash consideration of approximately HK\$1,006,600,000.

Acquisition fee and acquisition expenses amounting to HK\$14,000,000 have been recognised as expenses, and included in the "trust and other expenses" in the consolidated statement of profit or loss and other comprehensive income during the reporting period.

Details of the acquisition are as follows:

	HK\$000
<b>Non-current assets</b>	
Investment properties	1,014,054
<b>Current Assets</b>	
Trade receivables	75
Other receivables, deposits and prepayments	4,269
	4,344
<b>Current liabilities</b>	
Other payables and accruals	1,911
Receipt in advance	995
Tenancy deposits	8,865
	11,771
<b>Total consideration, satisfied by cash</b>	<b>1,006,627</b>
<b>Net cash outflow financed by:</b>	
Secured term loan	404,000
Unsecured term loan	380,000
Secured revolving loan	222,627
	1,006,627

## List of Subsidiaries

As at 31 December 2014 and 31 December 2013

Name of company	Place of incorporation	Effective equity interest held by Prosperity REIT (Note a)		Share capital	Principal activities in Hong Kong
		2014 %	2013 %		
Bandick Limited	Hong Kong	100	100	HK\$2	Property investment
Clifton Properties Limited	Hong Kong	100	–	HK\$10,000	Property investment
Conestoga Limited	Hong Kong	100	100	HK\$10,000	Property investment
Haskins Investments Limited	Hong Kong	100	100	HK\$2	Property investment
Harbour Champ Limited	British Virgin Islands	100	100	US\$1	Property investment
Jade Arch Investment Limited	British Virgin Islands	100	100	HK\$15,053	Investment holding
Prodes Company Limited	Hong Kong	100	100	HK\$10	Property owner
Progain Group Limited	British Virgin Islands	100	100	US\$1	Financing
Top Easy Profits Limited	British Virgin Islands	100	100	US\$1	Property investment
Unicenter Limited	British Virgin Islands	100	100	US\$1	Investment holding
Unique Champ Investments Limited	British Virgin Islands	100	–	US\$1	Investment holding
Vital Vision Enterprises Limited	British Virgin Islands	100	–	US\$1	Financing
Winrise Champion Limited	British Virgin Islands	100	100	US\$1	Property investment
Wisdom Champion Limited	British Virgin Islands	100	100	US\$1	Property investment
Wisdom Champion (12) Limited	British Virgin Islands	100	100	US\$1	Property investment
Wisdom Champion (15) Limited	British Virgin Islands	100	100	US\$1	Property investment
Wisdom Champion (16) Limited	British Virgin Islands	100	100	US\$1	Property investment

## List of Subsidiaries

As at 31 December 2014 and 31 December 2013

Name of company	Place of incorporation	Effective equity interest held by Prosperity REIT (Note a)		Share capital	Principal activities in Hong Kong
		2014 %	2013 %		
Wisdom Champion (17) Limited	British Virgin Islands	100	100	US\$1	Property investment
Wisdom Champion (18) Limited	British Virgin Islands	100	100	US\$1	Property investment
Wisdom Champion (19) Limited	British Virgin Islands	100	100	US\$1	Property investment
Wisdom Champion (20) Limited	British Virgin Islands	100	100	US\$1	Property investment
Wisdom Champion (21) Limited	British Virgin Islands	100	100	US\$1	Property investment
Wisdom Champion (22) Limited	British Virgin Islands	100	100	US\$1	Property investment
Wisdom Champion (23) Limited	British Virgin Islands	100	100	US\$1	Property investment
Wisdom Champion (25) Limited	British Virgin Islands	100	100	US\$1	Property investment
Wisdom Champion (26) Limited	British Virgin Islands	100	100	US\$1	Property investment
Wisdom Champion (27) Limited	British Virgin Islands	100	100	US\$1	Property investment
Wisdom Champion (28) Limited	British Virgin Islands	100	100	US\$1	Property investment

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

Note:

- (a) Prosperity REIT directly holds the entire interest in its subsidiaries except Clifton Properties Limited, Conestoga Limited, Prodes Company Limited, and Winrise Champion Limited.

## Performance Table

### Results Analysis for the year ended 31 December

	<b>2014</b> <b>HK\$'000</b>	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000
Gross rental from investment properties	<b>350,240</b>	292,240	261,120	232,517	226,889
Net property income	<b>312,056</b>	266,931	239,471	211,512	212,531
Profit for the year, before transactions with unitholders <sup>(3)</sup>	<b>466,493</b>	695,729	1,074,715	1,151,491	762,714
Distribution to unitholders	<b>231,364</b>	209,056	186,868	163,518	147,831
Earnings per unit (HK\$) <sup>(3)</sup>	<b>0.33</b>	0.50	0.78	0.85	0.57
Distribution per unit (HK\$)	<b>0.1630</b>	0.1495	0.1354	0.1202	0.1101

## Performance Table

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

	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000
Investment properties	<b>9,890,000</b>	8,518,000	7,952,000	6,991,000	5,934,000
Bank loans, excluding bank facility origination fees	<b>(2,854,000)</b>	(1,795,000)	(1,790,000)	(1,805,000)	(1,796,000)
Net asset value <sup>(3)</sup>	<b>6,668,686</b>	6,361,402	5,819,182	4,906,675	3,876,116
Net asset value per unit (HK\$) <sup>(2 and 3)</sup>	<b>4.70</b>	4.57	4.24	3.62	2.91
<b>Other Information</b>					
The highest traded price during the year (HK\$)	<b>2.74</b>	3.09	2.42	2.00	1.77
The highest (discount)/premium of the traded price to net asset value <sup>(3)</sup>	<b>(41.7%)</b>	(32.4%)	(42.9%)	(44.8%)	(39.2%)
The lowest traded price during the year (HK\$)	<b>2.18</b>	2.19	1.52	1.33	1.31
The lowest discount of the traded price to net asset value <sup>(3)</sup>	<b>(53.6%)</b>	(52.1%)	(64.2%)	(63.3%)	(55.0%)
The net yield per unit based on market price at the end of year	<b>6.2%<sup>(1)</sup></b>	6.6%	5.8%	8.0%	6.3%

<sup>1</sup> Based on the distribution per unit of HK\$0.1630 for the year ended 31 December 2014 and the closing market price of HK\$2.64 as at 31 December 2014.

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

<sup>3</sup> The financial information for the years ended 31 December 2010 and 2011 have been restated due to the amendments to Hong Kong Accounting Standard 12.

# Investment Properties Portfolio

As at 31 December 2014

Property	Type	Lease term	Lease expiry date	Location	Valuation 2014 HK\$ Million
The Metropolis Tower	O	Medium-term lease	30 June 2047	10 Metropolis Drive Hung Hom Kowloon Hong Kong	3,042
Prosperity Millennia Plaza	O	Medium-term lease	30 June 2047	663 King's Road North Point Hong Kong	1,824
9 Chong Yip Street	O	Medium-term lease	30 June 2047	9 Chong Yip Street Kwun Tong Kowloon Hong Kong	1,079
Harbourfront Landmark (portion)	C	Medium-term lease	30 June 2047	11 Wan Hoi Street Hung Hom Kowloon Hong Kong	461
Prosperity Place	C	Medium-term lease	30 June 2047	6 Shing Yip Street Kwun Tong Kowloon Hong Kong	1,436
Trendy Centre	I/O	Medium-term lease	30 June 2047	682 Castle Peak Road Lai Chi Kok Kowloon Hong Kong	955
Prosperity Center (portion)	I/O	Medium-term lease	30 June 2047	25 Chong Yip Street Kwun Tong Kowloon Hong Kong	800
New Treasure Centre (portion)	I	Medium-term lease	30 June 2047	10 Ng Fong Street San Po Kong Kowloon Hong Kong	293
<b>Total</b>					<b>9,890</b>

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

## Summary Financial Information

Following is a summary of the consolidated statements of profit or loss and other 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 31 December 2014:

### Consolidated Statements of Profit or Loss and Other Comprehensive Income

	<b>Year ended 31 Dec 2014 HK\$'000</b>	Year ended 31 Dec 2013 HK\$'000	Year ended 31 Dec 2012 HK\$'000	Year ended 31 Dec 2011 HK\$'000	Year ended 31 Dec 2010 HK\$'000
Revenue	<b>403,413</b>	341,883	308,366	275,627	270,094
Profit before taxation and transactions with unitholders	<b>498,117</b>	724,393	1,099,788	1,172,849	781,839
Taxation <sup>(1)</sup>	<b>(31,624)</b>	(28,664)	(25,073)	(21,358)	(19,125)
Profit for the years, before transactions with unitholders <sup>(1)</sup>	<b>466,493</b>	695,729	1,074,715	1,151,491	762,714
Distribution to unitholders	<b>231,364</b>	209,056	186,868	163,518	147,831
Distribution per unit (HK\$)	<b>0.1630</b>	0.1495	0.1354	0.1202	0.1101

### Consolidated Statement of Financial Positions

	<b>2014 HK\$'000</b>	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000
Non-current assets	<b>9,890,000</b>	8,518,000	7,952,000	6,991,000	5,934,000
Current assets	<b>75,200</b>	66,772	51,977	61,254	38,095
Current liabilities	<b>338,001</b>	307,565	276,590	271,354	233,388
Net assets attributable to unitholders <sup>(1)</sup>	<b>6,668,686</b>	6,361,402	5,819,182	4,906,675	3,876,116

<sup>1</sup> The financial information for the years ended 31 December 2010 and 2011 have been restated due to the amendments to Hong Kong Accounting Standard 12.



## Board of Directors of the REIT Manager

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

LIM Hwee Chiang  
*Non-executive Director*

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

MA Lai Chee, Gerald  
*Non-executive Director*

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

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

WONG Kwai Lam  
*Independent Non-executive Director*

## Company Secretary of the REIT Manager

SENG Sze Ka Mee, Natalia

## Trustee

HSBC Institutional Trust Services (Asia) Limited

## Auditor of Prosperity REIT

Deloitte Touche Tohmatsu

## Principal Valuer

Jones Lang LaSalle Limited

## Principal Bankers

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

## Legal Adviser

Baker & McKenzie

## Registered Office

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

## Unit Registrar and Transfer Office

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

## Stock Code

The Stock Exchange of Hong Kong Limited: 808

## Investor Relations

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

## Website

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

## Key Dates

Annual Results Announcement	5 March 2015
Closure of Register of Unitholders for Final Distribution	23 to 26 March 2015 (both days inclusive)
Payment of Final Distribution	2 April 2015
Closure of Register of Unitholders for Annual General Meeting	4 to 7 May 2015 (both days inclusive)
Annual General Meeting	7 May 2015

## 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 Thursday, 7 May 2015 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 2014; 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, 1 April 2015

Notes:

- (a) The Register of Unitholders of Prosperity REIT will be closed from Monday, 4 May 2015 to Thursday, 7 May 2015, 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 Thursday, 30 April 2015.
- (b) Any unitholder entitled to attend the Annual General Meeting is entitled to appoint a proxy to attend in his/her stead.
- (c) 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.

This annual report 2014 ("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).



Stock Code: 808



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

Manager



ARA Asset Management (Prosperity) Limited

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

