



# Creative Progressive Sustainable

---

2016 Annual Report

---

 **PROSPERITY**  
**REIT** 泓富產業信託

Stock Code: 808



# 8

## Prosperity REIT Portfolio

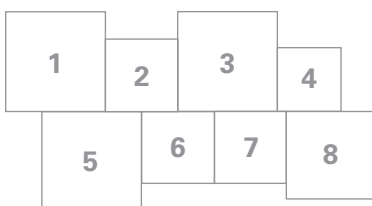


Total Gross  
Rentable Area of about

# 1.35

Million sq.ft.





- 1 THE METROPOLIS TOWER
- 2 9 CHONG YIP STREET
- 3 PROSPERITY PLACE
- 4 NEW TREASURE CENTRE PROPERTY (PORTION)
- 5 PROSPERITY MILLENNIA PLAZA
- 6 HARBOURFRONT LANDMARK PROPERTY (PORTION)
- 7 PROSPERITY CENTER PROPERTY (PORTION)
- 8 TRENDY CENTRE





# WE CARE FOR

- COMMUNITY
- UNITHOLDERS
- TENANTS
- ENVIRONMENT
- STAFF

## 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”).

## 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 1,300 professionals in 18 cities managing total assets in excess of S\$36 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.

# CONTENTS

3	Chairman’s Statement
7	Performance Highlights in 2016
8	Trust Review
14	Prosperity REIT Portfolio
31	Management Discussion and Analysis
39	The Property Manager
41	Environmental, Social and Governance (“ <b>ESG</b> ”)
53	Our Awards
54	Directors and Senior Management Biographical Information
61	Corporate Governance
73	Connected Party Transactions
79	Valuation Report
106	Report of the Trustee
107	Independent Auditor’s Report
113	Consolidated Statement of Profit or Loss and Other Comprehensive Income
114	Distribution Statement
115	Consolidated Statement of Financial Position
116	Consolidated Statement of Changes in Net Assets Attributable to Unitholders
118	Consolidated Statement of Cash Flows
119	Notes to the Consolidated Financial Statements
156	List of Subsidiaries
158	Performance Table
160	Investment Properties Portfolio
161	Summary Financial Information
162	Corporate Information



Leveraging on its rich experience and outstanding management, the manager of Prosperity REIT is providing sustainable and satisfactory returns for its unitholders. The pink roses shown on the cover represent “Creative • Progressive • Sustainable”.

The flowers are presented in art painting style, implying our asset management is as meticulous as an art piece. The delicate brushwork demonstrates a sense of harmony.





# GROWTH





# Chairman's Statement

DEAR UNITHOLDERS,

On behalf of the Board of Directors (the “**Board**”) of ARA Asset Management (Prosperity) Limited, the manager of Prosperity Real Estate Investment Trust (“**Prosperity REIT**”), I am pleased to present the annual report of Prosperity REIT for the financial year ended 31 December 2016 (the “**Reporting Year**”).

---

## Results and Distribution

Prosperity REIT has demonstrated its resilience in a challenging market during the Reporting Year. Our distributable income achieved stable growth, increased by 1.7% year-on-year (“**YoY**”) to HK\$258.4 million. This was attained on the back of steady growth in our net property income, which recorded a rise of 3.6% YoY, to HK\$357.8 million. Our appraised property valuation rose by 3.4% YoY, to HK\$10,777 million.

In light of these results, I am pleased to announce that our Unitholders will receive a total Distribution per Unit (“**DPU**”) of HK\$0.1777 for the Reporting Year, which represents a distribution yield of 5.8%<sup>1</sup> as at 31 December 2016.

## Market Review

The new US President has introduced new challenges to the dynamics of the global economic environment. The US economy, although still relatively fragile, has shown a positive growth momentum. Interest rate hike in December reflects the US Federal Reserve’s increasing confidence that the economy is on a path of sustainable rebound. As for China, although it has experienced an economic slowdown, it remains on track to meet the realistic economic targets set by the government in the year. In Hong Kong, while retail sales have yet to take off again, the local stock market continues to react against these mixed signals throughout the year.

<sup>1</sup> Based on Prosperity REIT’s closing unit price of HK\$3.06 as at 30 December 2016.



# Chairman's Statement

---

## Operations Review

Against this backdrop, we successfully achieved stable top line revenue across the Reporting Year, translating into growth of 3.2% and revenue of HK\$452.9 million. This was attributable to the positive rental reversion along with stable occupancy across the portfolio. By delivering excellent property management services and implementing diligent cost control measures, we were able to maintain our cost-to-revenue at a steady 21.0%.

## Outlook

Hong Kong will elect a new Chief Executive in March, 2017. Although there are uncertainties about the new administration, support from the Mainland remains intact.

I remain cautiously optimistic about the outlook for Prosperity REIT. We have put hedging arrangements in place to mitigate the impact of the expected cycle of interest rate hikes. The acceleration of development in the Kowloon East district, where we have a strong portfolio over the years, is opening up new opportunities for us.

Our proven management approach, which combines a proactive stance with principles of prudence, has enabled us to generate stable and sustainable returns for our investors in different economic environments. I am confident that this approach will continue to serve us well in the year ahead.

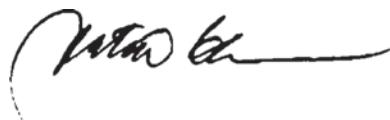


---

### Acknowledgments

Once again, I would like to extend my sincere thanks to all who have contributed to our success over the past year. Special thanks are due to my fellow Board members and the management team for their devoted efforts. Our staff members, tenants, service providers and business partners have all also played important roles in taking us forward in the challenging times.

Last but not least, I would like to thank all our Unitholders for your continuing support and confidence in Prosperity REIT. Your guidance is vital to bring us to new heights.



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

*Chairman*

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

Hong Kong, 10 March 2017



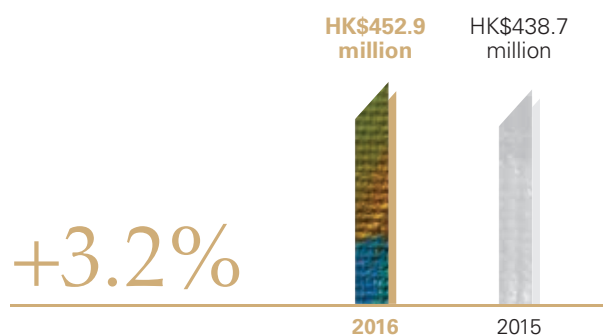


# ACHIEVEMENTS

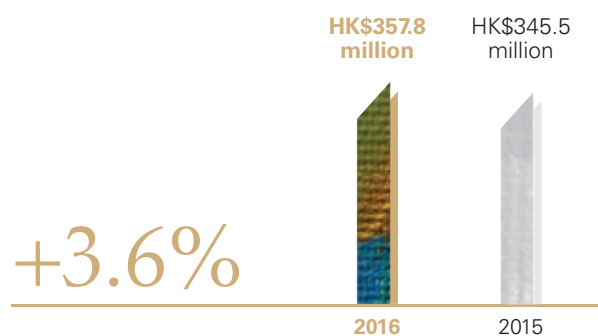


# Performance Highlights in 2016

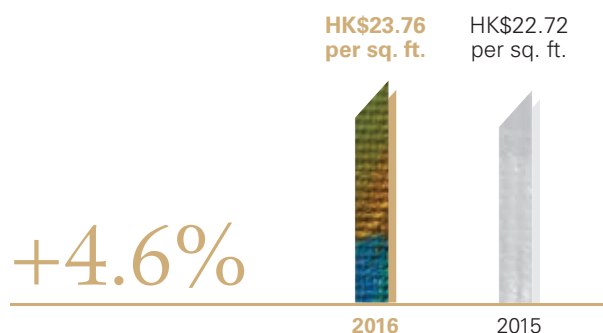
## Revenue<sup>1</sup>



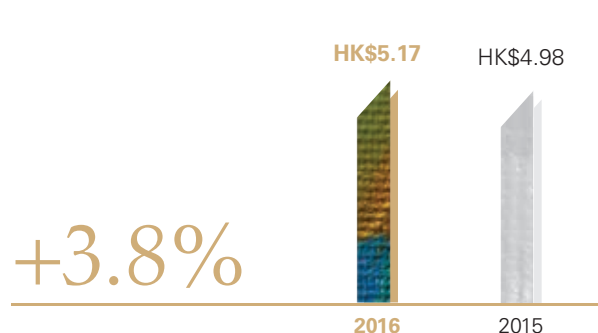
## Net Property Income<sup>1</sup>



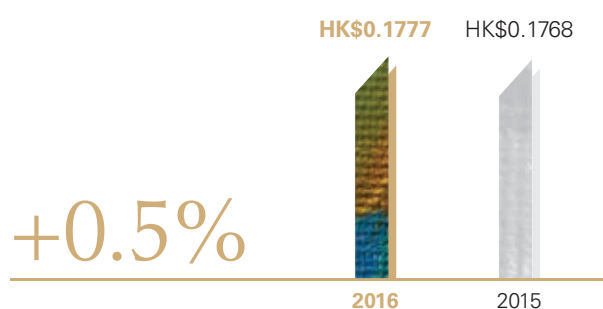
## Average Effective Unit Rent<sup>1</sup>



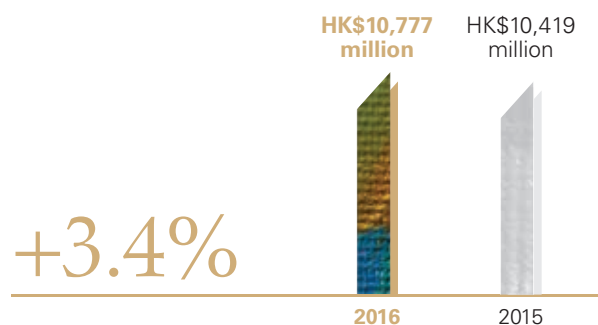
## Net Asset Value Per Unit<sup>2</sup>



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



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



Notes:

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

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

# Trust Review

## Diversified Property Portfolio

As at 31 December 2016, 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 2016, the appraised value of the portfolio was HK\$10,777 million. Grade A office buildings, commercial buildings, industrial/office buildings and industrial building accounted for 58.5%, 21.3%, 17.3% and 2.9% of the total appraised value respectively.

	Valuation HK\$ million as at 31 December 2016	Valuation HK\$ million as at 31 December 2015	Percentage change Increase/ (Decrease)
<b>Grade A Office</b>			
The Metropolis Tower	3,168	3,122	1.5%
Prosperity Millennium Plaza	2,043	1,971	3.7%
9 Chong Yip Street	1,091	1,088	0.3%
<b>Commercial</b>			
Harbourfront Landmark (portion)	594	514	15.6%
Prosperity Place	1,699	1,544	10.0%
<b>Industrial/Office</b>			
Trendy Centre	1,011	1,010	0.1%
Prosperity Center (portion)	854	854	-
<b>Industrial</b>			
New Treasure Centre (portion)	317	316	0.3%
<b>Total</b>	<b>10,777</b>	10,419	3.4%

## Effective Lease Management

As a result of proactive tenant recruitment efforts by the REIT Manager, the portfolio's occupancy rate was maintained stably at 96.1% as at 31 December 2016. The portfolio's average effective unit rent increased by 4.6% YoY to HK\$23.76 per sq. ft., with a rental reversion rate of 10.9% for the leases successfully renewed in 2016.

As at 31 December 2016, leases expiring in 2017 accounted for 42.5% of the portfolio's gross rental income. Proactive leasing strategies will be continued in 2017 to deliver stable distribution to unitholders.

## Lease Expiry Profile by Gross Rental Income (as at 31 December 2016)

	31 December 2016 & 2017	2018	2019 and Beyond
The Metropolis Tower	17.1%	54.6%	28.3%
Prosperity Millennium Plaza	42.2%	47.2%	10.6%
9 Chong Yip Street	46.7%	27.2%	26.1%
Harbourfront Landmark (portion)	99.9%	0.1%	0.0%
Prosperity Place	51.0%	33.8%	15.2%
Trendy Centre	51.9%	26.8%	21.3%
Prosperity Center (portion)	51.7%	37.0%	11.3%
New Treasure Centre (portion)	46.8%	44.6%	8.6%
<b>Portfolio</b>	<b>42.5%</b>	<b>39.4%</b>	<b>18.1%</b>



## Well-balanced Tenant Mix

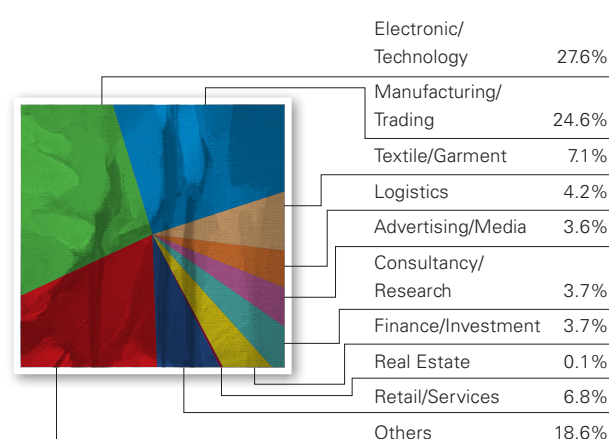
As at 31 December 2016, Prosperity REIT had a total of 572 tenants. Most of these tenants were from business sectors such as electronic, technology, manufacturing, trading, as well as textile and garment. Following the wholesale conversion approval for Prosperity Place in 2012, the REIT Manager continued 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 2016)

Percentage



## Size of Tenant Premises on Gross Rentable Area

(as at 31 December 2016)

Percentage

Above 10,000 sq. ft.	17.8%
5,001 sq. ft.–10,000 sq. ft.	17.6%
2,001 sq. ft.–5,000 sq. ft.	27.5%
1,001 sq. ft.–2,000 sq. ft.	24.5%
1,000 sq. ft. and below	12.6%
<b>Total</b>	<b>100.0%</b>

## Close-to-Zero Rent Delinquency Rate

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

## Asset Enhancement

It is an established strategy of the REIT Manager to provide premium rentable space in order to achieve sustainable rental growth. To this end, asset enhancement initiatives have been planned and executed on a continuous basis. During the Reporting Year, the asset enhancement works were carried out at The Metropolis Tower. Asset enhancement initiatives will continue in 2017 across the portfolio, with prudently planned payback periods.

## Outlook

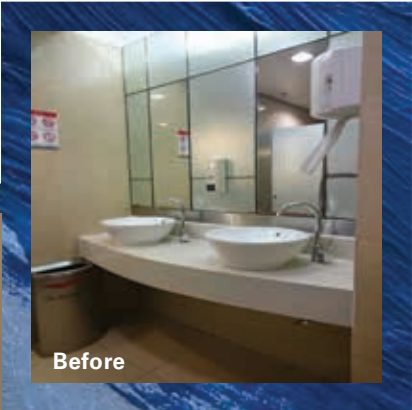
Since its listing on 16 December 2005 (the “**Listing Date**”), Prosperity REIT has met challenges posed by various economic uncertainties, and has achieved favorable results by managing its portfolio with professionalism. Supported by Goodwell-Prosperity Property Services Limited, which provides leasing 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 2017 through our proven expertise in professional management.



# Trust Review

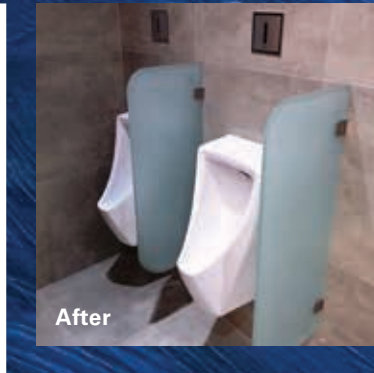
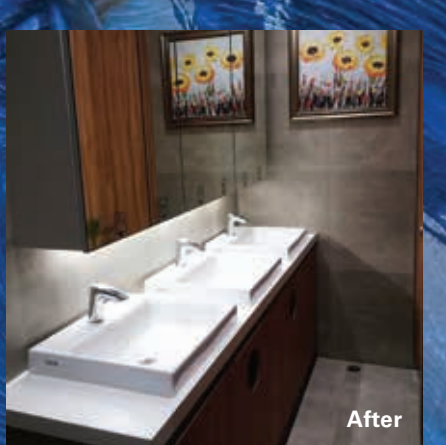
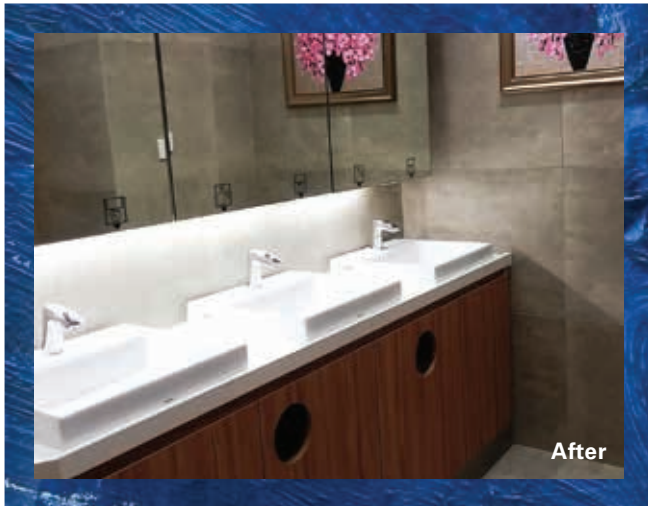
## The Metropolis Tower

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





# Trust Review



## Portfolio Map



### Grade A Office



- 1. The Metropolis Tower
- 2. Prosperity Millennia Plaza
- 3. 9 Chong Yip Street

### Commercial



- 4. Harbourfront Landmark Property (portion)
- 5. Prosperity Place

### Industrial / Office



- 6. Trendy Centre
- 7. Prosperity Center Property (portion)

### Industrial



- 8. New Treasure Centre Property (portion)





# STRATEGIC



# Prosperity REIT Portfolio

## The Metropolis Tower



---

Location	: 10 Metropolis Drive, Hung Hom, Kowloon
Year of Completion	: 2001
Gross Rentable Area (sq. ft.)	: 271,418
No. of Car Park Spaces	: 98
Appraised Value (HK\$ million)	: 3,168
Number of Tenants	: 88



# Prosperity REIT Portfolio

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

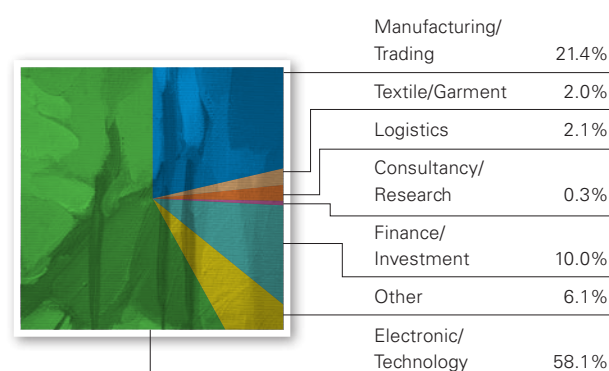
The Metropolis Tower is an established landmark in Hung Hom forming part of a 1.42 million sq. ft. development comprising of a Grade A office tower, a popular shopping mall, a hotel and serviced apartments. Surrounding public amenities include the Hong Kong Coliseum, The Hong Kong Polytechnic University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

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

As at 31 December 2016, the occupancy rate of the property was 96.1%.

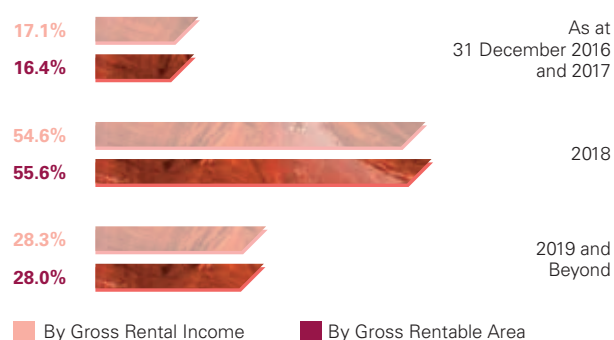
## Trade Mix by Gross Rentable Area

(as at 31 December 2016)



## Lease Expiry Profile

(as at 31 December 2016)



## 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%	20.0%
NEC Hong Kong Limited	Electronic/Technology	18,161	6.7%	7.0%
Hong Kong Taiyo Yuden Company Limited	Electronic/Technology	7,768	2.9%	2.9%
China Silicon Rongde Investment Group Holding Limited, Bestgroup Holding Limited & Others	Finance & Investment	7,413	2.7%	2.9%
Omicron Electronics Asia Limited	Electronic/Technology	6,961	2.6%	2.9%

\* 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 2016.

# Prosperity Millennia Plaza



---

Location	: 663 King's Road, North Point, Hong Kong
Year of Completion	: 1999
Gross Rentable Area (sq. ft.)	: 217,955
No. of Car Park Spaces	: 43
Appraised Value (HK\$ million)	: 2,043
Number of Tenants	: 73



# Prosperity REIT Portfolio

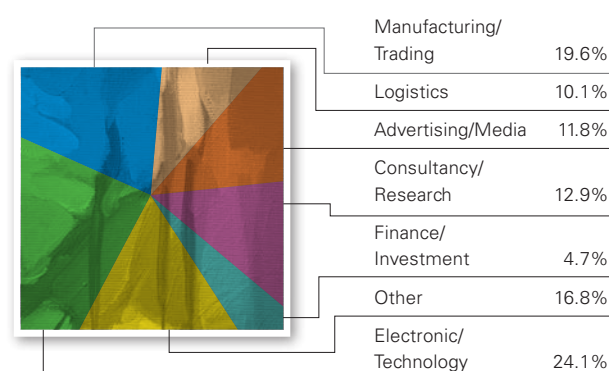
With panoramic sea view of the Victoria Harbour and strategically located in the Island East office district, Prosperity Millennia Plaza stands adjacent to the Harbour Plaza North Point Hotel and across from the North Point Government Offices. Served by a convenient transportation network, the building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

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

As at 31 December 2016, the occupancy rate of the property was 96.6%.

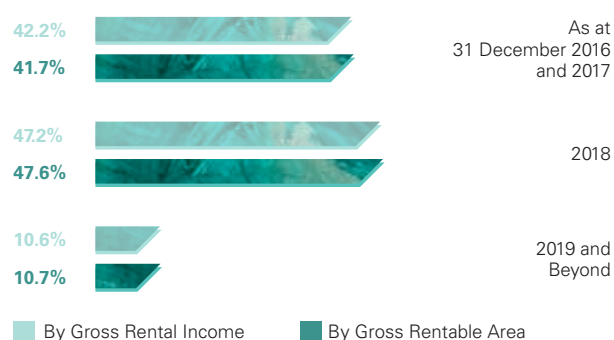
## Trade Mix by Gross Rentable Area

(as at 31 December 2016)



## Lease Expiry Profile

(as at 31 December 2016)



## Top 5 Tenants

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
iClick Interactive Asia Limited, China Search (Asia) Limited & Others	Electronic/Technology	16,132	7.4%	7.3%
Lamex Trading Company Limited	Manufacturing/Trading	16,132	7.4%	6.8%
JDB Holdings Limited	Consultancy/Research	8,867	4.1%	4.7%
Excel Technology International (HK) Limited	Electronic/Technology	10,097	4.6%	4.6%
Uni-Asia Holdings Limited & Green Ocean Shipping Limited	Logistics	8,314	3.8%	4.3%

## 9 Chong Yip Street



---

Location	: 9 Chong Yip Street, Kwun Tong, Kowloon
Year of Completion	: 2004
Gross Rentable Area (sq. ft.)	: 136,595
No. of Car Park Spaces	: 68
Appraised Value (HK\$ million)	: 1,091
Number of Tenants	: 41



## Prosperity REIT Portfolio

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

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

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

As at 31 December 2016, the occupancy rate of the property was 98.9%.

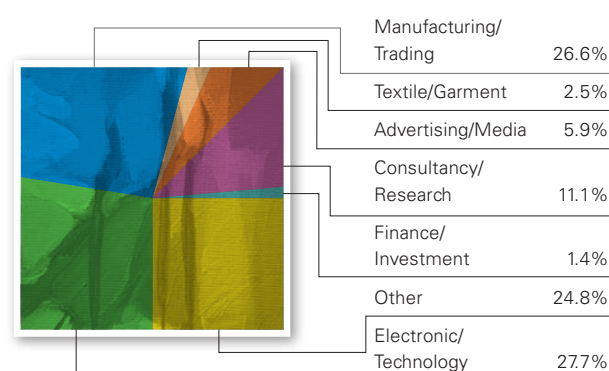
### Top 5 Tenants

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
One Concept Investment Limited	Manufacturing/Trading	6,580	4.8%	5.1%
Wing Shing Caisson & Foundation Limited & Other	Consultancy/Research	6,580	4.8%	5.1%
Tenant <sup>Note</sup>	Others	6,580	4.8%	5.1%
Watami (China) Company Limited	Others	6,580	4.8%	5.1%
Televoice Technology Asia Limited & Other	Electronic/Technology	6,580	4.8%	5.0%

Note: Tenant requested for anonymity.

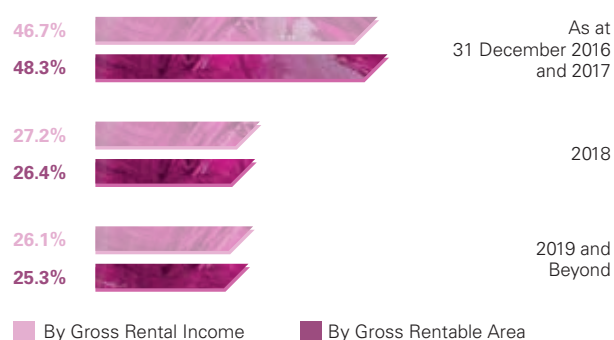
### Trade Mix by Gross Rentable Area

(as at 31 December 2016)



### Lease Expiry Profile

(as at 31 December 2016)



# Harbourfront Landmark Property

(Portion of Harbourfront Landmark)



---

Location	: 11 Wan Hoi Street, Hung Hom, Kowloon
Year of Completion	: 2001
Gross Rentable Area (sq. ft.)	: 77,021
No. of Car Park Spaces	: –
Appraised Value (HK\$ million)	: 594
Number of Tenants	: 3



# Prosperity REIT Portfolio

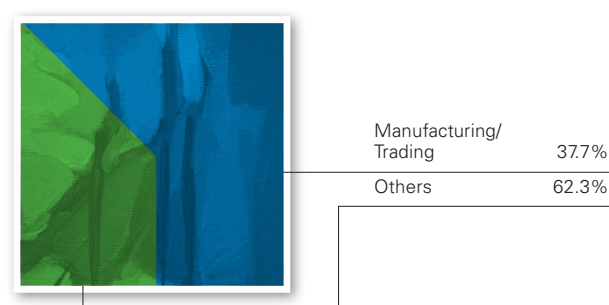
Harbourfront Landmark Property is a three-storey commercial area on the podium level of Harbourfront Landmark, a stunning 70-storey skyscraper on the harbour front of the Kowloon peninsula, offering breathtaking sea view of the Victoria Harbour. The property is adjacent to two Grade A office tower blocks 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 Whampoa MTR Station of the Kwun Tong Line Extension 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 2016, the occupancy rate of the property was 100.0%.

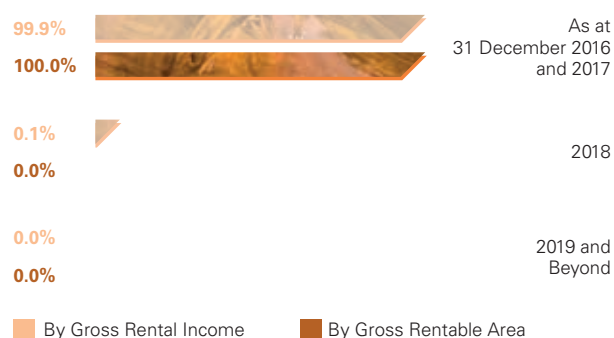
## Trade Mix by Gross Rentable Area

(as at 31 December 2016)



## Lease Expiry Profile

(as at 31 December 2016)



Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Tiger Resort Asia Limited	Others	30,151	39.2%	40.1%
Hallmark Cards (HK) Limited	Manufacturing/Trading	29,063	37.7%	36.9%
The Hong Kong Polytechnic University	Others	17,807	23.1%	23.0%

## Prosperity Place



---

Location	: 6 Shing Yip Street, Kwun Tong, Kowloon
Year of Completion	: 1996
Gross Rentable Area (sq. ft.)	: 240,000
No. of Car Park Spaces	: 83
Appraised Value (HK\$ million)	: 1,699
Number of Tenants	: 117



# Prosperity REIT Portfolio

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, we have created a commercial outlook, widened our tenant base and continuously recruited commercial tenants to the property.

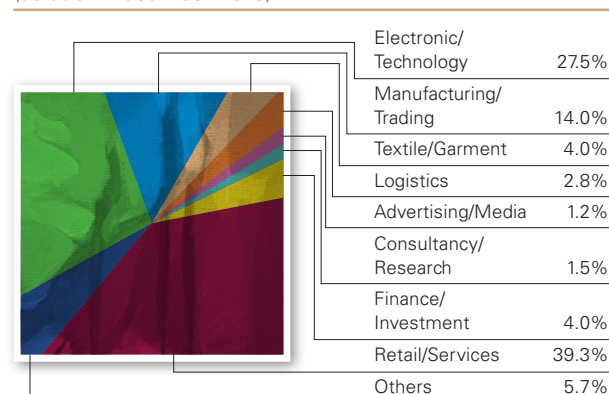
As at 31 December 2016, the occupancy rate of the property was 94.2%.

## Top 5 Tenants

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
I Dance Enterprise Limited	Retail/Services	10,000	4.2%	4.4%
Evlite Electronics Company Limited	Electronic/Technology	11,819	4.9%	4.2%
Dickson Yoga Company Limited	Retail/Services	10,000	4.2%	4.0%
Wall Street English Hong Kong Limited	Retail/Services	5,402	2.3%	3.0%
Radio Frequency Engineering Limited	Electronic/Technology	6,360	2.7%	2.7%

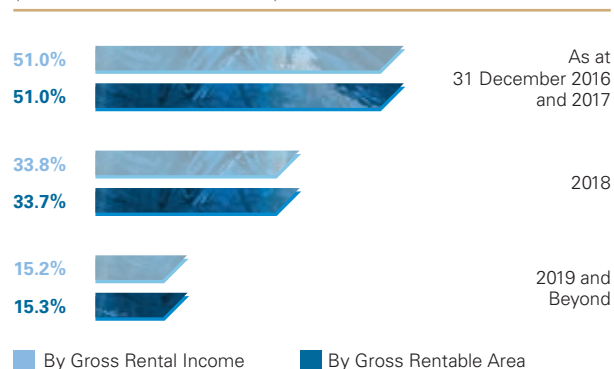
## Trade Mix by Gross Rentable Area

(as at 31 December 2016)



## Lease Expiry Profile

(as at 31 December 2016)



## Trendy Centre



---

Location	: 682 Castle Peak Road, Lai Chi Kok, Kowloon
Year of Completion	: 1998
Gross Rentable Area (sq. ft.)	: 173,764
No. of Car Park Spaces	: 79
Appraised Value (HK\$ million)	: 1,011
Number of Tenants	: 140



# Prosperity REIT Portfolio

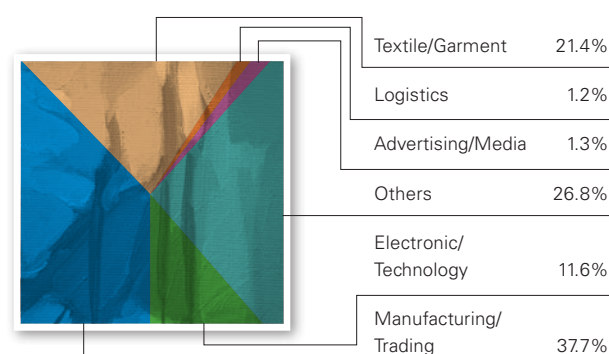
Situated on Castle Peak Road in Lai Chi Kok, Trendy Centre is located in the heart of Kowloon's garment and fashion wholesaling district. It has close proximity to the Container Terminals of the Kwai Chung-Tsing Yi basin, which have a total handling capacity of over 19 million TEUs (twenty-foot equivalent 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 2016, the occupancy rate of the property was 95.6%.

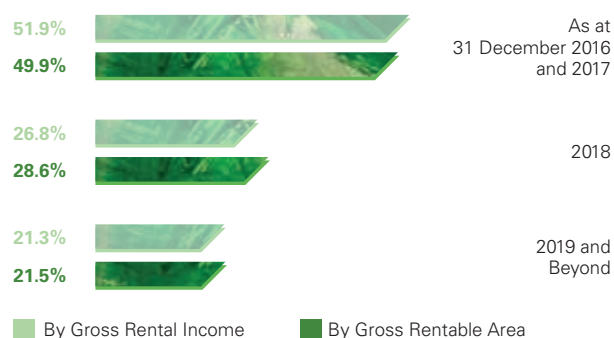
## Trade Mix by Gross Rentable Area

(as at 31 December 2016)



## Lease Expiry Profile

(as at 31 December 2016)



## Top 5 Tenants

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Lush Asia Limited	Manufacturing/Trading	4,794	2.8%	5.9%
CEH Textiles Limited	Textile/Garment	6,849	3.9%	3.6%
Madrid Group Limited & Other	Others	708	0.4%	2.8%
Come In' Living Limited & Other	Manufacturing/Trading	3,268	1.9%	1.8%
Springair Garment (H.K.) Company Limited	Textile/Garment	2,720	1.6%	1.7%

# Prosperity Center Property

(Portion of Prosperity Center)



---

Location	: 25 Chong Yip Street, Kwun Tong, Kowloon
Year of Completion	: 1999
Gross Rentable Area (sq. ft.)	: 149,253
No. of Car Park Spaces	: 105
Appraised Value (HK\$ million)	: 854
Number of Tenants	: 62



# Prosperity REIT Portfolio

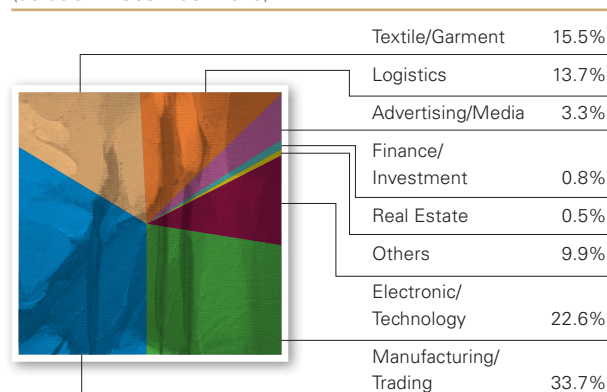
Prosperity Center Property is strategically located in the Kowloon East business district and is less than a three-minute walk from the Ngau Tau Kok MTR Station.

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

As at 31 December 2016, the occupancy rate of the property was 93.1%.

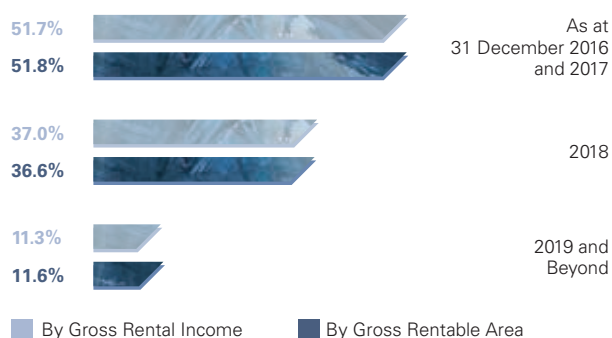
## Trade Mix by Gross Rentable Area

(as at 31 December 2016)



## Lease Expiry Profile

(as at 31 December 2016)



## Top 5 Tenants

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Aurora Fashions Asia Limited	Textile/Garment	13,899	9.3%	10.3%
Opsec Delta (HK) Limited	Manufacturing/Trading	10,528	7.1%	7.7%
Senko Advanced Components (Hong Kong) Limited	Electronic/Technology	10,528	7.1%	7.3%
Barco Limited	Electronic/Technology	4,597	3.1%	3.4%
Watch Logistic International Limited & Other	Logistics	4,415	3.0%	3.3%

# New Treasure Centre Property

(Portion of New Treasure Centre)



---

Location	: 10 Ng Fong Street, San Po Kong, Kowloon
Year of Completion	: 1995
Gross Rentable Area (sq. ft.)	: 86,168
No. of Car Park Spaces	: 22
Appraised Value (HK\$ million)	: 317
Number of Tenants	: 48



# Prosperity REIT Portfolio

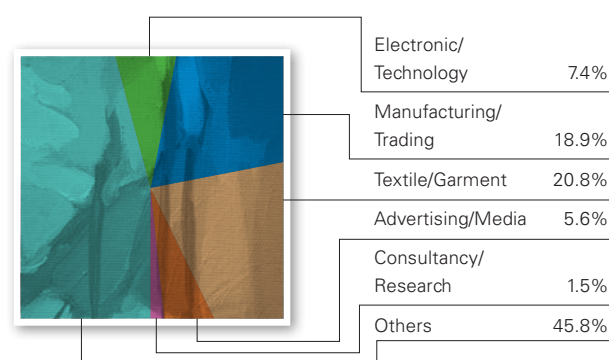
New Treasure Centre Property is located in San Po Kong, Kowloon, an established industrial area well served by extensive transportation links, the north-south Route 2 and west-east Route 7 expressways, MTR, buses and public light buses. The building is conveniently located within five minutes walking 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 2016, the occupancy rate of the property was 98.2%.

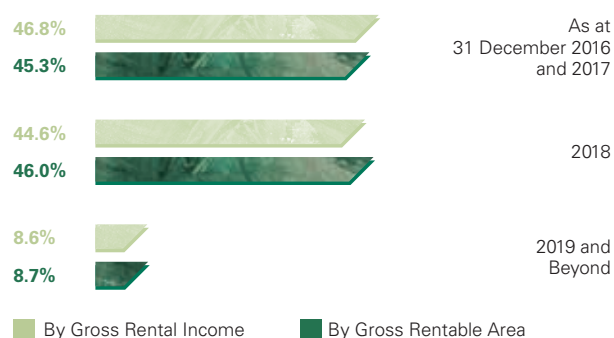
## Trade Mix by Gross Rentable Area

(as at 31 December 2016)



## Lease Expiry Profile

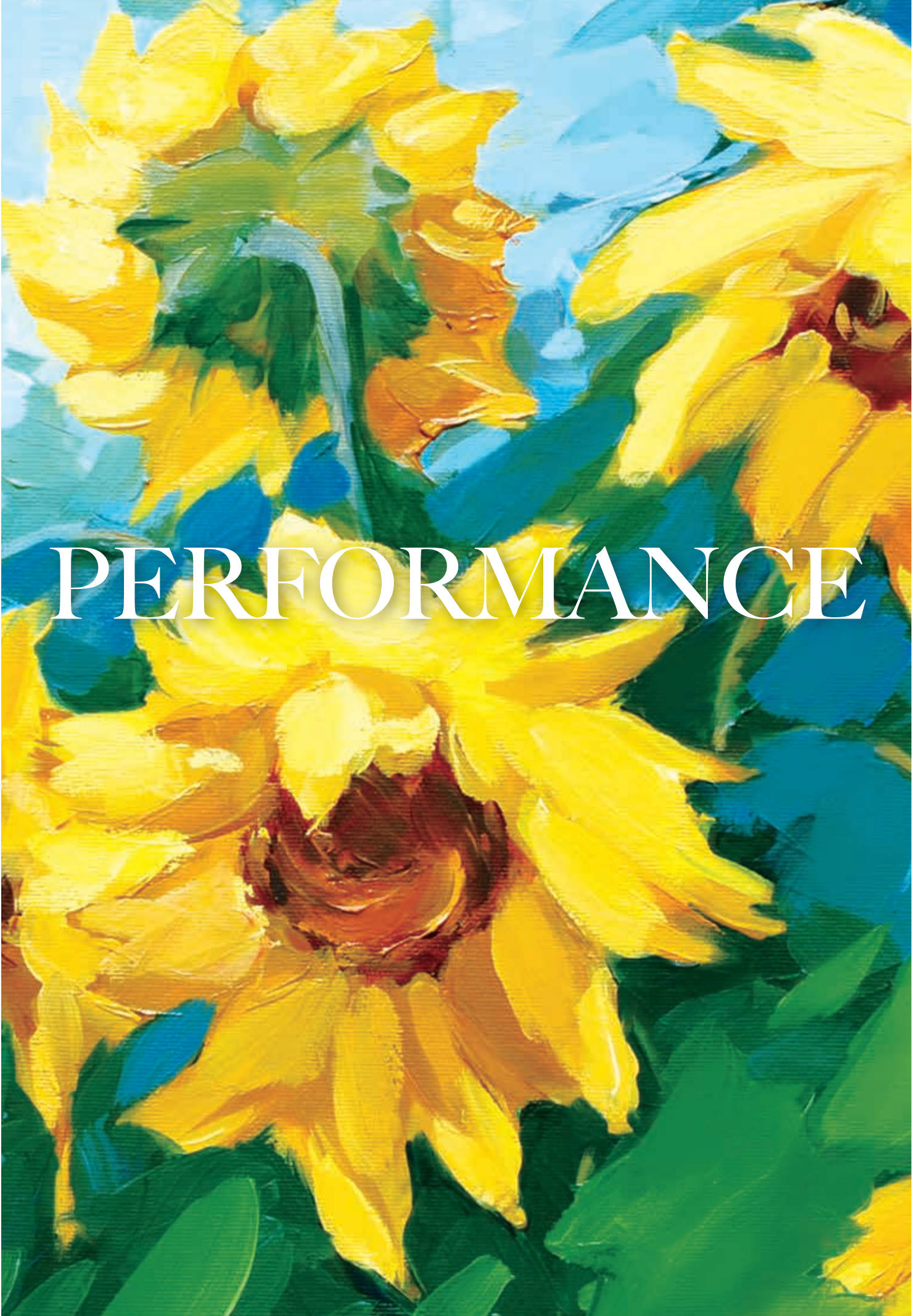
(as at 31 December 2016)



## Top 5 Tenants

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Goodwell Property Management Limited*	Others	12,404	14.4%	12.9%
Reich Pharm Limited	Others	7,488	8.7%	9.0%
Macrotech Security & Management Services Limited & Others	Others	2,496	2.9%	3.1%
A. Integrity Property Services Limited	Others	2,496	2.9%	3.0%
Yim Hong Kee Company Limited	Manufacturing/Trading	2,519	2.9%	2.9%

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



PERFORMANCE



# Management Discussion and Analysis

## Performance Highlights

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

	Year ended 31 December 2016	Year ended 31 December 2015	Percentage change Increase/(Decrease)
Distribution per unit	<b>HK\$0.1777</b>	HK\$0.1768	0.5%
Key financial figures	As at 31 December 2016	As at 31 December 2015	Percentage change Increase/(Decrease)
Net asset value per unit	<b>HK\$5.17</b>	HK\$4.98	3.8%
Property valuation <sup>1</sup>	<b>HK\$10,777 million</b>	HK\$10,419 million	3.4%
Gearing ratio <sup>2</sup>	<b>26.4%</b>	27.2%	(0.8%) <sup>3</sup>
Operation data	Year ended 31 December 2016	Year ended 31 December 2015	Percentage change Increase/(Decrease)
Revenue	<b>HK\$452.9 million</b>	HK\$438.7 million	3.2%
Net property income	<b>HK\$357.8 million</b>	HK\$345.5 million	3.6%
Average effective unit rent	<b>HK\$23.76 per sq. ft.</b>	HK\$22.72 per sq. ft.	4.6%
Occupancy rate (as at 31 December)	<b>96.1%</b>	96.4%	(0.3%) <sup>3</sup>
Cost-to-revenue ratio	<b>21.0%</b>	21.3%	(0.3%) <sup>3</sup>

<sup>1</sup> The amount includes Harbourfront Landmark Property of HK\$594,000,000 transferred to assets of a disposal group classified as held for sale (31 December 2015: Nil).

<sup>2</sup> This excludes the bank facility origination fees already paid in cash, and is calculated by dividing total borrowings over total assets.

<sup>3</sup> Absolute change

# Management Discussion and Analysis

## Operations Review

As at 31 December 2016, 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 2016, 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 2016, 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	3,168	96.1%
Prosperity Millennia Plaza	North Point	217,955	43	2,043	96.6%
9 Chong Yip Street	Kwun Tong	136,595	68	1,091	98.9%
<b>Commercial</b>					
Harbourfront Landmark (portion)	Hung Hom	77,021	–	594	100.0%
Prosperity Place	Kwun Tong	240,000	83	1,699	94.2%
<b>Industrial/Office</b>					
Trendy Centre	Lai Chi Kok	173,764	79	1,011	95.6%
Prosperity Center (portion)	Kwun Tong	149,253	105	854	93.1%
<b>Industrial</b>					
New Treasure Centre (portion)	San Po Kong	86,168	22	317	98.2%
<b>Total</b>		<b>1,352,174</b>	<b>498</b>	<b>10,777</b>	<b>96.1%</b>

\* The amount includes Harbourfront Landmark Property of HK\$594,000,000 transferred to assets of a disposal group classified as held for sale.

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 96.1% was recorded as at 31 December 2016, 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 21.0%.

## Investment Review

The REIT Manager will continue to implement its investment strategy prudently. We shall assess every acquisition target in accordance with our established investment criteria, including the enhancement potential of asset value, organic growth prospects and synergies with existing properties in the portfolio. However, if the REIT Manager considers that any property has reached a stage that offers limited scope for income growth, the REIT Manager may consider selling the property and using the proceeds from such sale to invest in new properties with better yield or growth potential.

# Management Discussion and Analysis

## Financial Review

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

	Turnover HK\$'000	Rental related income HK\$'000	Revenue HK\$'000	Net property income HK\$'000
<b>Grade A Office</b>				
The Metropolis Tower	107,679	20,327	128,006	102,294
Prosperity Millennia Plaza	75,588	13,599	89,187	73,724
9 Chong Yip Street*	35,151	4,448	39,599	31,310
<b>Commercial</b>				
Harbourfront Landmark (portion)	23,200	6,460	29,660	24,225
Prosperity Place	66,838	276	67,114	53,455
<b>Industrial/Office</b>				
Trendy Centre	40,478	6,227	46,705	33,726
Prosperity Center (portion)	34,280	3,255	37,535	27,996
<b>Industrial</b>				
New Treasure Centre (portion)	13,254	1,866	15,120	11,117
<b>Total</b>	<b>396,468</b>	<b>56,458</b>	<b>452,926</b>	<b>357,847</b>

\* No rental support payment was payable in respect of 9 Chong Yip Street by Cactus Holdings Limited to Prosperity REIT under the deed of rental support dated 22 January 2014 for the six months ended 30 June 2016, and the two-years rental support period has expired on 22 January 2016. For details, please refer to the announcement of Prosperity REIT dated 11 August 2016.

### Revenue

During the Reporting Year, revenue improved to HK\$452.9 million, being HK\$14.2 million or 3.2% higher than that of 2015. The growth was attributable to rental reversion rate of 10.9% for the entire portfolio.

The revenue comprised HK\$396.5 million of rental and car park income, plus HK\$56.4 million of rental related income. Rental and car park income was HK\$13.8 million or 3.6% above that of 2015.





## Management Discussion and Analysis

### *Net Property Income*

For the Reporting Year, the net property income was HK\$357.8 million, exceeding that of 2015 by HK\$12.3 million or 3.6%. The cost-to-revenue ratio was 21.0%, which is lower than that of 2015.

### *Distributable Income*

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$258.4 million, representing a total DPU of HK\$0.1777. 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\$17.0 million (equivalent to HK\$0.0117 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 2016. 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 2016 to 31 December 2016 is HK\$127.0 million, equivalent to a DPU of HK\$0.0871. The interim DPU from 1 January 2016 to 30 June 2016 was HK\$0.0906. The total DPU for the Reporting Year is HK\$0.1777, which represents a distribution yield of 5.8%<sup>4</sup>. The DPU increased 0.5% YoY.

The distribution for the half year from 1 July 2016 to 31 December 2016 will be paid on Friday, 7 April 2017.

<sup>4</sup> Based on Prosperity REIT’s closing unit price of HK\$3.06 as at 30 December 2016.



## Management Discussion and Analysis

### *Liquidity and Financing*

As at 31 December 2016, Prosperity REIT had facilities in aggregate of HK\$3,300 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; and
- (ii) A HK\$800 million unsecured term loan bears interest at floating interest rate of 1.05% per annum over HIBOR, and will mature and become repayable 5 years from 31 August 2016 (the “**HK\$800 Million Facility**”).

In relation to the HK\$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. HK\$20 million of the revolving credit facility was drawn as at 31 December 2016.

The HK\$800 Million Facility was fully drawn on 31 August 2016 to repay the banking facilities of HK\$784 million entered in January 2014.

As all facilities bear interests at a variable rate, Prosperity REIT has entered into plain vanilla interest rate swap and cap agreements to mitigate the impact of interest rate fluctuations. As at 31 December 2016, the interest costs for approximately 74% (31 December 2015: 55%) of Prosperity REIT’s outstanding term loans have been hedged through interest rate swaps and cap.

The total borrowings of Prosperity REIT, excluding the bank facilities origination fees, as a percentage of Prosperity REIT’s gross assets was 26.4% as at 31 December 2016, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT’s gross assets was 31.2% as at 31 December 2016.

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.

# Management Discussion and Analysis

## Investment Properties and Property Valuation

For the Reporting Year, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$345.3 million, based on a professional valuation performed by an independent qualified external valuer, Jones Lang LaSalle Limited. The movements of fair values are tabulated below:

	31 December 2016 HK\$'000	31 December 2015 HK\$'000
Fair value at the beginning of the year	10,419,000	9,890,000
Additional expenditure	12,666	13,298
Change in fair value of investment properties	345,334	515,702
Fair value at the end of the year	10,777,000*	10,419,000

\* The amount includes Harbourfront Landmark Property of HK\$594,000,000 transferred to assets of a disposal group classified as held for sale.

## Charges on Assets

As at 31 December 2016, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$5,639.9 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 and the HK\$800 Million Facility.

## Employees

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

## Closure of Register of Unitholders

The register of unitholders will be closed from Tuesday, 28 March 2017 to Thursday, 30 March 2017, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 27 March 2017. The payment date of the final distribution will be on Friday, 7 April 2017.



## Management Discussion and Analysis

### 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\$6,282,000. The commission paid to the top five real estate agents, summarized as follows, was HK\$3,430,000 and accounted for 54.6% of the total commission paid:

Real Estate Agents	Nature of Services	Commission Paid HK\$'000	Percentage of Total Commission Paid
Midland Realty	Leasing	1,051	16.7%
Savills (HK) Limited	Leasing	760	12.1%
Centaline Property Agency Limited	Leasing	740	11.8%
Well Luck Properties Limited	Leasing	454	7.2%
CBRE Limited	Leasing	425	6.8%
		<b>3,430</b>	<b>54.6%</b>

#### Top Five Contractors

The total value of service contracts of contractors engaged by Prosperity REIT during the Reporting Year was HK\$66,825,000. The value of contracts of the top five contractors, summarized as follows, was HK\$57,506,000 and accounted for 86.0% of the total value of contracts:

Contractors	Nature of Services	Value of Contract HK\$'000	Percentage of Total Value of Contracts
Goodwell Property Management Limited	Building management	27,692	41.4%
Citybase Property Management Limited	Building management	13,146	19.7%
Goodwell-Prosperity Property Services Limited	Building management	10,858	16.2%
E-Park Parking Management Limited	Carpark operation	2,940	4.4%
Harbourfront Landmark Premium Services Limited	Building management	2,870	4.3%
		<b>57,506</b>	<b>86.0%</b>



A textured painting of a white flower with green leaves and a blue background. The word "STRENGTHS" is written in white, serif, all-caps font across the center of the image. The painting has a visible woven texture, suggesting it might be a book cover or a piece of fabric art. The colors are vibrant, with a deep blue background, bright green leaves, and a large white flower in the foreground. The word "STRENGTHS" is centered horizontally and vertically, with a bounding box of approximately [158, 411, 840, 479].

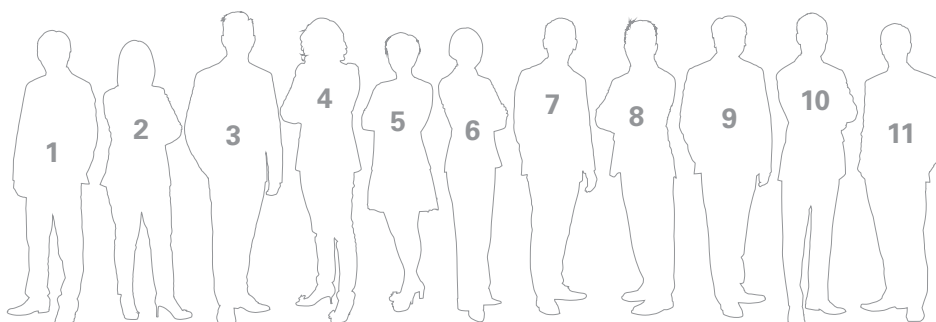
# STRENGTHS



# The Property Manager

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

The Property Manager, a subsidiary of Cheung Kong Property Holdings Limited, exclusively manages the property portfolio of Prosperity REIT on a dedicated basis.



- |  |  |   |   |
|--|--|---|---|
| 1. <b>CHAN Chung Ho, Terence</b><br><i>Assistant Technical Manager</i> | 4. <b>WONG Sze Yu, Kitty</b><br><i>Assistant Property Manager</i>  | 7. <b>DENG Chi Yung, Jonathan</b><br><i>Leasing Manager</i>       | 10. <b>NG Chi Wah, Kevin</b><br><i>Assistant Director, Asset Management</i>       |
| 2. <b>CHENG Man Yin, Kelly</b><br><i>Assistant Property Manager</i>    | 5. <b>WONG Ling Fei</b><br><i>Assistant Chief Manager, Leasing</i> | 8. <b>YEUNG Tin On, Bruce</b><br><i>Assistant Leasing Manager</i> | 11. <b>SIU Kit Fu, Jeff</b><br><i>Manager, Asset Management &amp; Investments</i> |
| 3. <b>CHUI Bok Man, Kelly</b><br><i>Senior Property Manager</i>        | 6. <b>WONG Lai Hung, Mavis</b><br><i>Chief Executive Officer</i>   | 9. <b>CHAN Chun Kwok, Boris</b><br><i>Leasing Manager</i>         |   |





THE SOCIETY





# Environmental, Social and Governance (“ESG”)

## Our Philosophy

At Prosperity REIT, we put strong emphasis on corporate social responsibilities (CSR). At the heart of our CSR commitment is the interaction with our community, environment, tenants, staff and unitholders. Through establishing and maintaining strong relationships with our stakeholders, we work with them to realize the common goals for sustainable development with our core values — Respect, Excellence, Integrity and Teamwork.

As a corporate citizen, we are more than just a stand-alone entity; we belong to the larger society, and we are a building block to a harmonious and sustainable society. To this end, we are committed to conducting our business responsibly by managing the impact of our business to the environment and society, and fostering the well-being of the community. We believe our devotion in CSR programs can help us retain our talented staff and earn trust from our investors, apart from enhancing our brand reputation. Our commitment will continue to guide us in realizing our sustainability agenda and build a sustainable business.

## About This Section

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

For information regarding our corporate governance, please refer to the Corporate Governance Section at page 61.

## Our ESG Governance and Management

In order to minimize the ESG-related risks internally, we formed a designated working group while preparing the ESG section under the Annual Report and had engaged an independent consultant to provide advice thereon. Throughout the data collection and report writing process, the REIT Manager worked closely with Property Manager, while the Board is overall responsible for the ESG strategy and to approve the report.



## Environmental, Social and Governance (“ESG”)

### Stakeholder Engagement and Materiality Analysis

#### *Communication with Stakeholders*

Striving for sustainable development, we make substantial and proactive effort to interact with our stakeholders continuously. With the property management business, our unitholders, tenants, vendors, service providers, suppliers, employees and community are the key stakeholder groups. We recognize that stakeholder engagement is not only about hearing our stakeholders’ opinions but also addressing their concerns, helping us improve our business practice and maintain our relationship. The table below indicates the methods sought to communicate with our stakeholders:

<b>Stakeholder Groups</b>	<b>Engagement Methods</b>
Unitholders	<ul style="list-style-type: none"><li>— General meetings and seminars</li><li>— Results briefings</li><li>— Corporate website</li><li>— Newsletters</li><li>— Investor conferences/meetings</li><li>— Property tours</li></ul>
Community	<ul style="list-style-type: none"><li>— Community work</li><li>— Sponsorship</li></ul>
Tenants	<ul style="list-style-type: none"><li>— Mingling events (e.g. Sport Fun Day, seasonal promotion events)</li></ul>
Employees	<ul style="list-style-type: none"><li>— Cohesion Activities</li><li>— Corporate Training</li><li>— Annual performance review</li><li>— Face-to-face meeting</li><li>— Staff engagement events (e.g. spring dinner, volunteering work)</li></ul>
Vendors, service providers, suppliers	<ul style="list-style-type: none"><li>— Meetings</li><li>— Site visits</li></ul>



## Environmental, Social and Governance (“ESG”)

### *Communication with Unitholders*

We regularly communicate with our unitholders through different communication channels, including but not limited to the engagement methods listed in the table above, so as to build trust with unitholders through effective communication and strong corporate governance practices.



**Annual General Meeting (AGM)**



**Press Briefing**



**Property Tour**



**Investor Seminars**



**Analysts Briefing**

### *Materiality Analysis*

We conducted a stakeholder engagement exercise with our internal and external stakeholders to understand our ESG-related risks as a company and our stakeholders' expectations of how we operate and manage our risk. To perform our materiality analysis, we introduced an online survey to solicit the views of our stakeholders toward particular ESG issues. They were asked to rank the importance of the issues from 1 (not important at all) to 6 (very important). With the responses collected from different stakeholder groups such as employees and directors, tenants, suppliers, contractors, service providers and non-government organizations (“**NGOs**”), a score was eventually derived for each ESG issue to map their materiality on the materiality matrix. We also arranged in-depth interviews with the staff of the REIT Manager and the Property Manager, tenants and NGO representatives to further understand their opinions.

## Environmental, Social and Governance (“ESG”)

The result of the materiality analysis is tabulated below:

### List of material issues

ESG Aspects	Issues
Social — Community	— Community investment
Environmental	— Energy conservation — Significant impacts of activities on the environment and natural resources
Social — Employment and labour practices	— Employment relations including employee remuneration and welfare, labor standards etc. — Occupational health and safety — Staff training and education
Social — Operating practices	— Data privacy protection for tenants — Supply chain management — Anti-corruption — Service responsibilities

### Caring for Community

#### Volunteering

To us, business success should not be sought in the expense of our local community. It is only worthwhile when we can share our success with the community members. Therefore, we are determined to bring positive energy to the society by organizing and volunteering in a variety of community work. Within this reporting period, the following are the highlights of CSR activities that we participated involving our employees:



#### Staff Blood Donation

We regularly arrange staff blood donation activities to help those in needs and achieve the vision of sharing and saving lives.



#### Territory-wide Flag-Selling Day

We participated in Hong Kong Christian Service’s Territory-wide Flag-selling Day of which the proceeds would be used to provide social services to the needy.



#### Dragon Boat Festival Elderly Visit

We visited Evangelical Lutheran Church of Hong Kong (“ELCHK”), Yu Chui Neighbourhood Elderly Centre on Dragon Boat Festival. We held health talk and experienced rice dumpling making with the elderly to celebrate the festivity.

## Environmental, Social and Governance (“ESG”)

In addition, we supported other community work as part of our CSR effort including we donated to Tung Wah Group of Hospitals “Food-for-all Kitchen” to provide discounted nutritious hot meals for people with financial difficulties, donated cookies to the underprivileged in Sham Shui Po, purchased coffee in support of Man Fair Coffee for providing opportunity and assistance to the mentally-disabled and donated money to and volunteered in the Care for the Elderly Charity Ticket Campaign and so on.

Through actively participating in such CSR activities, we hope to make the community a better place for all walks of life. In recognition of our continued support to the less fortunate in the society, we have received the 5 Year Plus Caring Company Award from the Hong Kong Council of Social Service.



### *Charitable Sponsorship*

As a corporate citizen, we strive to apply our specialty to give back to the society, whenever possible. To this end, we have been able to make use of our property portfolio to offer venue sponsorship for charities to organize events.



### **Art Jamming Christmas Party**

In partnership with ELCHK — Tai Wo Integrated Youth Service Centre, we hosted an Art Jamming Christmas Party for primary students from low-income family at our property Prosperity Place to teach them the painting technique and how to admire artworks.



### **Sky Market**

We had also provided our exhibition venue in Prosperity Place to the Nature Conservancy Hong Kong and HULU Culture in support of their wildlife conservation and local culture preservation initiatives, respectively. For instance, Sky Market in the roof top of Prosperity Place to gather the public, artists and cultural workers and younger generations for promoting the local culture.





## Environmental, Social and Governance (“ESG”)

### Caring for Environment

#### *Environmental Protection*

As a company committed to bringing a sustainable future, we recognize our responsibility to conduct our business in a way that protects and improves the environmental quality for generations to come. A sustainable future is also an essential factor to continue our business success. In this sense, we are determined to promote efficient use of resources (i.e. energy and water), material conservation, waste reduction and recycling products.

We have proactively implemented measures to alleviate our operational impact to global warming and pollution. Beyond complying with the relevant environmental laws and regulations, we have environmental protection policy in place which allows us to offer our tenants quality service while contributing to the environmental well-being. An overarching, management-led Environmental Management Committee has been set up for environmental work. It has also established an ISO 14001-certified environmental management system (“**EMS**”) which consists of environmental management handbook, procedure and guidelines for environmental protection. We have raised environmental awareness to staff and tenants through various means, including training, to regularly communicate good practice and their responsibilities in environmental protection.

On the other hand, our suppliers are governed by green procurement policy which promotes the use of environmentally-friendly materials. They also take reference from the industry players for their best practices on environmental protection. While contributing to the environment, these initiatives allow us to go beyond our tenants’ expectation, enhancing the image of our properties. On top of reviewing our environmental management strategy regularly, our staff of the REIT Manager and Property Manager are also encouraged to raise their suggestions to us for the continuous improvement on our environmental protection work.

#### *Greenhouse Gas (“GHG”) Emissions and Energy*

A majority of the GHG emission from buildings tends to be resulted from energy consumption as carbon emission is generated from burning fuel at electricity power plants. We see the need to enhance the energy efficiency of the facilities in our buildings to curb the emission and reduce the impact to the environment. To this, different measures have been implemented since 2008 to improve our buildings’ energy performance.

For instance, we have replaced the chiller sets in some properties with a more energy-efficient model, saving the energy cost for air-conditioning provision. We also adopted a building management system (“**BMS**”) to monitor the chillers and set the water and air temperature automatically to reduce the electricity consumption. The air-conditioning temperature is kept within 24-26°C. In The Metropolis Tower, we applied UV resistance stickers on the lobby’s glass wall for insulation and maintaining the indoor temperature. Automatization of the power-off function for non-essential or idle facilities, including lights and elevators, has been in place to reduce unnecessary energy demand.

In terms of lighting, we have replaced the traditional T8 light tubes by energy-saving T5 or LED lightings and have installed motion sensor in some of our properties to reduce the energy use.

## Environmental, Social and Governance (“ESG”)

### *Water Consumption*

Besides energy use, water consumption is another major area for conservation of natural resources used by our properties. Apart from relying on environmental education and training, we have made use of technologies to reduce the overall water use. For example, auto-sensors for the bathroom basins have been installed in some buildings. Most of these buildings are also equipped with rainwater collection system at their rooftop gardens, and the rainwater collected would be used for irrigating plant and cleaning floor. These initiatives have effectively lower the water consumption of our operations.

Together with the environmental and economic benefits in implementing these measures, we will continue to look for reduction opportunities and improve the environmental-friendliness of our operations.

### *Creating Green Space*

We strive to offer pleasant environment to the community through greening our buildings and providing renewable energy devices. In our properties, we have vertical green wall in the lobby and green roof garden. These greeneries are maintained with environmental consciousness. For the vertical green wall, we have adopted an irrigation system which waters the plants twice every month through a timed system. The pipes run along the top and bottom of the walls behind the plants. Sponge soil which is light, clean, odorless is also used to keep the water and air balance. Such arrangements not only save the water usage in maintaining the green wall but also create a better environment for our tenants.

As for the green roof garden, our tenants can apply for the organic farm area where they are each provided with a farming box. Recently, we have made the farming activity from once a year to seasonal, and we have received great feedback from the tenants. The rooftop also has other environmental features. It has wind and solar powered lights which are turned on during night time for necessary lighting.



**Organic Farm**



**Wind and Solar powered lights**



**Vertical Green Wall**

# Environmental, Social and Governance (“ESG”)

## Waste Management

To reduce the waste generation from our business operations, we have put emphasis on 3R: reduce, reuse and recycle. In our properties, recycling areas are commonly observed, with plastic, paper and metal recycling bins for non-hazardous waste. We also work with the Environmental Protection Department (“EPD”) on computer recycling within the buildings. Other materials we reuse and recycle include light tubes, Christmas trees, plants for Chinese New Year, moon cake tins and red envelopes. For properties such as The Metropolis Tower, we collect the recycling waste every month and provide the EPD with our recycling data (including the weight and amount) once every season. This allows us to keep track on the effectiveness of our waste recycling initiatives and enable course-correction when necessary. As a reminder to our tenants to recycle their waste and minimize discharge into the environment, we have produced promotional posters and flyers.

## Involvement of Tenants and External Parties

Our initiatives would only be effective when our tenants and contractors are supportive. Therefore, we have communicated with them closely to not only inform but also invite them to take part in our programs. By means of newsletters, we send out reminders to tenants to promote energy conservation, as well as invitations to participate in rooftop farming. They are welcomed to suggest greening ideas to us which could be put into practice if feasible. Our tenants have provided positive comments on these communications and invitations.

We also extend our environmental communication to the community. We partnered with the Nature Conservancy Hong Kong and ELCHK, Tin Shui Wan Integrated Youth Service Centre to organize an environmental protection day for students from low-income family at Prosperity Place.



### Environmental Protection Day

It was to introduce our greening facilities such as the green wall, rooftop garden, hydroponic organic farm and renewable energy equipment on the premise as environmental education.



### “Make Your Ocean” Workshop

We conducted a clay craft workshop “Make Your Ocean” to strengthen their knowledge of environmental protection.

Our venue sponsorship to environmental NGO further spread the message of nature conservation to the visitors of Prosperity Place. We will continue to garner our tenants’ and public’s support on environmental sustainability through these joint promotion activities.



# Environmental, Social and Governance (“ESG”)

## Caring for Tenant

### *Interactions with Tenants*

We value to establish sustainable relationship with tenants at our properties. During the Reporting Year, we organized the Sport Fun Day and seasonal promotion events such as Chinese New Year, Easter, Summer and Christmas in order to understand their needs through the mingling events with tenants.



**Sport Fun Day**



**Chinese New Year**



**Easter Promotion**



**Summer Promotion**



**Christmas Promotion**

### *Data Protection and Privacy*

Because of the property management business, it involves the collection of sensitive personal data which require our extra care to protect the information provider’s privacy in our daily operations. Besides being compliant with the Personal Data (Privacy) Ordinance (Cap.486) and other relevant regulations, we have established a personal data and classified data handling procedure for data protection and privacy.

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

## Environmental, Social and Governance (“ESG”)

### *Complaints Handling*

According to our annual tenant satisfaction survey, our property management service has been regarded as highly satisfactory. Still, complaints may arise in our day-to-day operations.

To allow effective and efficient resolution of the complaints, we have published guidelines to streamline the handling procedure. Tenants can refer to the website to raise their concerns through mail, phone, fax or email. Upon receiving the information, we would contact the complainants in a timely manner to understand the situation and implement corrective and preventive measures. We would continue to follow up on the incidents until the complainants are satisfied with the result. The entire handling process would be documented for future reference. All personal information obtained from the complainants is kept in a strictly confidential manner.

### **Caring for Staff**

#### *Working Conditions*

Our staff of the REIT Manager and the Property Manager are crucial to the outstanding performance of Prosperity REIT. Appreciating their hard work and contribution, apart from complying with the Employment Ordinance (Cap. 57), we are determined to offer them a fair, rewarding, enjoyable and supportive work environment.

We have human resources policy in place that specifies matters related to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. Our staff can refer to the staff handbook for the details. In particular, we adhere to fair employment practices. For example, we choose and recruit employees regardless of their age, race, gender, religion, national origin, sexual orientation, family status, disability, medical condition or other characteristics but their relevant skills, experience and ability to perform the job. As a caretaker of our valuable employees, we provide our employees with medical and life insurance.

Besides, all employees have undergone the induction program for them to understand the history, business, values and mission of operations. It also helps them to settle in comfortably in their new work environment and be effective in their new role and responsibilities. Staffs are expected to comply with the Code of Conduct and observe ethical behavior. Staff engagement activities, such as annual spring dinner and cohesion activities, are organized to foster the relationship between the employees. We also promote positive work-life balance and encourage our staff to lead an active and healthy lifestyle with subsidized memberships at fitness center.





## Environmental, Social and Governance (“ESG”)

We value inputs from the employees to continuously provide them with a pleasant and desirable work environment. Employees with any concerns or grievances are also welcomed to discuss with their immediate supervisor for resolution. We constantly review our policies to meet regulations and changing needs of our staff to promote an inclusive workplace.

### *Healthy Workplace and Occupational Health and Safety*

Occupational health and safety have always been our priority. We have put considerable thought into the health and safety measures to offer a safe and productive work environment for the staff. While fulfilling the Occupational Safety and Health Ordinance (Cap. 509) and other relevant regulations, our properties have the OHSAS 18001-accredited safety and health management system and Occupational Safety and Health Management Committee in place to facilitate the implementation.

Apart from organizing meetings once every month to ensure the measures are effective, the Occupational Safety and Health Management Committee regularly reviews the accident prevention strategy to maintain a safe and healthy work environment for the employees to conduct their tasks. Regular safety inspections are carried out by us and independent safety consultant to monitor and evaluate the measures, and recommend follow-up actions. To raise the staff’s awareness of workplace health and safety, we arrange training and fire drills throughout the year. The training cover the relevant laws and regulations, general safety principles, fire hazard, use of chemical, electrical appliances, preventive gears, emergency procedure and office safety. We also distribute newsletters on the latest health and safety practices and trends to the staff quarterly. We adhere to a drug-free and sweat free workplace.

### *Learning and Personal Enhancement/Career Development*

We highly emphasize the learning and career advancement opportunities for our people. Besides the induction and safety training programs, we offer internal and external job-specific training to facilitate their day-to-day work and help their career development.

All staff go through a goal setting exercise at the start of the year to determine their key performance indicators and training needs. An annual appraisal is conducted with all the employees where the supervisor meets with their subordinates individually to discuss their job performance for the year. The employees also get a chance to raise their opinions in an open discussion manner. As we value equal working opportunity, we provide them with training and development based on their strengths and needs to help them achieve their full potential in alignment with business priorities. We promote our staff from within where appropriate to recognize the efforts of high performers. Employees are rewarded fairly based on their work performance, contribution and experience, with fixed and variable pay components.

## **Doing the Right Things**

### *Supply Chain Management*

We have formulated the “Operation Manual” as a guiding document for illustrating procurement and supplier selection process. As a policy, we would request for reviewing the selecting suppliers’ profile. We constantly monitor the quality of the products or services provided by the suppliers and review their performance, and we would cease the contract with those who cannot meet our expectations. To comprehensively manage the ESG performance of our operations as a whole, we have set up policies for our supply chain which require high





## Environmental, Social and Governance (“ESG”)

ESG standard from them. We require our suppliers to adhere to our green procurement and health and safety policies throughout the project, including presenting relevant certifications, as well as providing safety training and equipment to contracted workers. In addition, we would conduct on-site inspections regularly to ensure the practices are on a par with our standards.

### *Anti-Corruption*

Adhering to the Prevention of Bribery Ordinance (Cap. 201), our Code of Conduct governs our employees’ behavior when performing their tasks. We have dedicated policy in place for staff to refer to when handling gift, and we prohibit our staff from receiving any form of benefits when conducting business. Any unethical behavior and misconduct, including bribery, anti-competition, money laundering, fraud and corruption, would not be tolerated. We have formalized this expectation by conducting induction training for new hires, and require an annual declaration of compliance with the policy from all our staff. To develop, promote and maintain high standards of corporate governance, we have established a whistle-blowing mechanism to allow all employees to raise concerns about possible improprieties and obstructive actions observed. Independent investigations would be conducted to validate the claim. The complainants are protected under this mechanism from reprisals or victimization when they whistle blow in good faith and without malice.

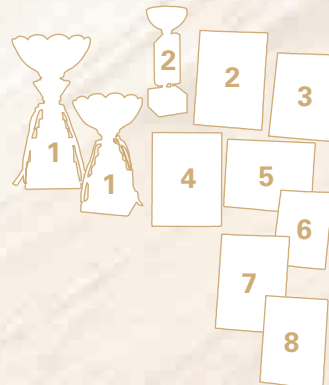
### *Service Responsibility*

We are committed to offering quality services to our tenants and we seek to improve the operational efficiency of our properties to serve our tenants. To allow us to address their concerns and needs, we regularly conduct tenant satisfaction surveys, analyze the results and improve our offerings to enhance tenant retention. Internally, we conduct health and safety audit as well as internal and external audits to assure that the services are in compliance with our safety and security procedures and work instruction. The findings would be shared in monthly meeting as reminders to all the staff. For enquiries and complaints, the concerned information would be logged, followed up and checked. Our measures on service responsibilities comply with the relevant laws and regulations.

# Our Awards



- 1 **Best Landscape Award (Non-Domestic Property – Properties between 11 to 20 years of age)**  
Leisure and Culture Services Department
- 2 **Excellence in Facility Management Award (Office Building)**  
The Hong Kong Institute of Facility Management
- 3 **HSBC Living Business Awards 2016 – Green Achievement Award**  
Business Environment Council
- 4 **HSBC Living Business Awards 2016 – Community Engagement Award**  
Business Environment Council
- 5 **BOCHK Corporate Environmental Leadership Awards 2015**  
The Federation of Hong Kong Industries (FHKI) and Bank of China (Hong Kong) Limited
- 6 **Wood Recycling & Tree Conservation Scheme 2016**  
Hong Kong Environmental Protection Association
- 7 **Indoor Air Quality Certificate**  
Indoor Air Quality Information Centre
- 8 **5 Year Plus Caring Company**  
The Hong Kong Council of Social Service



# Directors and Senior Management Biographical Information

## Directors

### Chiu Kwok Hung, Justin

*Chairman and Non-executive Director*



**Dr. CHIU Kwok Hung, Justin**, aged 66, is the Chairman of the REIT Manager. He is the Chairman and Non-executive Director of ARA Asset Management Limited (listed in Singapore), the holding company of the REIT Manager. Dr. Chiu is also a Non-executive Director (stepped down as Chairman but remains as Non-executive Director since 1 January 2017) of ARA Asset Management (Fortune) Limited as the manager of Fortune REIT (listed in Hong Kong and Singapore), and a Director of ARA Fund Management (Asia Dragon) Limited as the manager of the ARA Asia Dragon Fund and ARA Asia Dragon Limited. Dr. Chiu joined Cheung Kong (Holdings) Limited in 1997 and is an Executive Director and a Member of Executive Committee of Cheung Kong Property Holdings Limited (listed in Hong Kong), heading the real estate sales, marketing and property management teams.

Dr. Chiu has more than 30 years of international experience in real estate in Hong Kong and various countries and is one of the most respected professionals in the property industry in Asia. He 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, a member of the Board of Governors of Hong Kong Baptist University Foundation, an Honorary Associate Member of Business of Trent University, Canada, a Senior Visiting Fellow of the Department of Land Economy at the University of Cambridge and an Honorary Professor of School of Pharmaceutical Sciences of Sun Yat-Sen University.

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

### Lim Hwee Chiang

*Non-executive Director*



**Mr. Lim Hwee Chiang**, aged 60, is a Non-executive Director of the REIT Manager. He is the Group Chief Executive Officer and an Executive Director of ARA Asset Management Limited ("**ARA**") (listed in Singapore), the holding company of the REIT Manager. He has been a Director of ARA since its establishment. Mr. Lim is also a Non-executive Director of Hui Xian Asset Management Limited as the manager of Hui Xian REIT (listed in Hong Kong), ARA Asset Management (Fortune) Limited as the manager of Fortune REIT (listed in Hong Kong and Singapore), ARA Trust Management (Suntec) Limited as the manager of Suntec REIT (listed in Singapore), ARA-CWT Trust Management (Cache) Limited as the manager of Cache Logistics Trust (listed in Singapore) and Teckwah Industrial Corporation Limited (listed in Singapore).

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). He is also Chairman of the property management committee of the Singapore Chinese Chamber of Commerce & Industry, the managing director of Chinese Chamber Realty Private Limited and a director of The Finance Board of the Singapore Chinese Chamber of Commerce. He is also 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 PERE Global Awards 2016 Industry Figure of the Year, 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 44, 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 (Holdings) Limited, New World Development Company Limited, Jardine Matheson & Co., Limited, Goodwill Management Limited (a wholly-owned subsidiary of Henderson Land Development Company Limited) and Yaohan Department Store (HK) Limited. Ms. Wong is a Member of The Hong Kong Institute of Directors.

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

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

*Non-executive Director*



**Mr. Ma Lai Chee, Gerald**, aged 49, is a Non-executive Director of the REIT Manager and a member of the Designated (Finance) Committee. He is a Non-executive Director of ARA Asset Management (Fortune) Limited as the manager of Fortune REIT (listed in Hong Kong and Singapore) and an Alternate Director to Mr. Lai Kai Ming, Dominic, Non-executive Director of Hutchison Telecommunications Hong Kong Holdings Limited (listed in Hong Kong). Mr. Ma joined Cheung Kong (Holdings) Limited in 1996 and is currently a Member of Executive Committee and General Manager, Corporate Business Development Department of Cheung Kong Property Holdings Limited (listed in Hong Kong). He is also a director of aircraft leasing companies, Accipiter Holdings Designated Activity Company (formerly known as Accipiter Holdings Limited), Accipiter Investments Holdings Designated Activity Company and Vermillion Aviation Holdings Limited, members of Cheung Kong Property Holdings Limited.

## Directors and Senior Management Biographical Information

Mr. Ma has over 27 years of experience in finance, investment and portfolio management, real estate development and marketing, as well as managing IT related ventures and services. He is a member of the Hospitality Services Committee of Caritas Hong Kong. He is also a member of the President's Circle, the Dean's Advisory Board for the Faculty of Arts and the Faculty Advisory Board of the UBC Sauder School of Business of the University of British Columbia, Canada. He holds a Bachelor of Commerce degree in Finance and a Master of Arts degree in Global Business Management.

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

*Independent Non-executive Director*



**Dr. Lan Hong Tsung, David**, aged 76, is an Independent Non-executive Director, the Chairman of the Audit Committee and a member of each of the Disclosures Committee and Designated (Finance) Committee of the REIT Manager. He is an Independent Non-executive Director of Cheung Kong Infrastructure Holdings Limited (listed in Hong Kong), Hutchison Telecommunications Hong Kong Holdings Limited (listed in Hong Kong) and SJM Holdings Limited (listed in Hong Kong). Dr. Lan is currently the Chairman of David H T Lan Consultants Ltd., Supervisor of Nanyang Commercial Bank (China), Limited, an Independent Non-executive Director of Cinda Financial Holdings Co., Limited and holds a directorship at Nanyang Commercial Bank Ltd., as well as being a Senior Advisor of Mitsui & Company (Hong Kong) Limited. Dr. Lan is the President of the International Institute of Management. He is also a Chartered Secretary and a Fellow Member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.

Dr. Lan was the Secretary for Home Affairs of the Government of the Hong Kong Special Administrative Region until his retirement in July 2000. He had served as civil servant in various capacities for 39 years and was awarded the Gold Bauhinia Star Medal (GBS) on 1 July 2000. He was appointed to the 10th and 11th sessions of the National Committee Member of the Chinese People's Political Consultative Conference of the People's Republic of China. Dr. Lan was previously an Independent Non-executive Director of ARA Asset Management (Fortune) Limited as the manager of Fortune REIT (listed in Hong Kong and Singapore), China Oceanwide Holdings Limited (formerly known as "Hutchison Harbour Ring Limited") (listed in Hong Kong) and a Non-executive Director and Co-Chairman of Aurum Pacific (China) Group Limited (listed in Hong Kong).

Dr. Lan received his Bachelor of Arts degree from the University of London and completed the Advanced Management Program (AMP) of the Harvard Business School, Boston. He was also awarded Fellow, Queen Elizabeth House (Oxford). Dr. Lan was conferred with 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 75, is an Independent Non-executive Director and a member of the Audit Committee of the REIT Manager. She is an Independent Non-executive Director of Cheung Kong Infrastructure Holdings Limited (listed in Hong Kong), and an Independent Non-executive Director and the Lead Independent Director of Hutchison Port Holdings Management Pte. Limited as the trustee-manager of Hutchison Port Holdings Trust (listed in Singapore).

Mrs. Sng was an Independent Non-executive Director of ARA Asset Management (Fortune) Limited as the manager of Fortune REIT (listed in Hong Kong and Singapore) from 2003 to 2016, and an Independent Non-executive Director of ARA Trust Management (Suntec)

## Directors and Senior Management Biographical Information

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

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

### Wong Kwai Lam

*Independent Non-executive Director*



**Mr. Wong Kwai Lam**, aged 67, is an Independent Non-executive Director and a member of each of the Audit Committee and Designated (Finance) Committee of the REIT Manager. He is an Independent Non-executive Director of China Merchants Bank Co., Ltd. (listed in Hong Kong and Shanghai), K. Wah International Holdings Limited (listed in Hong Kong), Langham Hospitality Investments Limited (a company which together with Langham Hospitality Investments listed in Hong Kong) and LHIL Manager Ltd. as the trustee-manager of Langham Hospitality Investments, and Hutchison Port Holdings Management Pte. Limited as the trustee-manager of Hutchison Port Holdings Trust (listed in Singapore). Mr. Wong is currently the Chairman of IncitAdv Consultants Ltd., 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 Board of Directors 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 Assistant Director, Finance of the REIT Manager. He is responsible for the financial management of Prosperity REIT. He has over 20 years of experience in audit and finance areas.

From 2000 to 2006, Mr. Cheung was the Chief Financial Controller and Company Secretary of Joinn Holdings Limited (“**Joinn**”) (subsequently named as Chinasing Investment Holdings Limited), a company previously listed on the Main Board of SGX-ST (delisted from 5 December 2016). He was in charge of the accounting and finance functions of the group. He also performed company secretarial duties to ensure compliance with all legal and listing requirements and helped to ensure proper corporate governance. Mr. Cheung also helped to manage Joinn’s Initial Public Offering in Singapore and was responsible for helping with the spinning-off of one associate company on SEHK’s Growth Enterprise Market.

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

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

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

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

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



## Directors and Senior Management Biographical Information

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

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

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

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

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

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



## Directors and Senior Management Biographical Information

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

### 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.

## Authorization Structure

Prosperity REIT is a collective investment scheme authorized by the Securities and Futures Commission (the “**SFC**”) under section 104 of the Securities and Futures Ordinance (Cap. 571) (the “**SFO**”) and regulated by the provisions of the Code on Real Estate Investment Trusts (the “**REIT Code**”). The REIT Manager has been licensed by the SFC under section 116 of the SFO to conduct the regulated activity of asset management. Ms. Wong Lai Hung, Mavis, the Chief Executive Officer (the “**CEO**”) and an Executive Director, Mr. Ng Chi Wah, Kevin and Mr. Chung Meng Him, Vicho are the Responsible Officers of the REIT Manager pursuant to the requirements of section 125 of the SFO and Chapter 5.4 of the REIT Code.

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

## Roles of the Trustee and the REIT Manager

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

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

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

## Corporate Governance

- (3) ensuring compliance with the applicable provisions of the REIT Code, the SFO and all other relevant legislation, the Listing Rules, the Trust Deed, all other relevant legislation and all relevant contracts; and
- (4) attending to all regular communications with unitholders.

### Board of Directors of the REIT Manager

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

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

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

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

- (1) the Chairman of the Board shall be a Non-executive Director of the REIT Manager;
- (2) the CEO shall be a member of the Board; and
- (3) the Board shall comprise Directors with a broad range of educational background, commercial experience including expertise in funds management and the property industry, and diversified in terms of gender, age and cultural background appropriate to the business of Prosperity REIT and the REIT Manager.

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

The Board presently comprises seven members, three of whom are Independent Non-executive Directors (“**INEDs**”).

## Corporate Governance

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

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

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

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

<b>Members of the Board</b>	<b>Attendance</b>
<i>Chairman and Non-executive Director</i>	
Dr. Chiu Kwok Hung, Justin	6/6
<i>CEO and Executive Director</i>	
Ms. Wong Lai Hung, Mavis	6/6
<i>Non-executive Directors</i>	
Mr. Lim Hwee Chiang	5/6
Mr. Ma Lai Chee, Gerald	6/6
<i>Independent Non-executive Directors</i>	
Dr. Lan Hong Tsung, David	6/6
Mrs. Sng Sow-Mei (alias Poon Sow Mei)	6/6
Mr. Wong Kwai Lam	6/6

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



## Corporate Governance

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 materials relevant to directors' duties and responsibilities. All Directors have provided the REIT Manager with their records of continuous professional development programmes during the Reporting Year.

During the Reporting Year, in-house briefings/reports were given by Company Secretary and/or the in-house counsel of the REIT Manager to Directors in respect of the updates on the Listing Rules amendment regarding the new requirements under the Environmental, Social and Governance Reporting Guide. Besides, the external auditor of Prosperity REIT also gave briefings on updates of accounting standards and principles to the members of the Audit Committee.

## Corporate Governance

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

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

### Risk Management and Internal Controls

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

The REIT Manager has an internal audit function in place to provide an independent assessment of the REIT Manager's risk management and internal control systems and operational functions, and review of their effectiveness. The Internal Auditor prepares an audit plan using a risk based methodology in consultation with, but independent of, the management for review by the Audit Committee. The audit review focuses on operational and compliance controls of Prosperity REIT and effective implementation of the risk management and internal control systems, and also compliance procedures. Besides, the REIT Manager had adopted the Information Disclosure Controls and Policy in the Compliance Manual which set out the controls and policies in handling and dissemination of inside information (as defined in the SFO).

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

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

# Corporate Governance

## Audit Committee

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

The Audit Committee's responsibilities also include:

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

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

Three Audit Committee meetings were held during the Reporting Year for considering and reviewing, among others, the 2015 final results, 2016 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:

<b>Members of the Audit Committee</b>	<b>Attendance</b>
Dr. Lan Hong Tsung, David	3/3
Mrs. Sng Sow-Mei (alias Poon Sow Mei)	3/3
Mr. Wong Kwai Lam	3/3

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

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



## Disclosures Committee

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

The Disclosures Committee's responsibilities also include:

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

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

The Disclosures Committee meets on a half yearly basis and otherwise on an as-needed basis. The Disclosures Committee held three meetings during the Reporting Year for considering and reviewing, among others, the 2015 final results announcement and 2016 interim results announcement, the 2015 annual report and 2016 interim report of Prosperity REIT, and other corporate disclosure issues of Prosperity REIT. The Disclosures Committee also reviewed all public announcements issued by Prosperity REIT throughout the Reporting Year. The attendance record of the Disclosures Committee meetings is as follows:

<b>Members of the Disclosures Committee</b>	<b>Attendance</b>
Dr. Chiu Kwok Hung, Justin	3/3
Ms. Wong Lai Hung, Mavis	3/3
Dr. Lan Hong Tsung, David	3/3

# Corporate Governance

## Designated (Finance) Committee

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

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

The meetings of the Designated (Finance) Committee are convened as and when necessary. One meeting of the Designated (Finance) Committee was held during the Reporting Year and all members had attended the meeting.

## 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 2016 Annual General Meeting ("**AGM**") was held on 6 May 2016 and the notice of AGM was sent to unitholders at least 20 clear business days before the AGM. Apart from AGM, two Extraordinary General Meetings ("**EGMs**") were held during the Reporting Year. The attendance record of the AGM and EGMs is as follows:

<b>Members of the Board</b>	<b>Attendance</b>	
	<b>AGM</b>	<b>EGMs</b>
<i>Chairman and Non-executive Director</i>		
Dr. Chiu Kwok Hung, Justin	1/1	1/2
<i>CEO and Executive Director</i>		
Ms. Wong Lai Hung, Mavis	1/1	2/2
<i>Non-executive Directors</i>		
Mr. Lim Hwee Chiang	1/1	1/2
Mr. Ma Lai Chee, Gerald	0/1	0/2
<i>Independent Non-executive Directors</i>		
Dr. Lan Hong Tsung, David	1/1	1/2
Mrs. Sng Sow-Mei (alias Poon Sow Mei)	1/1	2/2
Mr. Wong Kwai Lam	1/1	2/2

The external auditor, legal counsel and independent financial advisor of Prosperity REIT had attended the AGM and/or the EGMs (as the case may be) to answer questions from unitholders.



## Corporate Governance

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

### Reporting and Transparency

Prosperity REIT prepares its accounts in accordance with the generally accepted accounting principles in Hong Kong with a financial year-end of 31 December and a financial half-year of 30 June. In accordance with the REIT Code, the annual report and interim report of Prosperity REIT are published and sent to unitholders within four months of the end of each financial year and within two months of the end of each financial half-year respectively.

As required by the REIT Code, the REIT Manager will ensure that public announcements of material information and developments with respect to Prosperity REIT will be made on a timely basis in order to keep unitholders apprised of the position of Prosperity REIT. Announcements are made by publishing them on the website of The Stock Exchange of Hong Kong Limited (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 2016. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the ability of Prosperity REIT to continue as a going concern.

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

### Issues of Further Units Post-Listing

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

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

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

Pursuant to the Units Dealing Code, Management Persons wishing to deal in any securities of Prosperity REIT must first have regard to the provisions of Parts XIII and XIV of the SFO with respect to market misconduct and insider dealing, as if the SFO applies to the securities of Prosperity REIT. In addition, Management Persons must not make any unauthorized disclosure of confidential information or make any use of such information for the advantage of himself, itself or others. Management Persons who are aware of or privy to any negotiations or agreements related to intended acquisitions or disposals which are notifiable transactions under Chapter 14 of the Listing Rules or connected party transactions under the REIT Code or any inside information (as defined in the SFO) must refrain from dealing in the securities of Prosperity REIT as soon as they become aware of them or privy to them until the information has been announced. Management Persons who are privy to relevant negotiations or agreements or any inside information should caution those Management Persons who are not so privy that there may be inside information and that they must not deal in the securities of Prosperity REIT for a similar period.

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

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

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

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

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

The Trust Deed contains provisions to deem the application of Part XV of the SFO. Accordingly, unitholders with a holding of 5% or more of the units in issue have a notifiable interest and will be required to notify the 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, which is available for inspection by the Trustee and any unitholder at any time during business hours upon reasonable notice to the REIT Manager.

# Corporate Governance

## 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 2016 Interim Report of Prosperity REIT, the REIT Manager received notifications regarding the following changes of Directors' information:

- (1) Dr. Chiu Kwok Hung, Justin ceased to be the Chairman (but remains as Non-executive Director) of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT which is dual-listed in Singapore and Hong Kong) with effect from 1 January 2017. He was appointed as an Honorary Associate Member of Business at Trent University, Canada with effect from 1 May 2016 and an Honorary Professor of School of Pharmaceutical Sciences, Sun Yat-Sen University in October 2016. He was also awarded the title of Senior Visiting Fellow of the Department of Land Economy at the University of Cambridge with effect from 1 October 2016.
- (2) Dr. Lan Hong Tsung, David and Mrs. Sng Sow-Mei (alias Poon Sow Mei) ceased to be Independent Non-executive Directors and Members of the Audit Committee of ARA Asset Management (Fortune) Limited (the manager of Fortune REIT which is dual-listed in Singapore and Hong Kong) with effect from 1 January 2017.
- (3) Mr. Ma Lai Chee, Gerald joined the Faculty Advisory Board of the University of British Columbia (UBC) Sauder School of Business of the UBC, which has integrated with the China Advisory Council.
- (4) Ms. Wong Lai Hung, Mavis was appointed as a director of Diamond Champ Enterprises Limited, a special purpose vehicle of Prosperity REIT, with effect from 26 August 2016.

## 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 2016.



# Connected Party Transactions

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

## Connected Party Transactions – Income

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

Name of Connected Person	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Rental and charge out collection (excluding rental deposit, if applicable) for the year ended 31 December 2016 HK\$	Rental deposit received as at 31 December 2016 HK\$
Goodwell Property Management Limited	Subsidiary of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>2</sup>	1,701,524	496,614
Hutchison Telephone Company Limited	Associated company of a significant holder <sup>1</sup>	Licence of property of Prosperity REIT <sup>3</sup>	96,800	24,487
Hutchison Hain Organic (Hong Kong) Limited	Associated company of a significant holder <sup>1</sup>	Tenancy of property of Prosperity REIT <sup>4</sup>	950,857	258,424
<b>Total</b>			<b>2,749,181</b>	<b>779,525</b>

Notes:

1. Significant holder being Cheung Kong Property Holdings Limited ("**CKPH**").
2. For 2/F, Units 302-3 and 306-7, New Treasure Centre.
3. For installation of micro-transmission station equipment at Prosperity Place and indoor antennae at Harbourfront Landmark.
4. For Units 1703A, 1703B and 1704, 9 Chong Yip Street.

## 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 persons for the properties of Prosperity REIT during the Reporting Year:

Name of Connected Person	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Payment received/ receivable for the year ended 31 December 2016 HK\$
Goodwell Property Management Limited <sup>1</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of DMC Manager	203,142
Goodwell Property Management Limited <sup>2</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of Carpark Manager	8,127
Citybase Property Management Limited <sup>1</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of DMC Manager	299,753
Citybase Property Management Limited <sup>2</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of Carpark Manager	72,670
Harbourfront Landmark Premium Services Limited <sup>1</sup>	Subsidiary of a significant holder <sup>3</sup>	Remuneration of DMC Manager	302,186
<b>Total</b>			<b>885,878</b>

Notes:

1. They are the managers appointed under the respective deeds of mutual covenant of the properties of Prosperity REIT (the "**DMC Manager**").
2. They are the carpark managers of certain properties of Prosperity REIT (the "**Carpark Manager**") as delegated by Goodwell-Prosperity Property Services Limited, the property manager of Prosperity REIT pursuant to a property management agreement dated 29 November 2005, as modified, amended and/or extended from time to time.
3. Significant holder being CKPH.

## Connected Party Transactions

### Connected Party Transactions – Expenses

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

Name of Connected Person	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Expenses for the year ended 31 December 2016 HK\$
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder <sup>2</sup>	Property management and lease management fee	10,857,879
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder <sup>2</sup>	Marketing service fee	10,323,208
E-Park Parking Management Limited	Subsidiary of a significant holder <sup>2</sup>	Carpark lease agency fee	2,940,447
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee fee	3,183,845
ARA Asset Management (Prosperity) Limited	REIT Manager	Base fee and variable fees	53,426,001
Cheung Kong Companies <sup>1</sup>	Subsidiaries of a significant holder <sup>2</sup>	Back-office support service fee	127,786
<b>Total</b>			<b>80,859,166</b>

Notes:

- Cheung Kong Companies include Harbour Plaza North Point Catering Limited, Harbour Plaza Metropolis Limited and Hutchison Hotel Hong Kong Limited.*
- Significant holder being CKPH.*

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

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

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



## Connected Party Transactions

### Other Connected Party Transactions

The following companies had provided carpark management services and property management services to Prosperity REIT during the Reporting Year and hence amounts due from Prosperity REIT as at 31 December 2016 were as follows:

Name of Connected Person	Amount payable HK\$
Goodwell-Prosperity Property Services Limited	3,771,589
Goodwell Property Management Limited	2,850,777
E-Park Parking Management Limited	253,980
Citybase Property Management Limited	553,014
Harbourfront Landmark Premium Services Limited	647,050
<b>Total</b>	<b>8,076,410</b>

### Confirmation by the INEDs

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

- in the ordinary and usual course of business of Prosperity REIT;
- 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
- in accordance with the relevant agreement governing them (if any) on terms that are fair and reasonable and in the interests of the unitholders of Prosperity REIT as a whole.

### Confirmation by the Auditor of Prosperity REIT

Messrs. Deloitte Touche Tohmatsu, auditor of Prosperity REIT, was engaged to report on Prosperity REIT and its subsidiaries' continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions on leasing/licensing transactions, property management arrangements, third party services and other operational transactions and transactions involving ordinary banking and financial services disclosed by Prosperity REIT and its subsidiaries from pages 73 to 76 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.

## Connected Party Transactions

### 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 20,995,000 units of Prosperity REIT by the REIT Manager which the REIT Manager had received as payment of its management fee, there was no repurchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or its subsidiaries.

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

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

Name	As at 31 December 2016		As at 31 December 2015
	Number of Units	Percentage of Unitholdings <sup>6</sup>	Number of Units
Total Win Group Limited <sup>1</sup>	176,328,129	12.13%	176,328,129
Wide Option Investments Limited <sup>1</sup>	98,883,559	6.80%	98,883,559
HKSCC Nominees Limited <sup>2</sup>	1,056,106,066	72.65%	1,075,527,162
HSBC <sup>3</sup>	27,757,250	1.91%	16,833,250
ARA Asset Management (Prosperity) Limited <sup>4</sup>	3,936,008	0.27%	8,115,693
Lan Hong Tsung, David <sup>5</sup>	350,000	0.02%	350,000

Notes:

1. 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 2016. Total Win was an indirect wholly-owned subsidiary of CKPH, which was therefore deemed to hold 176,328,129 units held by Total Win as at 31 December 2016.

Wide Option Investments Limited ("**Wide Option**") was a connected person of Prosperity REIT as it was an indirect wholly-owned subsidiary of CKPH, which was therefore deemed to hold 98,883,559 units held by Wide Option as at 31 December 2016.

Therefore, CKPH was deemed to hold 275,211,688 units as at 31 December 2016, of which 176,328,129 units were held by Total Win and 98,883,559 units were held by Wide Option.

## Connected Party Transactions

2. *HKSCC Nominees Limited was a connected person of Prosperity REIT as it was a significant holder (as defined under the REIT Code) of Prosperity REIT as at 31 December 2016. So far as the REIT Manager is aware of, HKSCC Nominees Limited held such units as a nominee.*
3. *HSBC Holdings plc. and other members of its group (“HSBC”) were connected persons of Prosperity REIT as HSBC Institutional Trust Services (Asia) Limited, the Trustee, was an indirect subsidiary of HSBC Holdings plc. So far as the REIT Manager is aware of, the Trustee had no beneficial interest in any units as at 31 December 2016 and 31 December 2015. The Trustee’s directors, senior executives, officers and their associates were beneficially interested in 100,000 units as at 31 December 2016 and 31 December 2015. The controlling entity, holding company, subsidiary or associated company of the Trustee were beneficially interested in 27,657,250 units and 16,733,250 units as at 31 December 2016 and 31 December 2015 respectively.*
4. *ARA Asset Management (Prosperity) Limited was a connected person of Prosperity REIT as it was the management company (as defined under the REIT Code) of Prosperity REIT as at 31 December 2016.*
5. *Dr. Lan Hong Tsung, David was a connected person of Prosperity REIT as he was a director of the management company (as defined under the REIT Code) of Prosperity REIT as at 31 December 2016.*
6. *The total number of issued units as at 31 December 2016 was 1,453,669,230.*

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 2016.

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

As at 31 December 2016, 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	3,936,008	–	0.27%
Lan Hong Tsung, David	350,000	–	0.02%

*Note:*

*The total number of issued units as at 31 December 2016 was 1,453,669,230.*

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 2016.



# Valuation Report

Our Ref.: 2/16/00244  
DC/ET/yf

20 February 2017

**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

Dear Sirs

## Re: Prosperity REIT – Year End Valuation as at 31 December 2016

### 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**”) for us to conduct property valuation (“**the Valuation**”) of the Prosperity REIT’s property portfolio (“**the Portfolio**”) for the Annual Report of Prosperity REIT for the financial period ending on 31 December 2016, 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 2016 (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

# Valuation Report

- 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 2014” 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.

# Valuation Report

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 2016 and 31 December 2016;
2. Copy of the Carpark income & expense of the Portfolio from January 2016 to December 2016;
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 *Measurements*

All measurements are carried out in accordance with the "Code of Measuring Practice" booklet published by the HKIS. To suit the local legislation and as agreed with the Manager, we declare our departure from the "RICS property measurement" published by RICS in May 2015. Unless otherwise stated, we do not physically measure the actual properties or verify the floor areas provided to us, unless we specifically agree in writing to do so, although we make reference to the Registered Floor Plans if available.

## 5.5 *Property Inspection*

We inspected the exterior, and where possible the interior of the Portfolio on 7 December 2016 and 8 December 2016.

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.



## 5.6 *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.

## 5.7 *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.

## 5.8 *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*

Decentralization continued due to limited availability and rising rentals in Central in the fourth quarter of 2016. With 95% of the buildings in Central having a vacancy rate of 5% or below, the rental level was inevitably pushed up. The rental gap between the core and non-core office areas was further widened by the relocation of two major consumer goods companies from Causeway Bay to Kowloon Bay and Quarry Bay respectively.

Leasing demand was relatively subdued in the fourth quarter of 2016, thus a net withdrawal of 177,900 sq. ft. was recorded in the overall market. A negative net take-up in Kowloon East was also recorded by December 2016, amounting to -5,400 sq ft.

### 6.2 *Office Supply*

The total new office supply in 2017 is expected to reach 2.6 million sq.ft. Supply from Kowloon in 2017 will dominate the scene with Kowloon Bay and Kwun Tong together providing 62% of the newly completed space. It is also anticipated that Grade A offices will account for over 90% of the forecast completions in 2017.

# Valuation Report

Wheelock Properties' office/retail development in Hung Hom, One HarbourGate and Billion Development's 3 Tai Yau Street in San Po Kong were issued with Occupation Permits in January 2016 and April 2016 respectively. The West Tower and East Tower together with their respective retail complex of One HarbourGate was sold to China Life Insurance and Cheung Kei Group in November 2015 and July 2016 respectively. The latest significant Grade A office transaction involved the new office development erected on New Kowloon Inland Lot No. 6312 at the junction of Wang Chiu Road and Lam Lee Street in Kowloon Bay. It was sold by Swire Properties to Lucky Melody Limited at a consideration of HK\$6,528 million, i.e. HK\$11,761 per sq.ft. over an approved gross floor area of about 555,035 sq.ft.

The government awarded a business site in Wong Chuk Hang (ALL 462) to a joint-venture between Sino Land and Empire Group for HK\$2,528 million in October 2016. The transacted accommodation value of HK\$8,872 per sq.ft. was about 11% higher than the then market expectations. Another commercial site – NKIL 6557 in the Kai Tak Development Area (KTDA) was tendered in November 2016. Located near the future Kai Tak MTR station along the Shatin to Central Link, NKIL 6557 has a maximum developable gross floor area of 1.1 million sq ft. The tender price is HK\$7,388 million, translating to an accommodation value of HK\$6,733 per sq.ft. The accommodation value met the market expectations while at the same time surpassing the amount paid by the joint-venture between Link REIT and Nan Fung for a commercial/office development site in Kowloon Bay in January 2015, and it has now become a record price for land price in Kowloon East.

## 6.3 Office Rental Performance

A tight vacancy environment continued to curb leasing activity in the fourth quarter of 2016. Against this backdrop, Central rents edged up 2.3% q-o-q in the fourth quarter of 2016. Meanwhile, rents in Kowloon East remained broadly stable as increasing supply side competition restricted the ability of landlords to push rents higher.

Office rents in the Kowloon East recorded a mild decrease of 0.2% in the fourth quarter of 2016, similar to the trend in the first half of the year. All other office submarkets except Tsimshatsui and Hong Kong East, recorded rental growths, contributing to overall rents increasing by 1.5% quarter-on-quarter.

## 6.4 Office Outlook

Rents in most of the office submarkets are on track to record growths in 2016 with the exception of Tsimshatsui and Kowloon East where supply side pressures remain high.

Positive investment appetite for office properties should remain in 2017 as rents steadily rise, supporting prices across most of the office submarkets. The recent stamp duty hike on residential transactions might have also diverted investors' interests to office properties.

## 7.0 INDUSTRIAL MARKET OVERVIEW

### 7.1 Industrial Demand

In spite of the weaknesses in the US and major EU trade markets, the value of exports and imports grew by 3.1% y-o-y and 4.1% y-o-y respectively, in the period of October-November 2016. Figures of airfreight cargo and container throughput also recorded growth, up 7.1% y-o-y and 11.2% y-o-y respectively over the same period.

Due to cost-saving relocation requirements as well as renewals amid the lagged effects of a recovering trading environment and modest economic growth, demand from Third-party Logistics (“3PLs”) was largely underpinned. One of the few notable transactions involving 3PLs with expansion requirements included Helu-Trans, a handler and storage provider of fine arts, who expanded into 48,000 sq. ft. at Mapletree Logistics Hub Tsing Yi. Another notable transaction was leased by Angliss HK, a food service company, who currently has warehousing facilities at 47-51 Kwai Fung Crescent in Kwai Fong, leased 147,000 sq.ft. at Mapletree Logistics Hub Tsing Yi to accommodate their expansion plans.

### 7.2 Industrial Supply

Encouraged by sizeable new lettings at Mapletree Logistics Hub Tsing Yi, the vacancy rate of ramp access warehouse dropped from 4.3% to 3.5% from the third quarter to the fourth quarter of 2016. The sustained demand for cargo lift access warehouses led to a drop in vacancy from 1.6% to 1.3%, which in turn tightened the overall vacancy rate to 2.3%.

No new supply was completed in the fourth quarter of 2016. The completion of China Merchants Logistics Centre has been postponed to second quarter of 2017. The development of Goodman Tsuen Wan West, formerly housing Central Textiles, is expected to be completed by the end of 2019. Comprising of two buildings, an estimated 980,000 sq ft and 320,000 sq ft will be reserved for workshop/logistics and data centre use, respectively.

### 7.3 Industrial Asset Performance

Capital values and rentals of private flatted factories have increased 0.9% and 0.8% respectively in the 5 months from June to November 2016. The investment market continued to receive interest from end-users and long-term investors, with the sale of three en-bloc buildings being transacted in September 2016.

A related transaction involving the purchase of whole of Crystal Industrial Building at No. 71 How Ming Street by Sinotex Corporation Limited. It was transacted at HK\$410 million (HK\$4,723 per sq.ft.). In Tsuen Wan, Mrs. Harold H.W. Lee bought the entire Hale Weal Industrial Building at Nos. 22-28 Tai Chung Road for HK\$450 million (HK\$3,222 per sq.ft.). The premise is currently leased to a single tenant. In the largest transaction, a local investor is rumored to have acquired the whole of Lucky Building at Nos. 3-5 San Ma Tau Street for HK\$700 million (HK\$3,227 per sq.ft.).

# Valuation Report

## 7.4 Industrial Outlook

With China Merchants Logistics Centre, a ramp access warehouse, delayed for completion in 2017, rents in the higher end of the market will probably face increased downward pressure in 2017. Possible rental growth will likely be observed in cargo lift access warehouses where rents are still trading at relative discount. Overall, rents are forecasted to decline in 2017.

The recent stamp duty hike on residential transactions might have diverted investors' interests to industrial properties. However, most investors are adopting a wait-and-see attitude in the short run, with uncertainties such as US Fed posing to lift interest rates at a faster pace, the new Trump administration, and the Chief Executive election to be held in early 2017. Against this backdrop, capital values are expected to grow in the range in 2017.

## 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 2016, are as follows:

No.	Property Name	Approximate Gross Area (sq.ft.)	No. of CPS (lots)	Market Value as at 31 December 2016 (HK\$)
1	The Metropolis Tower	271,418	98	3,168,000,000
2	Prosperity Millennia Plaza	217,955	43	2,043,000,000
3	9 Chong Yip Street	136,595	68	1,091,000,000
4	Harbourfront Landmark Property	77,021	0	594,000,000
5	Prosperity Place	240,000	83	1,699,000,000
6	Trendy Centre	173,764	79	1,011,000,000
7	Prosperity Center	149,253	105	854,000,000
8	New Treasure Centre	86,168	22	317,000,000
	<b>Total</b>	<b>1,352,174</b>	<b>498</b>	<b>10,777,000,000</b>



# Valuation Report

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 2016, was in the sum of **HK\$10,777,000,000 (HONG KONG DOLLARS TEN BILLION SEVEN HUNDRED AND SEVENTY SEVEN 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)*

*Regional Director*

Licence No.: E-182969

# Valuation Report

## SUMMARY VALUATION REPORT

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2016
1. The Metropolis Tower, 10 Metropolis Drive, Hung Hom, Kowloon  24,734/247,769th equal and undivided parts or shares of and in Kowloon Inland Lot No. 11077	<p>The Metropolis Tower is a 15-storey office building comprising 11th to 28th Floors (13th, 14th and 24th floor numbers are omitted) built over a multi-storey retail/carparking podium on a registered site area of approximately 50,058 sq m (538,824.3 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 September 2019, yielding a total monthly rental income of approximately HK\$9,052,540, 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 96.1%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$366,900 during the period from January 2016 to December 2016.</p>	<p>HK\$3,168,000,000</p> <p>(HONG KONG DOLLARS THREE BILLION ONE HUNDRED AND SIXTY EIGHT MILLION)</p> <p>Estimated net property yield was approximately 3.6%.</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 (Commercial Development and Freight Yard)" purposes under the draft Hung Hom Outline Zoning Plan No. S/K9/25 exhibited on 28 October 2016.

(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 2016 and average net monthly car parking income for the period of January 2016 to December 2016.

(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
2014 and before	15,957	6.1%	576,500	6.4%	9	10.0%
2015	126,686	48.6%	4,357,440	48.1%	40	44.4%
2016	118,242	45.3%	4,118,600	45.5%	41	45.6%
<b>TOTAL</b>	<b>260,885</b>	<b>100.0%</b>	<b>9,052,540</b>	<b>100.0%</b>	<b>90</b>	<b>100.0%</b>

# Valuation Report

## Tenancy Expiry Profile

<i>Year</i>	<i>Gross Area (sq ft)</i>	<i>% of Total</i>	<i>Monthly Rental (HK\$)</i>	<i>% of Total</i>	<i>No. of Tenancy</i>	<i>% of Total</i>
31 Dec 2016 & 2017	42,842	16.4%	1,545,400	17.1%	24	26.7%
2018	144,972	55.6%	4,947,140	54.6%	38	42.2%
2019 & beyond	73,071	28.0%	2,560,000	28.3%	28	31.1%
<b>TOTAL</b>	<b>260,885</b>	<b>100.0%</b>	<b>9,052,540</b>	<b>100.0%</b>	<b>90</b>	<b>100.0%</b>

## Tenancy Duration Profile

<i>Tenancy Duration</i>	<i>Gross Area (sq ft)</i>	<i>% of Total</i>	<i>Monthly Rental (HK\$)</i>	<i>% of Total</i>	<i>No. of Tenancy</i>	<i>% of Total</i>
2 years and below	48,864	18.7%	1,708,400	18.9%	17	18.9%
> 2 yrs up to 3 yrs	212,021	81.3%	7,344,140	81.1%	73	81.1%
more than 3 yrs	0	0.0%	0	0.0%	0	0.0%
<b>TOTAL</b>	<b>260,885</b>	<b>100.0%</b>	<b>9,052,540</b>	<b>100.0%</b>	<b>90</b>	<b>100.0%</b>



## Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2016
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 November 2019, yielding a total monthly rental income is approximately HK\$6,185,003 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\$286,100 during the period from January 2016 to December 2016.</p>	<p>HK\$2,043,000,000</p> <p>(HONG KONG DOLLARS TWO BILLION AND FORTY THREE MILLION)</p> <p>Estimated net property yield was approximately 3.8%.</p>

# Valuation Report

## Notes:

- (1) The registered owner of the property is Conestoga Limited.
- (2) The property is currently zoned for "Commercial" purposes under the draft North Point Outline Zoning Plan No. S/H8/25 exhibited on 5 August 2016.
- (3) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.
- (4) The estimated net property yield is based on the monthly net rental income for December 2016 and average net monthly car parking income for the period of January 2016 to December 2016.
- (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
2014 and before	80,061	38.0%	2,396,503	38.8%	29	36.8%
2015	75,801	36.0%	2,172,200	35.1%	25	31.6%
2016	54,779	26.0%	1,616,300	26.1%	25	31.6%
<b>TOTAL</b>	<b>210,641</b>	<b>100.0%</b>	<b>6,185,003</b>	<b>100.0%</b>	<b>79</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 2016 & 2017	87,895	41.7%	2,612,703	42.2%	42	53.2%
2018	100,215	47.6%	2,916,100	47.2%	27	34.2%
2019 & beyond	22,531	10.7%	656,200	10.6%	10	12.6%
<b>TOTAL</b>	<b>210,641</b>	<b>100.0%</b>	<b>6,185,003</b>	<b>100.0%</b>	<b>79</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	37,254	17.7%	1,111,900	18.0%	20	25.3%
> 2 yrs up to 3 yrs	133,816	63.5%	3,903,703	63.1%	53	67.1%
more than 3 yrs	39,571	18.8%	1,169,400	18.9%	6	7.6%
<b>TOTAL</b>	<b>210,641</b>	<b>100.0%</b>	<b>6,185,003</b>	<b>100.0%</b>	<b>79</b>	<b>100.0%</b>

## Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2016
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 December 2019, yielding a total monthly rental of approximately HK\$2,873,812 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 98.9%.</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average net monthly income of approximately HK\$149,800 during the period from January 2016 to December 2016.</p>	<p>HK\$1,091,000,000  (HONG KONG DOLLARS ONE BILLION AND NINETY ONE MILLION)</p> <p>Estimated net property yield was approximately 3.3%.</p>

# Valuation Report

## Notes:

- (1) The registered owner of the property is Clifton Properties Limited.
- (2) The property is currently zoned for "Other Specified Uses (Business)" purposes under the Kwun Tong South Outline Zoning Plan No. S/K14S/20 approved on 21 July 2015.
- (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 2016 and average net monthly car parking income for the period of January 2016 to December 2016.
- (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
2014 and before	39,071	28.9%	795,800	27.7%	14	31.8%
2015	56,494	41.8%	1,203,400	41.9%	18	40.9%
2016	39,584	29.3%	874,612	30.4%	12	27.3%
<b>TOTAL</b>	<b>135,149</b>	<b>100.0%</b>	<b>2,873,812</b>	<b>100.0%</b>	<b>44</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 2016 & 2017	65,328	48.3%	1,342,700	46.7%	21	47.7%
2018	35,616	26.4%	782,400	27.2%	15	34.1%
2019 & beyond	34,205	25.3%	748,712	26.1%	8	18.2%
<b>TOTAL</b>	<b>135,149</b>	<b>100.0%</b>	<b>2,873,812</b>	<b>100.0%</b>	<b>44</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	11,896	8.8%	248,100	8.6%	4	9.1%
> 2 yrs up to 3 yrs	116,673	86.3%	2,480,912	86.3%	39	88.6%
more than 3 yrs	6,580	4.9%	144,800	5.1%	1	2.3%
<b>TOTAL</b>	<b>135,149</b>	<b>100.0%</b>	<b>2,873,812</b>	<b>100.0%</b>	<b>44</b>	<b>100.0%</b>



## Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2016
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 commercial podium and 2 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 fully let under various tenancies for various terms with the latest one expiring in December 2017, yielding a total monthly rental income of approximately HK\$2,038,000, exclusive of Government rates and rent, management fees and utility charges.</p> <p>The Property was also subject to a licence yielding a total monthly licence fee of HK\$1,700.</p>	<p>HK\$594,000,000</p> <p>(HONG KONG DOLLARS FIVE HUNDRED AND NINETY FOUR MILLION)</p> <p>Estimated net property yield was approximately 4.1%.</p>

# Valuation Report

## 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 draft Hung Hom Outline Zoning Plan No. S/K9/25 exhibited on 28 October 2016.
- (3) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (4) 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
2014 and before	77,021	100.0%	2,038,000	99.9%	3	75.0%
2015	0	0.0%	1,700	0.1%	1	25.0%
2016	0	0.0%	0	0.0%	0	0.0%
<b>TOTAL</b>	<b>77,021</b>	<b>100.0%</b>	<b>2,039,700</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 2016 & 2017	77,021	100.0%	2,038,000	99.9%	3	75.0%
2018	0	0.0%	1,700	0.1%	1	25.0%
2019 & beyond	0	0.0%	0	0.0%	0	0.0%
<b>TOTAL</b>	<b>77,021</b>	<b>100.0%</b>	<b>2,039,700</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 yrs up to 3 yrs	77,021	100.0%	2,039,700	100.0%	4	100.0%
more than 3 yrs	0	0.0%	0	0.0%	0	0.0%
<b>TOTAL</b>	<b>77,021</b>	<b>100.0%</b>	<b>2,039,700</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 2016
5. Prosperity Place, 6 Shing Yip Street, Kwun Tong, Kowloon	<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 November 2019, yielding a total monthly rental income of approximately HK\$4,613,579, 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\$113,500.</p> <p>The occupancy rate of the property as at the date of valuation (excluding carparking spaces) was approximately 94.2%.</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average net monthly income of approximately HK\$392,100 during the period from January 2016 to December 2016.</p>	<p>HK\$1,699,000,000</p> <p>(HONG KONG DOLLARS ONE BILLION SIX HUNDRED AND NINETY NINE MILLION)</p> <p>Estimated net property yield was approximately 3.6%.</p>

# Valuation Report

## Notes:

- (1) The registered owner of the property is Bandick Limited.
- (2) The property is currently zoned for "Other Specified Uses (Business)" purposes under the Kwun Tong (South) Outline Zoning Plan No.S/K14S/20 approved on 21 July 2015.
- (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.
  - Relaxation Letter from District Lands Officer/Kowloon East vide Memorial No. 16082300790081 dated 8 August 2016.
- (4) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the Property.
- (5) The estimated net property yield is based on the monthly net rental income for December 2016 and average net monthly car parking income for the period of January 2016 to December 2016.
- (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
2014 and before	57,456	25.4%	1,150,896	24.9%	24	20.0%
2015	105,118	46.5%	2,052,725	44.5%	54	45.0%
2016	63,510	28.1%	1,409,958	30.6%	42	35.0%
<b>TOTAL</b>	<b>226,084</b>	<b>100.0%</b>	<b>4,613,579</b>	<b>100.0%</b>	<b>120</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 2016 & 2017	115,208	51.0%	2,355,178	51.0%	61	50.8%
2018	76,188	33.7%	1,538,693	33.4%	44	36.7%
2019 & beyond	34,688	15.3%	719,708	15.6%	15	12.5%
<b>TOTAL</b>	<b>226,084</b>	<b>100.0%</b>	<b>4,613,579</b>	<b>100.0%</b>	<b>120</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	60,683	26.8%	1,307,632	28.3%	36	30.0%
> 2 yrs up to 3 yrs	135,401	59.9%	2,716,947	58.9%	80	66.7%
more than 3 yrs	30,000	13.3%	589,000	12.8%	4	3.3%
<b>TOTAL</b>	<b>226,084</b>	<b>100.0%</b>	<b>4,613,579</b>	<b>100.0%</b>	<b>120</b>	<b>100.0%</b>



## Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2016
<p>6. Trendy Centre, 682 Castle Peak Road, Lai Chi Kok, Kowloon</p> <p>New Kowloon Inland Lot No. 6224</p>	<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 October 2019, yielding a total monthly rental income of approximately HK\$3,191,200, 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 95.6%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$365,500 from January 2016 to December 2016.</p>	<p>HK\$1,011,000,000</p> <p>(HONG KONG DOLLARS ONE BILLION AND ELEVEN MILLION)</p> <p>Estimated net property yield was approximately 4.2%.</p>

# Valuation Report

## 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/K5/37 approved on 6 December 2016.
- (3) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (4) The estimated net property yield is based on the monthly net rental income for December 2016 and average net monthly car parking income for the period of January 2016 to December 2016.
- (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
2014 and before	35,213	21.2%	666,700	20.9%	29	19.6%
2015	52,254	31.5%	1,081,800	33.9%	46	31.1%
2016	78,656	47.3%	1,442,700	45.2%	73	49.3%
<b>TOTAL</b>	<b>166,123</b>	<b>100.0%</b>	<b>3,191,200</b>	<b>100.0%</b>	<b>148</b>	<b>100.0%</b>

### Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2016 & 2017	82,907	49.9%	1,656,050	51.9%	71	48.0%
2018	47,520	28.6%	855,750	26.8%	49	33.1%
2019 & beyond	35,696	21.5%	679,400	21.3%	28	18.9%
<b>TOTAL</b>	<b>166,123</b>	<b>100.0%</b>	<b>3,191,200</b>	<b>100.0%</b>	<b>148</b>	<b>100.0%</b>

### Tenancy Duration Profile

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2 years and below	45,437	27.4%	920,200	28.8%	41	27.7%
> 2 yrs up to 3 yrs	120,686	72.6%	2,271,000	71.2%	107	72.3%
more than 3 yrs	0	0.0%	0	0.0%	0	0.0%
<b>TOTAL</b>	<b>166,123</b>	<b>100.0%</b>	<b>3,191,200</b>	<b>100.0%</b>	<b>148</b>	<b>100.0%</b>

## Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2016
<p>7. Portion of Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon (see note (1))</p> <p>12,014/22,510th equal and undivided parts or shares of and in Kwun Tong Inland Lot No. 729</p>	<p>The property comprises various office/workshop units and retained areas within Prosperity Center, which is a 26-storey industrial/office building with ancillary parking and loading/unloading facilities. It is erected on a registered site area of approximately 1,889 sq m (20,333.2 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 September 2019, yielding a total monthly rental income of approximately HK\$2,536,400 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 93.1%.</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average net monthly income of approximately HK\$350,100 during the period from January 2016 to December 2016.</p>	<p>HK\$854,000,000</p> <p>(HONG KONG DOLLARS EIGHT HUNDRED AND FIFTY FOUR MILLION)</p> <p>Estimated net property yield was approximately 4.1%.</p>

# Valuation Report

## 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 (Business)" purposes under the Kwun Tong (South) Outline Zoning Plan No. S/K14S/20 approved on 21 July 2015.

(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 (Re: the remainder of the property owned by Prodes Company Limited).

(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 2016 and average net monthly car parking income for the period of January 2016 to December 2016.

(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
2014 and before	38,790	27.9%	691,600	27.3%	13	19.7%
2015	48,641	35.0%	906,600	35.7%	28	42.4%
2016	51,541	37.1%	938,200	37.0%	25	37.9%
<b>TOTAL</b>	<b>138,972</b>	<b>100.0%</b>	<b>2,536,400</b>	<b>100.0%</b>	<b>66</b>	<b>100.0%</b>



## Valuation Report

### Tenancy Expiry Profile

<i>Year</i>	<i>Gross Area (sq ft)</i>	<i>% of Total</i>	<i>Monthly Rental (HK\$)</i>	<i>% of Total</i>	<i>No. of Tenancy</i>	<i>% of Total</i>
31 Dec 2016 & 2017	72,026	51.8%	1,312,300	51.7%	35	53.0%
2018	50,875	36.6%	938,800	37.0%	25	37.9%
2019 & beyond	16,071	11.6%	285,300	11.3%	6	9.1%
<b>TOTAL</b>	<b>138,972</b>	<b>100.0%</b>	<b>2,536,400</b>	<b>100.0%</b>	<b>66</b>	<b>100.0%</b>

### Tenancy Duration Profile

<i>Tenancy Duration</i>	<i>Gross Area (sq ft)</i>	<i>% of Total</i>	<i>Monthly Rental (HK\$)</i>	<i>% of Total</i>	<i>No. of Tenancy</i>	<i>% of Total</i>
2 years and below	46,139	33.2%	857,700	33.8%	22	33.3%
> 2 yrs up to 3 yrs	82,305	59.2%	1,483,700	58.5%	43	65.2%
more than 3 yrs	10,528	7.6%	195,000	7.7%	1	1.5%
<b>TOTAL</b>	<b>138,972</b>	<b>100.0%</b>	<b>2,536,400</b>	<b>100.0%</b>	<b>66</b>	<b>100.0%</b>

# Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2016
<p>8. Portion of New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon (see note (1))</p> <p>11,163/26,198th equal and undivided parts or shares of and in New Kowloon Inland Lot No. 4864</p>	<p>The property comprises various factory units within New Treasure Centre, which is a 30-storey industrial building (including a Mezzanine Floor) with ancillary parking and loading/unloading facilities. It is erected on a registered site area of approximately 1,304.3 sq m (14,040 sq ft), and was built in 1995.</p> <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 factory portion of the property is let under various tenancies for various terms with the latest expiry in October 2019, yielding a total monthly rental income of approximately HK\$969,200, 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 98.2%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$164,300 from January 2016 to December 2016.</p>	<p>HK\$317,000,000</p> <p>(HONG KONG DOLLARS THREE HUNDRED AND SEVENTEEN MILLION)</p> <p>Estimated net property yield was approximately 4.3%.</p>

# Valuation Report

## 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/K11/29 approved on 6 December 2016.
- (4) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (5) The estimated net property yield is based on the monthly net rental income for December 2016 and average net monthly car parking income for the period of January 2016 to December 2016.
- (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
2014 and before	12,281	14.5%	139,300	14.4%	7	13.7%
2015	38,061	45.0%	429,400	44.3%	18	35.3%
2016	34,296	40.5%	400,500	41.3%	26	51.0%
<b>TOTAL</b>	<b>84,638</b>	<b>100.0%</b>	<b>969,200</b>	<b>100.0%</b>	<b>51</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 2016 & 2017	38,358	45.3%	453,500	46.8%	24	47.1%
2018	38,947	46.0%	432,600	44.6%	22	43.1%
2019 & beyond	7,333	8.7%	83,100	8.6%	5	9.8%
<b>TOTAL</b>	<b>84,638</b>	<b>100.0%</b>	<b>969,200</b>	<b>100.0%</b>	<b>51</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	35,332	41.7%	415,100	42.8%	25	49.0%
> 2 yrs up to 3 yrs	49,306	58.3%	554,100	57.2%	26	51.0%
more than 3 yrs	0	0.0%	0	0.0%	0	0.0%
<b>TOTAL</b>	<b>84,638</b>	<b>100.0%</b>	<b>969,200</b>	<b>100.0%</b>	<b>51</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 2016.

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

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

10 March 2017



# Independent Auditor's Report

**Deloitte.**

德勤

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

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

**Report on the Audit of the Financial Statements**

**Opinion**

We have audited the consolidated financial statements of Prosperity Real Estate Investment Trust ("**Prosperity REIT**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 113 to 157, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, distribution statement, consolidated statement of changes in net assets attributable to unitholders and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial disposition of the Group as at 31 December 2016, and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

**Basis for Opinion**

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

**Key Audit Matters**

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

# Independent Auditor's Report

## Key audit matter

### Valuation of investment properties

We identified the valuation of investment properties (including investment properties of a disposal group classified as held for sale) as a key audit matter as they represented 99% of total assets of the Group as at 31 December 2016 and significant judgement is required in determining their fair value.

As disclosed in note 11 to the consolidated financial statements, investment properties of the Group are office buildings, commercial buildings, industrial/office buildings and industrial building located in Hong Kong. The carrying amounts of investment properties amounted to HK\$10,777.0 million (of which HK\$594.0 million are included in assets of a disposal group classified as held for sale as disclosed in note 15 to the consolidated financial statements) as at 31 December 2016 and their change in fair value included in the profit for the year was HK\$345.3 million. In estimating the fair value of investment properties, ARA Asset Management (Prosperity) Limited (the "REIT Manager" of Prosperity REIT) engaged an independent qualified external valuer (the "Valuer") to perform the valuation and worked with the Valuer to establish inputs to the valuation.

As further disclosed in note 11 to the consolidated financial statements, the fair value was arrived at using income capitalisation method cross-referenced with the direct comparison method. The valuation involves the making of certain assumptions and the use of estimates in respect of the capitalisation rates. An increase in the capitalisation rates used would result in a decrease in fair value, and vice versa.

## How our audit addressed the key audit matter

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

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

# Independent Auditor's Report

## Classification of the assets of the disposal group held for sales and related liabilities

We identified the classification of assets of a disposal group classified as held for sale and related liabilities as a key audit matter due to the judgement exercised by the REIT Manager in the assessment of whether the disposal is highly probable.

As described in note 15 to the consolidated financial statements, on 8 December 2016, a letter of intent was signed by the REIT Manager and an independent third party (the "**Purchaser**") for the proposed disposal of Harbour Champ Limited. The REIT Manager considered that the assets of approximately HK\$595.6 million, including Harbourfront Landmark Property of approximately HK\$594.0 million, and liabilities of approximately HK\$22.0 million should be classified as held-for-sale as at 31 December 2016 in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* on the basis that the disposal is highly probable and expected to be completed in 2017. A share purchase agreement has been entered into on 20 January 2017.

Our procedures in relation to the classification of the assets of the disposal group held for sales and related liabilities included:

- Obtaining an understanding from the management in respect of the status of the disposal as at the end of the reporting period; and
- Obtaining the letter of intent, the signed share purchase agreement and the relevant correspondences to assess the status of the disposal and the judgement exercised by the REIT Manager as to whether the disposal is highly probable.

## Other Information

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

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

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

# Independent Auditor's Report

## Responsibilities of REIT Manager and Those Charged with Governance for the Consolidated Financial Statements

The REIT Manager is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA, and for such internal control as the REIT Manager determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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



## Independent Auditor's Report

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

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

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

## Independent Auditor's Report

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

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

### **Report on matters under the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix C of the REIT Code**

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

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

#### **Deloitte Touche Tohmatsu**

*Certified Public Accountants*

Hong Kong

10 March 2017

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2016

	<i>Note</i>	2016 HK\$'000	2015 HK\$'000
Revenue	5	452,926	438,723
Property management fees		(10,858)	(10,447)
Property operating expenses	6	(84,221)	(82,797)
Total property operating expenses		(95,079)	(93,244)
<b>Net property income</b>		<b>357,847</b>	345,479
Interest income		24	68
Manager's fee		(53,426)	(51,196)
Trust and other expenses	7	(15,805)	(8,577)
Change in fair value of investment properties		345,334	515,702
Change in fair value of derivative financial instruments		45,242	(295)
Finance costs	8	(76,115)	(72,415)
<b>Profit before taxation and transactions with unitholders</b>		<b>603,101</b>	728,766
Taxation	9	(37,857)	(36,175)
<b>Profit for the year, before transactions with unitholders</b>		<b>565,244</b>	692,591
Distribution to unitholders		(258,362)	(254,083)
<b>Profit for the year, after transactions with unitholders</b>		<b>306,882</b>	438,508
<b>Other comprehensive income (expense) – Item that may be reclassified subsequently to profit or loss:</b>			
Change in fair value of cashflow hedge		–	(701)
Reclassification of hedging reserve to profit or loss		1,261	–
<b>Other comprehensive income (expense) for the year</b>		<b>1,261</b>	(701)
<b>Total comprehensive income for the year, after transactions with unitholders</b>		<b>308,143</b>	437,807
<b>Income available for distribution to unitholders</b>		<b>258,362</b>	254,083
<b>Basic earnings per unit (HK\$)</b>	10	<b>0.39</b>	0.48

# Distribution Statement

For the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
<b>Profit for the year, before transactions with unitholders</b>	<b>565,244</b>	692,591
<b>Adjustments:</b>		
Manager's fee	<b>52,280</b>	50,070
Change in fair value of investment properties	<b>(345,334)</b>	(515,702)
Change in fair value of derivative financial instruments	<b>(45,242)</b>	295
Finance costs	<b>16,997</b>	12,700
Deferred tax	<b>14,417</b>	14,129
<b>Income available for distribution (note (i))</b>	<b>258,362</b>	254,083
<b>Distributions to unitholders:</b>		
HK\$0.0906 (2015: HK\$0.0871) per unit for the six months ended 30 June (note (ii))	<b>131,372</b>	124,771
HK\$0.0871 (2015: HK\$0.0897) per unit for the six months ended 31 December (note (iii))	<b>126,990</b>	129,312
	<b>258,362</b>	254,083
<b>Total distribution per unit (HK\$)</b>	<b>0.1777</b>	0.1768

Notes:

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

These adjustments for the current year comprise:

- (a) manager's fees paid/payable in units of HK\$52,280,000 (2015: HK\$50,070,000) out of the total manager's fee of HK\$53,426,000 (2015: HK\$51,196,000) (the differences of HK\$1,146,000 (2015: HK\$1,126,000) are paid in cash);
- (b) change in fair value of investment properties of HK\$345,334,000 (2015: HK\$515,702,000), and change in fair value of derivative financial instruments of HK\$45,242,000 (2015: HK\$295,000);
- (c) adjustment in respect of the difference between the accounting finance cost of HK\$76,115,000 (2015: HK\$72,415,000) less cash finance cost of HK\$59,118,000 (2015: HK\$59,715,000); and
- (d) deferred tax provision of HK\$14,417,000 (2015: HK\$14,129,000).

(ii) The distribution per unit of HK\$0.0906 for the six months ended 30 June 2016 (six months ended 30 June 2015: HK\$0.0871) is calculated based on Prosperity REIT's income available for distribution of HK\$131,372,000 (six months ended 30 June 2015: HK\$124,771,000) over 1,449,733,936 units (30 June 2015: 1,432,382,505 units), representing units in issue as at 30 June 2016 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 2016. The distribution was paid to unitholders on 12 September 2016.

(iii) The distribution per unit of HK\$0.0871 for the six months ended 31 December 2016 (six months ended 31 December 2015: HK\$0.0897) is calculated based on Prosperity REIT's income available for distribution of HK\$126,990,000 (six months ended 31 December 2015: HK\$129,312,000) over 1,457,894,330 units (31 December 2015: 1,441,694,696 units), representing units in issue as at 31 December 2016 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 2016

	<i>Note</i>	<b>2016 HK\$'000</b>	2015 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	11	<b>10,183,000</b>	10,419,000
Derivative financial instruments	12	<b>38,436</b>	–
		<b>10,221,436</b>	10,419,000
<b>Current assets</b>			
Trade and other receivables	13	<b>39,332</b>	8,803
Bank balances and cash	14	<b>72,444</b>	64,911
		<b>111,776</b>	73,714
Assets of a disposal group classified as held for sale	15	<b>595,560</b>	–
<b>Total current assets</b>		<b>707,336</b>	73,714
<b>Total assets</b>		<b>10,928,772</b>	10,492,714
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Derivative financial instruments	12	<b>56</b>	8,123
Term loans	16	<b>2,833,308</b>	2,813,311
Deferred tax liabilities	17	<b>175,489</b>	171,471
<b>Total non-current liabilities, excluding net assets attributable to unitholders</b>		<b>3,008,853</b>	2,992,905
<b>Current liabilities</b>			
Trade and other payables	18	<b>212,564</b>	188,531
Amount due to related companies	19	<b>7,252</b>	10,821
Secured revolving loan	16	<b>20,000</b>	–
Provision for taxation		<b>1,861</b>	2,293
Manager's fee payable		<b>13,562</b>	13,117
Distribution payable		<b>126,990</b>	129,312
		<b>382,229</b>	344,074
Liabilities directly associated with assets of a disposal group classified as held for sale	15	<b>21,969</b>	–
<b>Total current liabilities</b>		<b>404,198</b>	344,074
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>3,413,051</b>	3,336,979
<b>Net assets attributable to unitholders</b>		<b>7,515,721</b>	7,155,735
<b>Units in issue ('000)</b>	20	<b>1,453,669</b>	1,436,854
<b>Net asset value per unit (HK\$) attributable to unitholders</b>	21	<b>5.17</b>	4.98

The consolidated financial statements on pages 113 to 157 were approved and authorised for issue by ARA Asset Management (Prosperity) Limited on 10 March 2017 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 2016

	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 2016	3,039,570	(91,278)	(1,261)	4,208,704	7,155,735
<b>OPERATIONS</b>					
Profit for the year, before transactions with unitholders	–	–	–	565,244	565,244
Distribution paid and payable	–	–	–	(258,362)	(258,362)
	–	–	–	306,882	306,882
Other comprehensive income for the year	–	–	1,261	–	1,261
Total comprehensive income for the year	–	–	1,261	306,882	308,143
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>					
Units issued to REIT Manager (note 20)	51,843	–	–	–	51,843
Net assets attributable to unitholders as at 31 December 2016	3,091,413	(91,278)	–	4,515,586	7,515,721

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

For the year ended 31 December 2015

	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 2015	2,990,328	(91,278)	(560)	3,770,196	6,668,686
<b>OPERATIONS</b>					
Profit for the year, before transactions with unitholders	–	–	–	692,591	692,591
Distribution paid and payable	–	–	–	(254,083)	(254,083)
Other comprehensive expense for the year	–	–	(701)	438,508	438,508
Total comprehensive (expense) income for the year	–	–	(701)	438,508	437,807
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>					
Units issued to REIT Manager (note 20)	49,242	–	–	–	49,242
Net assets attributable to unitholders as at 31 December 2015	3,039,570	(91,278)	(1,261)	4,208,704	7,155,735

# Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	2016 HK\$'000	2015 HK\$'000
<b>Operating activities</b>		
Profit before taxation and transactions with unitholders	<b>603,101</b>	728,766
Adjustments for:		
Reversal of allowance for doubtful debts	<b>(34)</b>	(26)
Manager's fees paid/payable in units	<b>52,280</b>	50,070
Change in fair value of investment properties	<b>(345,334)</b>	(515,702)
Change in fair value of derivative financial instruments	<b>(45,242)</b>	295
Interest income	<b>(24)</b>	(68)
Finance costs	<b>76,115</b>	72,415
Operating cashflow before working capital changes	<b>340,862</b>	335,750
Decrease in amount due to related companies	<b>(2,744)</b>	(1,432)
(Increase) decrease in trade and other receivables	<b>(609)</b>	1,239
Increase in trade and other payables	<b>4,778</b>	611
Increase in Manager's fee payable	<b>8</b>	-
Cash generated from operations	<b>342,295</b>	336,168
Income tax paid	<b>(23,872)</b>	(22,663)
Net cash from operating activities	<b>318,423</b>	313,505
<b>Investing activities</b>		
Interest received	<b>24</b>	68
Additional expenditure to investment properties	<b>(12,666)</b>	(13,298)
Net cash used in investing activities	<b>(12,642)</b>	(13,230)
<b>Financing activities</b>		
Drawdown of term loan	<b>3,900</b>	-
Drawdown of secured revolving loan	<b>179,000</b>	95,000
Repayment of secured revolving loan	<b>(159,000)</b>	(95,000)
Bank facility origination fees	<b>(900)</b>	-
Interest payment of term loans and revolving loan	<b>(59,118)</b>	(59,715)
Distribution to unitholders	<b>(260,684)</b>	(240,833)
Net cash used in financing activities	<b>(296,802)</b>	(300,548)
Net increase (decrease) in cash and cash equivalents	<b>8,979</b>	(273)
Cash and cash equivalents at beginning of the year	<b>64,911</b>	65,184
<b>Cash and cash equivalents at end of year</b>	<b>73,890</b>	64,911
Represented by:		
Bank balances and cash	<b>72,444</b>	64,911
Bank balances and cash included in assets classified as held for sale (note 15)	<b>1,446</b>	-
	<b>73,890</b>	64,911



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 1 GENERAL

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

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

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

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

### (a) *Property management fees*

Under the Property Management Agreement, 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 Consolidated Financial Statements

For the year ended 31 December 2016

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 2 APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

Amendments to HKFRSs	Annual improvements to HKFRSs 2012-2014 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements

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

### *New and amendments to HKFRSs issued but not effective*

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

HKFRS 9	Financial Instruments <sup>1</sup>
HKFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>1</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>3</sup>
Amendments to HKAS 7	Disclosure Initiative <sup>4</sup>
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>4</sup>

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

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>3</sup> Effective for annual periods beginning on or after a date to be determined

<sup>4</sup> Effective for annual periods beginning on or after 1 January 2017

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

### *HKFRS 9 Financial Instruments*

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 are described as follow:

HKFRS 9 requires all recognised financial assets that are within the scope of HKFRS 9 are required 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 that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. 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.

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 REIT Manager anticipates that the application of other new and amendments to HKFRSs, including HKFRS 9, 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 REIT Code.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

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

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.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *(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.

### *(c) Investment properties*

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

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

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *(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.

An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio and observable changes in economic conditions that correlate with default on receivables.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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, term loans, manager's fee payable and distribution payable. They are subsequently measured at amortised cost, using the effective interest method.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

#### **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 recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

### *(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.

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *(g) Revenue recognition (continued)*

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 is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

### *(h) Non-current assets held for sale*

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain non-controlling interest in its former subsidiary after the sales.

Non-current assets classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal, except for investment properties which are measured at fair value.

### *(i) 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *(j) Taxation*

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

The tax currently payable is based on taxable profit for the period. Taxable profit differs from “profit before taxation and transactions with unitholders” as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax 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 is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. 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).

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### *(j) Taxation (continued)*

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 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 qualified external valuer. In determining the fair value, the valuer has based on a method of valuation which involves certain estimates. In relying on the valuation report, the REIT Manager has exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions.

As described in note 12, the fair value of derivative financial instruments that are not quoted in active markets are determined by using certain valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel. All models are calibrated to ensure that outputs reflect actual data and comparative market prices.

## 5 REVENUE

	2016 HK\$'000	2015 HK\$'000
Gross rental from investment properties		
Rental income	<b>369,921</b>	357,181
Car park income	<b>26,547</b>	25,510
	<b>396,468</b>	382,691
Rental related income	<b>56,458</b>	56,032
	<b>452,926</b>	438,723

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 6 PROPERTY OPERATING EXPENSES

	2016 HK\$'000	2015 HK\$'000
Audit fee	1,323	1,328
Building management fees	39,223	38,152
Car park operating expenses	7,226	6,496
Government rent and rates	1,269	833
Lease commission	6,282	4,775
Legal cost and stamp duty	1,244	1,523
Marketing service fee	10,323	11,022
Others	1,225	1,326
Repairs and maintenance	8,168	8,476
Secretarial fee	645	731
Tax fees	206	266
Utilities	6,892	7,674
Valuation fees (paid to principal valuer)	195	195
	<b>84,221</b>	82,797

## 7 TRUST AND OTHER EXPENSES

	2016 HK\$'000	2015 HK\$'000
Acquisition expenses	6,895	–
Audit fee	204	208
Back-office support service fee	128	45
Bank charges	1,789	1,811
Legal and professional fees	579	511
Public relations-related expenses	303	412
Registrar fee	600	600
Trust administrative expenses	2,123	1,947
Trustee's fee	3,184	3,043
	<b>15,805</b>	8,577

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 8 FINANCE COSTS

	2016 HK\$'000	2015 HK\$'000
Interest expense on:		
Secured term loans	51,982	49,756
Unsecured term loan	11,686	9,118
Equalisation of interest expense through interest rate swaps	11,810	13,322
	75,478	72,196
Secured revolving loan	637	219
	76,115	72,415

## 9 TAXATION

	2016 HK\$'000	2015 HK\$'000
Current tax	23,871	22,214
Over-provision in prior years	(431)	(168)
Deferred tax (note 17)	14,417	14,129
	37,857	36,175

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 9 TAXATION (continued)

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:

	2016 HK\$'000	2015 HK\$'000
Income tax expense at statutory rate of 16.5%	<b>99,512</b>	120,246
Over-provision in prior year	<b>(431)</b>	(168)
Tax effect of non-taxable income	<b>(64,451)</b>	(85,091)
Tax effect of non-deductible expenses	<b>5,620</b>	2,457
Tax effect of utilisation of tax losses previously not recognised	<b>(29)</b>	(277)
Tax effect of tax loss not recognised	–	1,515
Tax effect of deductible temporary differences not recognised	<b>(2,341)</b>	(2,324)
Others	<b>(23)</b>	(183)
Taxation for the year	<b>37,857</b>	36,175

## 10 EARNINGS PER UNIT

The basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$565,244,000 (2015: HK\$692,591,000) by the weighted average of 1,449,792,732 (2015: 1,432,538,133) 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 11 INVESTMENT PROPERTIES

	2016 HK\$'000	2015 HK\$'000
FAIR VALUE		
At beginning of the year	<b>10,419,000</b>	9,890,000
Additional expenditure	<b>12,666</b>	13,298
Change in fair value of investment properties	<b>345,334</b>	515,702
Transfer to assets of a disposal group classified as held for sale	<b>(594,000)</b>	–
At end of the year	<b>10,183,000</b>	10,419,000

All of the Group's property interests in properties are located in Hong Kong to earn rentals or for capital appreciation purposes. They are measured using the fair value model and are classified and accounted for as investment properties.

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

On 31 December 2016, an independent valuation on the investment properties was undertaken by Jones Lang LaSalle Limited (2015: Jones Lang LaSalle Limited). The firm is an independent qualified external 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, falls under level 3 of the fair value hierarchy, was arrived at using the income capitalisation method cross-referenced with the direct comparison method. Income capitalisation method is based on the capitalisation of the current passing rental income and potential reversionary income over the remaining tenure of the investment properties from the date of valuation at appropriate investment yields to arrive at the capital value and with appropriate adjustments. The estimated net property yield is based on the monthly net rental income for December 2016 and average net monthly car parking income for the period of January 2016 to December 2016. The direct comparison method is based on comparing the properties to be valued directly with other comparable properties which recently changed hands or leased and generally located in the surrounding areas or in another market which is comparable to the properties and with appropriate adjustments.

The adopted capitalisation rates in the valuation range from 3.7% to 4.2% (2015: 3.7% to 4.2%) for capitalisation of the current passing rental income over the existing lease term and 3.7% to 4.2% (2015: 3.7% to 4.2%) for potential future reversionary rental income. The capitalisation rates 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 qualified external valuer.

Certain of the Group's investment properties as at 31 December 2016, with aggregate carrying value of HK\$5,639,900,000 (2015: HK\$6,526,900,000), have been pledged to secure banking facilities granted to the Group.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 12 DERIVATIVE FINANCIAL INSTRUMENTS

	2016 HK\$'000	2015 HK\$'000
Derivative financial instruments are analysed as:		
Derivatives under hedge accounting:		
Cash flow hedges – interest rate swaps	–	(1,261)
Derivatives not under hedge accounting:		
Interest rate swaps	<b>38,380</b>	(6,862)
	<b>38,380</b>	(8,123)
Reflected on consolidated statement of financial position based on remaining contractual maturity as:		
Non-current liabilities	<b>(56)</b>	(8,123)
Non-current assets	<b>38,436</b>	–
	<b>38,380</b>	(8,123)

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

Derivatives:

Contracts with notional amount of HK\$150,000,000 (31 December 2015: HK\$150,000,000) entered in December 2014 will mature in December 2018 (31 December 2015: December 2018). These contracts have fixed interest payments at 1.483% (31 December 2015: 1.483%) per annum and have floating interest receipts at three months HIBOR for periods until maturity date. During the year ended 31 December 2016, these contracts are no longer qualified for hedge accounting. Accordingly, the cumulative loss in the hedging reserve amounting to HK\$1,261,000 is recognised in the profit or loss.

During the year ended 31 December 2015, the Group has entered into three interest rate swap contracts. Two of which carrying fixed interest payments at 1.299% and 1.475% per annum, and have floating interest receipts at three months HIBOR with total notional amount of HK\$796,000,000 will mature in December 2018. The remaining one with notional amount of HK\$620,000,000 will mature in June 2019. It has fixed interest payment at 0.455% per annum, and floating interest receipts at three months HIBOR minus 1.5% if HIBOR is within a pre-determined range (if applicable) with HIBOR being repriced every three months.

During the year ended 31 December 2016, the Group has entered into an interest rate swap contract, which carrying fixed interest payments at 1.254% per annum, and has floating interest receipts at three months HIBOR with total notional amount of HK\$550,000,000 will mature in September 2022.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 12 DERIVATIVE FINANCIAL INSTRUMENTS *(continued)*

Derivatives: *(continued)*

The total change in fair value of the derivative financial instruments not under hedge accounting amounting to a gain of HK\$45,242,000, is recognised to profit or loss during the year ended 31 December 2016 (2015: a loss of HK\$295,000).

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

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

## 13 TRADE AND OTHER RECEIVABLES

	2016 HK\$'000	2015 HK\$'000
Trade receivables	1,061	348
Less: allowance for doubtful debts	(3)	(37)
	1,058	311
Deposit receivable for assets classified as held for sale	30,000	–
Deposit and prepayments	8,274	8,492
	39,332	8,803

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

	2016 HK\$'000	2015 HK\$'000
Current – 1 month	129	62
2 – 3 months	929	249
	1,058	311

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 13 TRADE AND OTHER RECEIVABLES (continued)

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:

	2016 HK\$'000	2015 HK\$'000
Balance at beginning of the year	37	63
Reversal of impairment losses recognised on receivables	(34)	(26)
Balance at the end of the year	3	37

## 14 BANK BALANCES AND CASH

	2016 HK\$'000	2015 HK\$'000
Cash at bank	72,444	64,911

Cash at bank, with aggregate value of HK\$72,444,000 (2015: HK\$64,911,000) are placed with The Hongkong and Shanghai Banking Corporation Limited, a related company of the Trustee.

## 15 ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND RELATED LIABILITIES

On 20 January 2017, the Trustee (in its capacity as trustee of Prosperity REIT) as vendor and the REIT Manager entered into a share purchase agreement with an independent third party (the "Purchaser") in respect of the sale of the Harbourfront Landmark Property through its holding company, Harbour Champ Limited owned by Prosperity REIT. The consideration payable by the Purchaser for the purchase of the sale share and assignment of the loans shall be the disposal amount of HK\$885,741,500, subject to the adjustment by reference to the adjusted net asset value as set out in the completion statement pursuant to the share purchase agreement. The disposal has been completed on 3 March 2017.

On 8 December 2016, a letter of intent was signed by the REIT Manager and the Purchaser for the proposed disposal. An amount of HK\$30,000,000 was received and held by the Trustee's Solicitors as earnest money which was included as deposit receivable for assets classified as held for sale with the corresponding amount included in deposit received as set out in notes 13 and 18 respectively. The REIT Manager considered that the assets and liabilities of Harbour Champ Limited should be classified as held-for-sale as at 31 December 2016 in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* on the basis that the disposal is highly probable and expected to be completed in 2017.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 15 ASSETS OF A DISPOSAL GROUP CLASSIFIED AS HELD FOR SALE AND RELATED LIABILITIES *(continued)*

Details of the assets and liabilities of Harbour Champ Limited as at 31 December 2016, which have been classified as "Assets of a disposal group classified as held for sale" and "Liabilities directly associated with assets of a disposal group classified as held for sale", are as follows:

Assets classified as held for sale	HK\$'000
<b>Non-current assets</b>	
Investment properties	594,000
<b>Current Assets</b>	
Trade and other receivables	114
Bank balances and cash	1,446
	1,560
<b>Total assets of a disposal group classified as held for sale</b>	<b>595,560</b>
Liabilities directly associated with assets classified as held for sale	
<b>Non-current liabilities</b>	
Deferred tax liabilities	10,399
<b>Current liabilities</b>	
Trade and other payables	10,745
Amount due to related companies	825
	11,570
<b>Total liabilities directly associated with assets of a disposal group classified as held for sale</b>	<b>21,969</b>
<b>Net assets directly associated with the disposal group (note)</b>	<b>573,591</b>

*Note: The above amounts do not include amounts due to group companies, which will be assigned to the Purchaser at completion.*

## Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

### 16 BORROWINGS

	2016 HK\$'000	2015 HK\$'000
Secured term loans	<b>2,070,000</b>	2,474,000
Unsecured term loan	<b>800,000</b>	380,000
Bank facility origination fees	<b>(36,692)</b>	(40,689)
	<b>2,833,308</b>	2,813,311
Secured revolving loan	<b>20,000</b>	–
	<b>2,853,308</b>	2,813,311
	<b>2016 HK\$'000</b>	<b>2015 HK\$'000</b>
Carrying amount repayable:		
Within one year	<b>20,000</b>	–
Within a period of more than one year but not exceeding two years	–	377,366
Within a period of more than two years but not exceeding five years	<b>2,833,308</b>	2,435,945
	<b>2,853,308</b>	2,813,311

On 14 November 2014, the Group has been granted a 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.

On 11 August 2016, the Group has been granted a new facility of HK\$800,000,000 unsecured term loan to repay its existing banking facility of HK\$784,000,000, comprising a HK\$404,000,000 secured term loan and HK\$380,000,000 unsecured term loan respectively, which was entered in January 2014.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 16 BORROWINGS *(continued)*

Details of the terms and conditions of the Group's facilities as at 31 December 2015 and 31 December 2016 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\$800,000,000 unsecured term loan bears interest at floating interest rate of HIBOR+1.05% per annum, which was granted on 11 August 2016, and is repayable in full on 31 August 2021;
- (iv) HK\$404,000,000 secured term loan bears interest at floating interest rate of HIBOR+1.45% per annum and was fully repaid with the new facility (iii) during the year; and
- (v) HK\$380,000,000 unsecured term loan bears interest at floating interest rate of HIBOR+1.50% per annum and was fully repaid with the new facility (iii) during the year.

The above secured term loans and revolving credit facility are secured by certain investment properties of the Group as disclosed in note 11. In addition, Prosperity REIT and certain of its subsidiaries provide guarantees for all the facilities.

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

	2016 HK\$'000	2015 HK\$'000
Balance at beginning of the year	40,689	53,389
Addition	13,000	–
Amortised during the year	(16,997)	(12,700)
Balance at the end of the year	36,692	40,689

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 17 DEFERRED TAX LIABILITIES

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

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
As at 1 January 2015	172,838	(15,496)	157,342
Charge to profit or loss	12,186	1,943	14,129
As at 31 December 2015	185,024	(13,553)	171,471
Charge to profit or loss	12,152	2,265	14,417
Transfer to liabilities directly associated with assets of a disposal group classified as held for sale	(12,278)	1,879	(10,399)
As at 31 December 2016	184,898	(9,409)	175,489

At the end of the reporting period, tax loss amounting to approximately HK\$11,460,000 (31 December 2015: HK\$11,658,000) were not recognised, due to unpredictability of future profits stream.

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

At the end of the reporting period, the Group has deductible temporary differences of approximately HK\$29,191,000 (2015: HK\$30,719,000) in respect of the investment properties measured at fair value. The carrying amount of such properties are presumed to be recovered entirely through sale. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not expected to be reversed upon disposal of the properties.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 18 TRADE AND OTHER PAYABLES

	2016 HK\$'000	2015 HK\$'000
Trade payables	2,082	1,357
Deposits received as earnest money	30,000	–
Tenants' deposits		
– Outside parties	131,395	136,545
– Related parties	774	768
Rental received in advance		
– Outside parties	4,195	3,359
Other payables	44,118	46,502
	<b>212,564</b>	188,531

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

	2016 HK\$'000	2015 HK\$'000
Current – 1 month	421	475
2 – 3 months	1,055	551
Over 3 months	606	331
	<b>2,082</b>	1,357

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\$84,789,000 (2015: HK\$94,173,000)

## 19 AMOUNT DUE TO RELATED COMPANIES

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



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 20 UNITS IN ISSUE

	Number of units	HK\$'000
Balance as at 1 January 2015	1,419,635,074	2,990,328
Payment of manager's base fee and variable fee through issuance of new units during the year	17,218,841	49,242
Balance as at 31 December 2015	1,436,853,915	3,039,570
Payment of manager's base fee and variable fee through issuance of new units during the year	16,815,315	51,843
Balance as at 31 December 2016	1,453,669,230	3,091,413

Subsequent to the end of the reporting period, 4,225,100 units (2015: 4,840,781 units) at HK\$ 3.1424 (2015: HK\$2.6522) per unit were issued to the REIT Manager as partial settlement of base fee and variable fee in the last quarter of the relevant distribution year. The unitholders' fund per unit, based on the closing market price of Prosperity REIT as at 31 December 2016 was HK\$3.06 (31 December 2015: HK\$2.79).

## 21 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 which is nil as at 31 December 2016 (2015: HK\$1,261,000), and the total number of 1,453,669,230 units in issue as at 31 December 2016 (1,436,853,915 units in issue as at 31 December 2015).

## 22 MAJOR NON-CASH TRANSACTION

During the year, the REIT Manager earned manager's fee of HK\$53,426,000 (2015: manager's fee of HK\$51,196,000) of which HK\$52,280,000 (2015: HK\$50,070,000) was paid or payable through the issuance of units to the REIT Manager. An amount of HK\$39,004,000 (2015: 37,231,000) had been settled through the issuance of units to the REIT Manager while the balance of HK\$13,276,000 (2015: HK\$12,839,000) were paid in units subsequent to the year end.

In addition, during the year, the Group has drawn down on the new term loan of HK\$800,000,000 as set out in note 16 to refinance the existing HK\$404,000,000 secured term loan and HK\$380,000,000 unsecured loan. The remaining HK\$16,000,000 was deducted directly for the upfront fee paid of HK\$12,000,000 and bank charge paid of HK\$100,000.

As described in note 15, REIT Manager entered into a share purchase agreement with the Purchaser in respect of the sale of the Harbourfront Landmark Property through its holding company, Harbour Champ Limited. Deposits with an aggregate amount HK\$30,000,000 was paid by the purchaser as earnest money and being held in the escrow accounts by the REIT Trustee's Solicitors. Such deposits will be remitted to the Prosperity REIT upon the completion of the disposal.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 23 FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

	2016 HK\$'000	2015 HK\$'000
<b>Loans and receivables</b>		
Trade receivables	<b>1,058</b>	311
Deposit receivable for assets of a disposal group classified as held for sale	<b>30,000</b>	–
Bank balances and cash	<b>73,890</b>	64,911
	<b>104,948</b>	65,222
<b>Financial assets/(liabilities)</b>		
<i>Derivative instruments</i>		
Interest rate swaps, net	<b>38,380</b>	(8,123)
<b>Financial liabilities at amortised costs</b>		
Trade payables	<b>(2,082)</b>	(1,357)
Amount due to related companies	<b>(8,077)</b>	(10,821)
Secured term loans	<b>(2,045,433)</b>	(2,435,945)
Unsecured term loan	<b>(787,875)</b>	(377,366)
Secured revolving loan	<b>(20,000)</b>	–
Manager's fee payable	<b>(13,562)</b>	(13,117)
Distribution payable	<b>(126,990)</b>	(129,312)
	<b>(3,004,019)</b>	(2,967,918)
Unitholders' funds	<b>7,515,721</b>	7,155,735

Details of the financial instruments are disclosed in respective notes.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 23 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 16 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 changes in interest rate on its secured term loans. (see note 12 for details).

If the interest rates have been higher by 50 basis points and all other variables were held constant, the profit for the year and other comprehensive income recognised in equity would increase (decrease) as follows.

	<b>Term loans (excluding effective hedge portion)</b> HK\$'000	<b>Fair value of interest rate swaps</b> HK\$'000
<b>2016</b>		
Profit for the year	<b>(14,350)</b>	<b>29,849</b>
<b>2015</b>		
Profit for the year	(13,520)	12,967
Other comprehensive income recognised in equity-effective portion of derivative under hedge accounting	–	2,250

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 23 FINANCIAL INSTRUMENTS *(continued)*

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

#### **(i) Interest rate risk** *(continued)*

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.

#### **(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 is 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 23 FINANCIAL INSTRUMENTS *(continued)*

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

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

The REIT Manager monitors and maintains a level of cash and cash equivalents deemed adequate to finance the Group's operations. In addition, the REIT Manager observes the REIT Code concerning limits on total borrowings and monitors the level of borrowing to be within the permitted limit.

As at 31 December 2016, the Group has three bank loan facilities of HK\$3,300,000,000 (2015: HK\$3,284,000,000), comprising two term loans with total of HK\$2,870,000,000 (2015: HK\$2,854,000,000) and a revolving credit facility of HK\$430,000,000 (2015: HK\$430,000,000). HK\$20,000,000 (2015: nil) of the revolving credit facility was drawn as at 31 December 2016. Details of the borrowing are set out in note 16.

Certain investment properties, with aggregate carrying value of HK\$5,639,900,000 (2015: HK\$6,526,900,000) have been pledged to secure the banking credit facilities granted to the Group. The Group, with a cash balance of HK\$73,890,000 (2015: HK\$64,911,000) and available unutilised revolving credit facility of approximately HK\$410,000,000 (2015: HK\$430,000,000) as at 31 December 2016, 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.



# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 23 FINANCIAL INSTRUMENTS (continued)

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

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

	Weighted average interest rate %	Less than 1 month or on demand HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	2 to 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31/12/2016 HK\$'000
<b>2016</b>							
<b>Non-derivative</b>							
Trade payables	-	421	1,055	606	-	2,082	2,082
Tenants' deposits	-	6,749	2,560	46,672	84,789	140,770	140,770
Amount due to related companies	-	8,077	-	-	-	8,077	8,077
Term loans	1.90%	4,586	8,728	40,679	2,994,969	3,048,962	2,833,308
Secured revolving loan	-	20,000	-	-	-	20,000	20,000
Manager's fee payable	-	13,562	-	-	-	13,562	13,562
Distribution payable	-	-	-	126,990	-	126,990	126,990
Cash outflow		53,395	12,343	214,947	3,079,758	3,360,443	3,144,789
<b>Derivatives – net settlement (receipt)</b>							
Interest rate swaps		-	1,153	(2,869)	(42,392)	(44,108)	(38,380)
<b>2015</b>							
<b>Non-derivative</b>							
Trade payables	-	475	551	331	-	1,357	1,357
Tenants' deposits	-	3,593	3,446	36,101	94,173	137,313	137,313
Amount due to related companies	-	10,821	-	-	-	10,821	10,821
Term loans	1.61%	3,891	7,531	34,516	2,961,461	3,007,399	2,813,311
Manager's fee payable	-	13,117	-	-	-	13,117	13,117
Distribution payable	-	-	-	129,312	-	129,312	129,312
Cash outflow		31,897	11,528	200,260	3,055,634	3,299,319	3,105,231
<b>Derivatives – net settlement</b>							
Interest rate swaps, cash outflow		-	3,207	8,165	15,299	26,671	8,123

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 23 FINANCIAL INSTRUMENTS *(continued)*

### *(c) Fair value*

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

- the fair value of financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input;
- the fair value of derivative instruments is determined based on the discounted future cash flows using the applicable yield curve for the duration of the swap; and

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.

## 24 NET CURRENT ASSETS

At the end of the reporting period, the Group's net current assets, defined as current assets less current liabilities, amounted to HK\$303,138,000 (2015: net current liabilities of HK\$270,360,000). Other than certain investment properties, with aggregate carrying value of HK\$5,639,900,000 (2015: HK\$6,526,900,000), 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 16) to meet its liabilities as they fall due.

## 25 TOTAL ASSETS LESS CURRENT LIABILITIES

At the end of the reporting period, the Group's total assets less current liabilities amounted to HK\$10,524,574,000 (2015: HK\$10,148,640,000).

## 26 SEGMENTAL REPORTING

During the year, Prosperity REIT invested in eight (2015: eight) office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennia Plaza, 9 Chong Yip Street, 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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 26 SEGMENTAL REPORTING (continued)

### Segment revenue and results

For the year ended 31 December 2016

	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	128,006	89,187	39,599	29,660	67,114	46,705	37,535	15,120	452,926
Segment profit	102,294	73,724	31,310	24,225	53,455	33,726	27,996	11,117	357,847
Interest income									24
Manager's fee									(53,426)
Trust and other expenses									(15,805)
Change in fair value of investment properties									345,334
Change in fair value of derivative financial instruments									45,242
Finance costs									(76,115)
Profit before taxation and transactions with unitholders									603,101

For the year ended 31 December 2015

	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	125,332	86,762	38,369	28,418	61,683	47,202	36,453	14,504	438,723
Segment profit	101,501	71,127	29,442	23,044	46,726	35,348	27,596	10,695	345,479
Interest income									68
Manager's fee									(51,196)
Trust and other expenses									(8,577)
Change in fair value of investment properties									515,702
Change in fair value of derivative financial instruments									(295)
Finance costs									(72,415)
Profit before taxation and transactions with unitholders									728,766

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 26 SEGMENTAL REPORTING *(continued)*

### *Segment assets*

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

	2016 HK\$'000	2015 HK\$'000
The Metropolis Tower	<b>3,168,000</b>	3,122,000
Prosperity Millennia Plaza	<b>2,043,000</b>	1,971,000
9 Chong Yip Street	<b>1,091,000</b>	1,088,000
Portion of Harbourfront Landmark	<b>594,000</b>	514,000
Prosperity Place	<b>1,699,000</b>	1,544,000
Trendy Centre	<b>1,011,000</b>	1,010,000
Portion of Prosperity Center	<b>854,000</b>	854,000
Portion of New Treasure Centre	<b>317,000</b>	316,000
Total segment assets	<b>10,777,000</b>	10,419,000
Other assets	<b>151,772</b>	73,714
Consolidated assets	<b>10,928,772</b>	10,492,714

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.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 27 OPERATING LEASE ARRANGEMENTS

	2016 HK\$'000	2015 HK\$'000
Minimum lease income under operating leases included in the consolidated statement of profit or loss and other comprehensive income	<b>369,921</b>	357,181
	2016 HK\$'000	2015 HK\$'000
Commitments in respect of non-cancellable operating leases for the rental of investment properties were as follows:		
Future minimum lease payments receivable:		
Within one year	<b>316,219</b>	305,191
In the second to fifth year inclusive	<b>189,359</b>	242,127
Total	<b>505,578</b>	547,318

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 Consolidated Financial Statements

For the year ended 31 December 2016

### 28 CONNECTED AND RELATED PARTY TRANSACTIONS

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

	<i>Note</i>	<b>2016</b> HK\$'000	2015 HK\$'000
Rent and rental related income from			
Goodwell Property Management Limited	<i>(a)</i>	<b>1,701</b>	1,547
Hutchison Telephone Company Limited	<i>(b)</i>	<b>97</b>	92
Hutchison Hain Organic (Hong Kong) Limited	<i>(b)</i>	<b>951</b>	607
Carpark lease agency fee for the operations of the Group's carpark			
E-Park Parking Management Limited	<i>(a)</i>	<b>2,940</b>	2,427
Property management fee			
Goodwell-Prosperity Property Services Limited	<i>(a)</i>	<b>10,858</b>	10,447
Marketing service fee			
Goodwell-Prosperity Property Services Limited	<i>(a)</i>	<b>10,323</b>	11,022
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited		<b>3,184</b>	3,043
Manager's fee			
ARA Asset Management (Prosperity) Limited		<b>53,426</b>	51,196
Back-office support service fee			
Cheung Kong Companies	<i>(a)</i>	<b>128</b>	45
Balances as at year end with connected and related parties are as follows:			
Amount due to			
Citybase Property Management Limited	<i>(a)</i>	<b>553</b>	910
Goodwell-Prosperity Property Services Limited	<i>(a)</i>	<b>3,772</b>	4,048
Goodwell Property Management Limited	<i>(a)</i>	<b>2,851</b>	4,669
Harbourfront Landmark Premium Services Limited	<i>(a)</i>	<b>647</b>	782
E-Park Parking Management Limited	<i>(a)</i>	<b>254</b>	412
Deposits placed with the Group for the lease of the Group's properties			
Goodwell Property Management Limited	<i>(a)</i>	<b>497</b>	493
Hutchison Telephone Company Limited	<i>(b)</i>	<b>24</b>	24
Hutchison Hain Organic (Hong Kong) Limited	<i>(b)</i>	<b>259</b>	251

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 28 CONNECTED AND RELATED PARTY TRANSACTIONS *(continued)*

Notes:

- (a) *These companies were the subsidiaries of Cheung Kong Property Holdings Limited ("CKPH"), a significant unitholder (defined in the REIT Code as a holder of 10% or more of the outstanding units) of Prosperity REIT.*
- (b) *These companies were associated companies (as defined in the REIT Code) of CKPH.*

Under the REIT Code, the deed of mutual covenant which binds the REIT Manager and all the owners of a development and their successors-in-title which include members of CKPH group technically constitutes a contract between the Group and CKPH group. Remuneration to the building managers, wholly-owned subsidiaries of CKPH, for the building management services provided constitutes a connected party transaction. During the year, remuneration paid from the funds of the buildings, attributable to the properties owned by the Group, to the building managers amounted to HK\$886,000 (2015: HK\$885,000).

# List of Subsidiaries

As at 31 December 2016 and 31 December 2015

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

## List of Subsidiaries

As at 31 December 2016 and 31 December 2015

Name of company	Place of incorporation	Effective equity interest held by Prosperity REIT		Share capital	Principal activities in Hong Kong
		Directly %	Indirectly %		
Wisdom Champion (16) Limited	British Virgin Islands	100	–	US\$1	Property investment
Wisdom Champion (17) Limited	British Virgin Islands	100	–	US\$1	Property investment
Wisdom Champion (18) Limited	British Virgin Islands	100	–	US\$1	Property investment
Wisdom Champion (19) Limited	British Virgin Islands	100	–	US\$1	Property investment
Wisdom Champion (20) Limited	British Virgin Islands	100	–	US\$1	Property investment
Wisdom Champion (21) Limited	British Virgin Islands	100	–	US\$1	Property investment
Wisdom Champion (22) Limited	British Virgin Islands	100	–	US\$1	Property investment
Wisdom Champion (23) Limited	British Virgin Islands	100	–	US\$1	Property investment
Wisdom Champion (25) Limited	British Virgin Islands	100	–	US\$1	Property investment
Wisdom Champion (26) Limited	British Virgin Islands	100	–	US\$1	Property investment
Wisdom Champion (27) Limited	British Virgin Islands	100	–	US\$1	Property investment
Wisdom Champion (28) Limited	British Virgin Islands	100	–	US\$1	Property investment
Diamond Champ Enterprises Limited*	British Virgin Islands	100	–	US\$1	Dormant

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

\* *Diamond Champ Enterprises Limited was incorporated on 15 August 2016.*

# Performance Table

## Results Analysis for the year ended 31 December

	<b>2016</b> HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
Gross rental from investment properties	<b>396,468</b>	382,691	350,240	292,240	261,120
Net property income	<b>357,847</b>	345,479	312,056	266,931	239,471
Profit for the year, before transactions with unitholders	<b>565,244</b>	692,591	466,493	695,729	1,074,715
Distribution to unitholders	<b>258,362</b>	254,083	231,364	209,056	186,868
Earnings per unit (HK\$)	<b>0.39</b>	0.48	0.33	0.50	0.78
Distribution per unit (HK\$)	<b>0.1777</b>	0.1768	0.1630	0.1495	0.1354



## Performance Table

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

	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
Investment properties	<b>10,777,000</b> <sup>(2)</sup>	10,419,000	9,890,000	8,518,000	7,952,000
Bank loans, excluding bank facility origination fees	<b>(2,890,000)</b>	(2,854,000)	(2,854,000)	(1,795,000)	(1,790,000)
Net asset value	<b>7,515,721</b>	7,155,735	6,668,686	6,361,402	5,819,182
Net asset value per unit (HK\$) <sup>(1)</sup>	<b>5.17</b>	4.98	4.70	4.57	4.24
<b>Other Information</b>					
The highest traded price during the year (HK\$)	<b>3.61</b>	3.05	2.74	3.09	2.42
The highest (discount)/premium of the traded price to net asset value	<b>(30.2%)</b>	(38.8%)	(41.7%)	(32.4%)	(42.9%)
The lowest traded price during the year (HK\$)	<b>2.61</b>	2.59	2.18	2.19	1.52
The lowest discount of the traded price to net asset value	<b>(49.5%)</b>	(48.0%)	(53.6%)	(52.1%)	(64.2%)
The net yield per unit based on market price at the end of year	<b>5.8%</b> <sup>(3)</sup>	6.3%	6.2%	6.6%	5.8%

<sup>1</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 dates;

<sup>2</sup> This includes Harbourfront Landmark Property of HK\$594,000,000 transferred to assets of a disposal group classified as held for sale.

<sup>3</sup> Based on the distribution per unit of HK\$0.1777 for the year ended 31 December 2016 and the closing market price of HK\$3.06 as at 30 December 2016.

# Investment Properties Portfolio

As at 31 December 2016

Property	Type	Lease term	Lease expiry date	Location	Valuation 2016 HK\$ Million
The Metropolis Tower	O	Medium-term lease	30 June 2047	10 Metropolis Drive Hung Hom Kowloon Hong Kong	3,168
Prosperity Millennia Plaza	O	Medium-term lease	30 June 2047	663 King's Road North Point Hong Kong	2,043
9 Chong Yip Street	O	Medium-term lease	30 June 2047	9 Chong Yip Street Kwun Tong Kowloon Hong Kong	1,091
Harbourfront Landmark (portion)	C	Medium-term lease	30 June 2047	11 Wan Hoi Street Hung Hom Kowloon Hong Kong	594
Prosperity Place	C	Medium-term lease	30 June 2047	6 Shing Yip Street Kwun Tong Kowloon Hong Kong	1,699
Trendy Centre	I/O	Medium-term lease	30 June 2047	682 Castle Peak Road Lai Chi Kok Kowloon Hong Kong	1,011
Prosperity Center (portion)	I/O	Medium-term lease	30 June 2047	25 Chong Yip Street Kwun Tong Kowloon Hong Kong	854
New Treasure Centre (portion)	I	Medium-term lease	30 June 2047	10 Ng Fong Street San Po Kong Kowloon Hong Kong	317
<b>Total</b>					<b>10,777<sup>(1)</sup></b>

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

<sup>(1)</sup> This includes Harbourfront Landmark Property of HK\$594,000,000 transferred to assets of a disposal group classified as held for sale.

# Summary Financial Information

Following is a summary of the consolidated statements of profit or loss and other comprehensive income and the consolidated statement of financial position of Prosperity REIT for the past financial years prepared on a basis as consistent to the financial year ended 31 December 2016:

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

	<b>Year ended 31 Dec 2016 HK\$'000</b>	Year ended 31 Dec 2015 HK\$'000	Year ended 31 Dec 2014 HK\$'000	Year ended 31 Dec 2013 HK\$'000	Year ended 31 Dec 2012 HK\$'000
Revenue	<b>452,926</b>	438,723	403,413	341,883	308,366
Profit before taxation and transactions with unitholders	<b>603,101</b>	728,766	498,117	724,393	1,099,788
Taxation	<b>(37,857)</b>	(36,175)	(31,624)	(28,664)	(25,073)
Profit for the years, before transactions with unitholders	<b>565,244</b>	692,591	466,493	695,729	1,074,715
Distribution to unitholders	<b>258,362</b>	254,083	231,364	209,056	186,868
Distribution per unit (HK\$)	<b>0.1777</b>	0.1768	0.1630	0.1495	0.1354

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	<b>2016 HK\$'000</b>	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
Non-current assets	<b>10,221,436</b>	10,419,000	9,890,000	8,518,000	7,952,000
Current assets	<b>707,336</b>	73,714	75,200	66,772	51,977
Current liabilities	<b>404,198</b>	344,074	338,001	307,565	276,590
Net assets attributable to unitholders	<b>7,515,721</b>	7,155,735	6,668,686	6,361,402	5,819,182

# Corporate Information

## Board of Directors of the REIT Manager

CHIU Kwok Hung, Justin

*Chairman and Non-executive Director*

LIM Hwee Chiang

*Non-executive Director*

WONG Lai Hung, Mavis

*Executive Director and Chief Executive Officer*

MA Lai Chee, Gerald

*Non-executive Director*

LAN Hong Tsung, David

*Independent Non-executive Director*

SNG Sow-Mei (alias POON Sow Mei)

*Independent Non-executive Director*

WONG Kwai Lam

*Independent Non-executive Director*

## Company Secretary of the REIT Manager

SENG Sze Ka Mee, Natalia

## Trustee

HSBC Institutional Trust Services (Asia) Limited

## Auditor of Prosperity REIT

Deloitte Touche Tohmatsu

## Principal Valuer

Jones Lang LaSalle Limited

## Principal Bankers

DBS Bank Limited

Sumitomo Mitsui Banking Corporation

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 10 March 2017

Closure of Register of Unitholders for Final Distribution 28 March to 30 March 2017 (both days inclusive)

Payment of Final Distribution 7 April 2017

Closure of Register of Unitholders for Annual General Meeting 3 May to 9 May 2017 (both days inclusive)

Annual General Meeting 9 May 2017

This annual report 2016 ("**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

