

SOLID FOUNDATIONS

ANNUAL REPORT 2017



THE METROPOLIS
TOWER



PROSPERITY
MILLENNIA PLAZA



9 CHONG
YIP STREET



Prosperity REIT Portfolio



PROSPERITY
PLACE



TRENDY
CENTRE



PROSPERITY
CENTER PROPERTY
(PORTION)



NEW TREASURE
CENTRE PROPERTY
(PORTION)

TOTAL GROSS RENTABLE AREA OF ABOUT

1.28 MILLION
SQ.FT.

ABOUT PROSPERITY REIT

Prosperity Real Estate Investment Trust ("**Prosperity REIT**") is the first private sector real estate investment trust ("**REIT**") listed on The Stock Exchange of Hong Kong Limited on 16 December 2005. Prosperity REIT owns a diverse portfolio of seven high-quality office, commercial, industrial/office and industrial properties in the decentralized business districts of Hong Kong, with a total gross rentable area of about 1.28 million sq. ft..

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

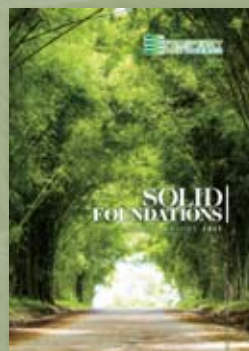
ABOUT THE REIT MANAGER

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

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

OUR MISSION

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



Like bamboo, rising straight and firm, the manager of Prosperity REIT is steadily and confidently providing satisfactory returns for its unitholders. The upward motion and robustness of the bamboo evokes the feeling of "Solid Foundations".

The green and natural aspect of the cover also represents the sustainability and respect the REIT manager has to the community.

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WE CARE FOR

STAFF

TENANTS

COMMUNITY

UNITHOLDERS

ENVIRONMENT



STRIVING

For growth

CHAIRMAN'S STATEMENT

03

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 2017 (the "**Reporting Year**").

RESULTS AND DISTRIBUTION

With an aim to optimise return for our Unitholders, we review our portfolio from time to time. We captured an opportunity to dispose of the Harbourfront Landmark Property ("**HFL**") during the Reporting Year at a premium of approximately 49.1% over valuation. Despite the loss of revenue from HFL since its completion on 3 March 2017, we registered a mild growth in distributable income to HK\$261.5 million, representing 1.2% year-on-year ("**YoY**") growth. At the same time, the net asset value per unit and property valuation (excluding the valuation of HFL) marked a YoY growth by 6.0% and 3.0% to HK\$5.48 and HK\$10,490 million respectively.

In light of these results, I am pleased to announce that our Unitholders will receive a total distribution per unit ("**DPU**") of HK\$0.1780 for the Reporting Year, representing a stable yield of 5.3%¹.

MARKET REVIEW

Revive of inbound tourism, solid domestic demand, robust property market and a noticeably strong stock market in the last quarter, are all positives to Hong Kong economy in 2017.

The China sector was stable and 2017 GDP growth reached 6.9%, which is within market expectations.

While the US economy performed broadly positively, fragility still remained and the government policy outlook remained uncertain. The economy maintained an overall trend of moderate growth, with GDP increasing 2.3% for the year. The tax cut reform is expected to stimulate GDP growth. On the other hand, interest rate hikes seen on a number of occasions in 2017 are set to be continued.

OPERATION REVIEW

Due to the impact from disposal of HFL, we recorded a marginal drop in topline revenue and net property income of 1.5% and 1.2% to HK\$446.2 million and HK\$353.6 million respectively in the Reporting Year. However, positive rental reversion, stable occupancy rates and positive increments in average effective rent all contributed to mitigate the effect from the loss of revenue.

A portion of the disposal proceeds of HFL was used to pay down a part of the term loan, thereby bringing the gearing ratio down to 21.5% from 26.4% as of 31 December 2016. Prosperity REIT is able to achieve greater financial flexibility to capture future opportunities.

A combination of excellent property management services and diligent cost control measures allowed us to maintain the cost-to-revenue at a healthy level of 20.8%.

¹ Based on Prosperity REIT's closing unit price of HK\$3.34 as at 29 December 2017.

PROSPECTS

With the cycle of interest rate hikes expected to be continued, Prosperity REIT has appropriate hedging arrangements in place to mitigate the potential impact. We will continue to closely monitor the interest rate movement and manage the hedging position.

The Kowloon East district is continuing to become a more mature commercial hub, thereby a priority destination for corporates looking for quality office space. Our portfolio retains a strong presence in the district over the years and we are all set for this opportunity. Yet, the large office supply in the district in the coming years may cause potential headwinds to Prosperity REIT. We shall maintain a flexible leasing strategy.

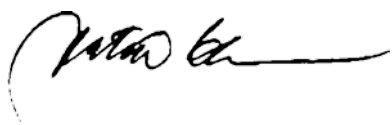
Barring unforeseen circumstances, we remain cautiously optimistic regarding both the challenges that lie ahead for the Hong Kong economy and also the broad outlook for Prosperity REIT. Our management approach remains prudent and proactive as we remain committed to optimizing stable and sustainable returns for the benefit of our Unitholders. We are well-positioned and prepared for the upcoming challenges and will continue to explore opportunities for further growth.



ACKNOWLEDGEMENTS

My sincere thanks extend once again to all those who have contributed to our success over the past year. In particular, my thanks go to my fellow Board members and the management team for their dedication and efforts. Our staff members, tenants, service providers and business partners have also played significant roles taking us forward.

Finally, I would like to acknowledge and thank all our Unitholders. Your continuing support and confidence in Prosperity REIT is critical for our sustainable growth.



Chiu Kwok Hung, Justin

Chairman

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

Hong Kong, 15 March 2018





ROBUST

Achievements

PERFORMANCE HIGHLIGHTS IN 2017

DISTRIBUTION PER UNIT ¹

 0.2%

2017	HK\$0.1780
2016	HK\$0.1777

NET ASSET VALUE PER UNIT ²

 6.0%

2017	HK\$5.48
2016	HK\$5.17

GEARING RATIO ²

 4.9%³

2017	21.5%
2016	26.4%

OCCUPANCY RATE ²

 1.6%³

2017	97.7%
2016	96.1%

AVERAGE EFFECTIVE UNIT RENT ¹

 2.3%

2017	HK\$24.31 per sq. ft.
2016	HK\$23.76 per sq. ft.

COST-TO-REVENUE RATIO ¹

 0.2%³

2017	20.8%
2016	21.0%

Notes:

¹ For the year ended 31 December

² As at year end

³ Absolute change

DIVERSIFIED PROPERTY PORTFOLIO

As at 31 December 2017, Prosperity REIT had a diversified portfolio comprising seven high-quality properties in the decentralized business districts of Hong Kong. The portfolio comprised all, or a portion of, three Grade A office buildings, one commercial building, two industrial/office buildings and one industrial building, with total gross rentable area of about 1.28 million sq. ft.. All properties in Prosperity REIT's portfolio are well served by multiple transportation networks.

These seven properties were completed during the period from 1995 to 2004. As at 31 December 2017, the appraised value of the portfolio was HK\$10,490 million. Grade A office buildings, commercial building, industrial/office buildings and industrial building accounted for 61.6%, 16.8%, 18.4% and 3.2% of the total appraised value respectively.

	Valuation HK\$ million as at 31 December 2017	Valuation HK\$ million as at 31 December 2016	Percentage change Increase/ (Decrease)
Grade A Office			
The Metropolis Tower	3,220	3,168	1.6%
Prosperity Millennia Plaza	2,140	2,043	4.7%
9 Chong Yip Street	1,100	1,091	0.8%
Commercial			
Harbourfront Landmark (portion)	–	594	(100%)
Prosperity Place	1,760	1,699	3.6%
Industrial/Office			
Trendy Centre	1,050	1,011	3.9%
Prosperity Center (portion)	880	854	3.0%
Industrial			
New Treasure Centre (portion)	340	317	7.3%
Total	10,490	10,777*	(2.7%)

* Property valuation as at 31 December 2016 included HFL of HK\$594,000,000 transferred to assets of a disposal group classified as held for sale. HFL disposal was completed on 3 March 2017.

EFFECTIVE LEASE MANAGEMENT

As a result of proactive tenant recruitment efforts by the REIT Manager, the portfolio's occupancy rate was maintained stable at 97.7% as at 31 December 2017. The portfolio's average effective unit rent increased by 2.3% YoY to HK\$24.31 per sq. ft., with a rental reversion rate of 7.6% for the leases successfully renewed in 2017.

As at 31 December 2017, leases expiring in 2018 accounted for 45.8% of the portfolio's gross rental income. Proactive leasing strategies will be continued in 2018 to deliver stable distribution to unitholders.

LEASE EXPIRY PROFILE BY GROSS RENTAL INCOME (AS AT 31 DECEMBER 2017)

	31 December 2017 & 2018	2019	2020 and Beyond
The Metropolis Tower	54.0%	36.5%	9.5%
Prosperity Millennia Plaza	54.1%	18.3%	27.6%
9 Chong Yip Street	30.2%	42.5%	27.3%
Prosperity Place	38.4%	36.4%	25.2%
Trendy Centre	29.8%	46.7%	23.5%
Prosperity Center (portion)	40.2%	36.5%	23.3%
New Treasure Centre (portion)	50.2%	32.0%	17.8%
Portfolio	45.8%	33.7%	20.5%

WELL-BALANCED TENANT MIX

As at 31 December 2017, Prosperity REIT had a total of 595 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.

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

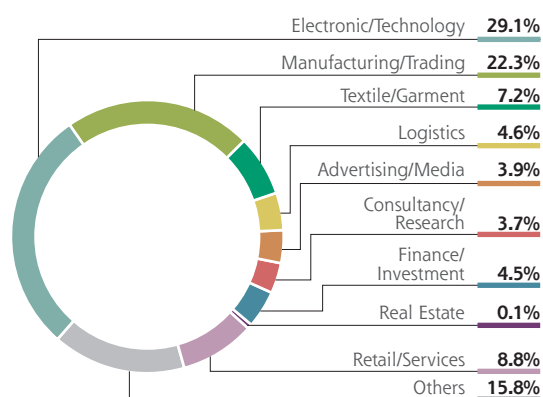
Size of Tenant Premises on Gross Rentable Area

(as at 31 December 2017)

	Percentage
Above 10,000 sq. ft.	12.4%
5,001 sq. ft.–10,000 sq. ft.	17.2%
2,001 sq. ft.–5,000 sq. ft.	29.3%
1,001 sq. ft.–2,000 sq. ft.	27.6%
1,000 sq. ft. and below	13.5%
Total	100%

TRADE MIX BY GROSS RENTABLE AREA

(As at 31 December 2017)



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

Asset enhancement has been a key growth driver for Prosperity REIT. Apart from keeping up with keen competition, upgrading our properties will also be a way to ensure sustainable growth in rental level and capital appreciation. During the Reporting Year, an asset enhancement work was carried out at The Metropolis Tower.

OUTLOOK

Since its listing on 16 December 2005 (the "**Listing Date**"), Prosperity REIT has met challenges posed by various economic uncertainties, and has achieved favourable results by managing its portfolio with professionalism. Supported by Goodwell-Prosperity Property Services Limited, which provides leasing and management services for properties under Prosperity REIT's portfolio, the REIT Manager will continue to work towards generating stable returns to the unitholders in 2018 through our proven expertise in professional management.

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.

Before



After



PORTFOLIO MAP



GRADE A OFFICE			COMMERCIAL	INDUSTRIAL / OFFICE	INDUSTRIAL	
						
1	2	3	4	5	6	7
The Metropolis Tower	Prosperity Millennia Plaza	9 Chong Yip Street	Prosperity Place	Trendy Centre	Prosperity Center Property (portion)	New Treasure Centre Property (portion)



TOWERING

Performance



The Metropolis Tower

LOCATION:

10 Metropolis Drive, Hung Hom, Kowloon

NO. OF CAR PARK SPACES:

98

YEAR OF COMPLETION:

2001

APPRAISED VALUE (HK\$ MILLION):

3,220

GROSS RENTABLE AREA (SQ. FT.):

271,418

NUMBER OF TENANTS:

94

TOP 5 TENANTS¹

Tenants	Trade	GRA* (sq. ft.)	% of GRA*	% of GRI**
Canon HongKong Company Limited	Electronic/Technology	55,535	20.5%	19.0%
NEC Hong Kong Limited	Electronic/Technology	18,161	6.7%	6.6%
Hong Kong Taiyo Yuden Company Limited	Electronic/Technology	7,768	2.9%	2.8%
Omicron Electronics Asia Limited	Electronic/Technology	6,961	2.6%	2.8%
China Sillicon Rongde Investment Group Holding Limited & Others	Finance & Investment	7,413	2.7%	2.7%

* Gross rentable area

** Gross rental income

LEASE EXPIRY PROFILE

(As at 31 December 2017)

As at 31 December 2017 and 2018



2019



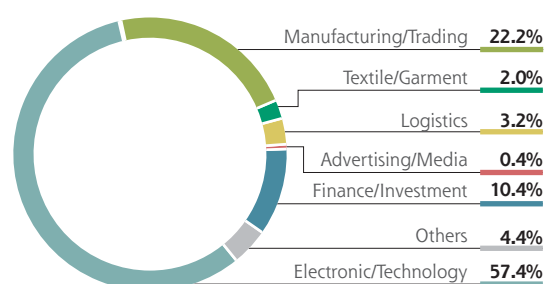
2020 and beyond



■ By Gross Rental Income ■ By Gross Rentable Area

TRADE MIX BY
GROSS RENTABLE AREA

(As at 31 December 2017)



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 2017, the occupancy rate of the property was 100%.

¹ Top 5 tenants are measured based on tenant's contribution to the total rental income of the property in December 2017.

Prosperity Millennia Plaza

**LOCATION:**

663 King's Road, North Point, Hong Kong

NO. OF CAR PARK SPACES:

43

YEAR OF COMPLETION:

1999

APPRAISED VALUE (HK\$ MILLION):

2,140

GROSS RENTABLE AREA (SQ. FT.):

217,955

NUMBER OF TENANTS:

80

TOP 5 TENANTS

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
iClick Interactive Asia Limited & Other	Electronic/Technology	16,132	7.4%	7.6%
Lamex Trading Company Limited	Manufacturing/Trading	16,132	7.4%	6.6%
Excel Technology International (Hong Kong) Limited	Electronic/Technology	11,058	5.1%	4.8%
JDB Holdings Limited	Consultancy/Research	8,867	4.1%	4.7%
Uni-Asia Holdings Limited & Other	Logistics	8,314	3.8%	4.2%

LEASE EXPIRY PROFILE

(As at 31 December 2017)

As at 31 December 2017 and 2018



2019



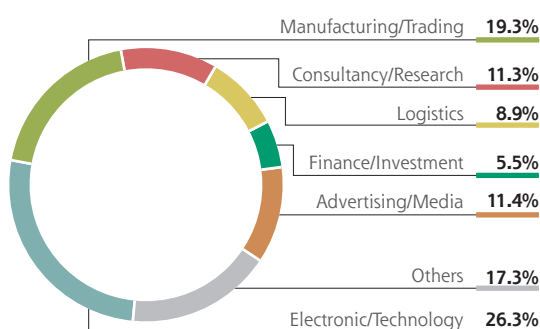
2020 and beyond



■ By Gross Rental Income ■ By Gross Rentable Area

TRADE MIX BY
GROSS RENTABLE AREA

(As at 31 December 2017)



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 2017, the occupancy rate of the property was 98.3%.

**LOCATION:**

9 Chong Yip Street, Kwun Tong, Kowloon

NO. OF CAR PARK SPACES:

68

YEAR OF COMPLETION:

2004

APPRAISED VALUE (HK\$ MILLION):

1,100

GROSS RENTABLE AREA (SQ. FT.):

136,595

NUMBER OF TENANTS:

41

TOP 5 TENANTS

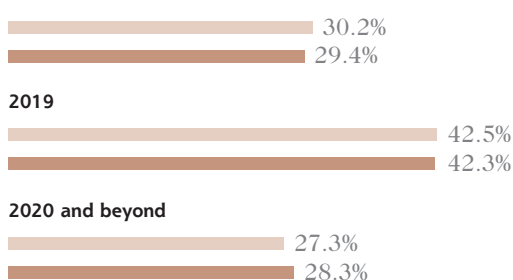
Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Watami (China) Company Limited	Others	9,921	7.3%	7.7%
One Concept Investment Limited	Manufacturing/Trading	6,580	4.8%	5.4%
Wing Shing Caisson & Foundation Limited & Other	Consultancy/Research	6,580	4.8%	5.2%
Tenant ^{note}	Others	6,580	4.8%	5.1%
Coats China Holdings Limited	Manufacturing/Trading	6,580	4.8%	5.1%

Note: Tenant requested for anonymity

LEASE EXPIRY PROFILE

(As at 31 December 2017)

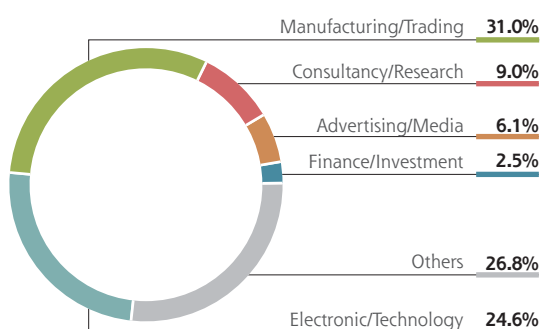
As at 31 December 2017 and 2018



■ By Gross Rental Income ■ By Gross Rentable Area

TRADE MIX BY
GROSS RENTABLE AREA

(As at 31 December 2017)



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 2017, the occupancy rate of the property was 95.3%.



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):

1,760

NUMBER OF TENANTS:

123

TOP 5 TENANTS

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
I Dance Enterprise Limited	Retail/Services	10,000	4.2%	4.2%
Dickson Yoga Company Limited	Retail/Services	10,000	4.2%	4.2%
Evlite Electronics Company Limited	Electronic/Technology	11,819	4.9%	4.1%
Wall Street English Hong Kong Limited	Retail/Services	5,402	2.3%	2.8%
Radio Frequency Engineering Limited	Electronic/Technology	6,360	2.7%	2.7%

LEASE EXPIRY PROFILE

(As at 31 December 2017)

As at 31 December 2017 and 2018



2019



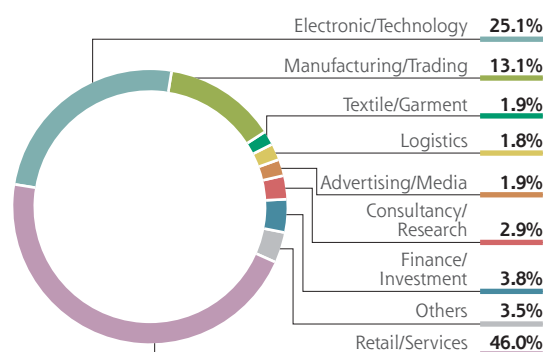
2020 and beyond



■ By Gross Rental Income ■ By Gross Rentable Area

TRADE MIX BY GROSS RENTABLE AREA

(As at 31 December 2017)



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 2017, the occupancy rate of the property was 98.4%.



Trendy Centre

LOCATION:

682 Castle Peak Road, Lai Chi Kok, Kowloon

NO. OF CAR PARK SPACES:

79

YEAR OF COMPLETION:

1998

APPRAISED VALUE (HK\$ MILLION):

1,050

GROSS RENTABLE AREA (SQ. FT.):

173,764

NUMBER OF TENANTS:

148

TOP 5 TENANTS

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Lush Asia Limited	Manufacturing/Trading	6,849	3.9%	4.0%
CEH Textiles Limited	Textile/Garment	6,849	3.9%	3.5%
Madrid Group Limited & Other	Others	708	0.4%	2.7%
Come In' Living Limited & Other	Manufacturing/Trading	3,268	1.9%	1.7%
Onco Medical Laboratory Limited & Other	Others	2,958	1.7%	1.7%

LEASE EXPIRY PROFILE

(As at 31 December 2017)

As at 31 December 2017 and 2018



2019



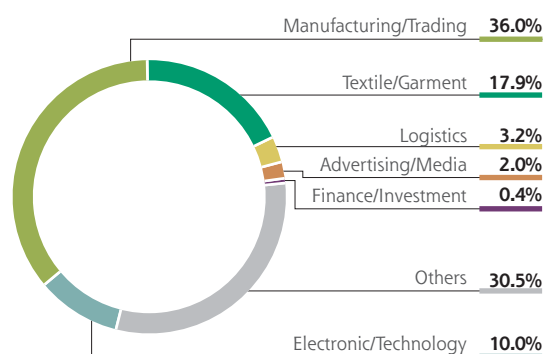
2020 and beyond



■ By Gross Rental Income ■ By Gross Rentable Area

TRADE MIX BY GROSS RENTABLE AREA

(As at 31 December 2017)



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 2017, the occupancy rate of the property was 98.1%.



Prosperity Center Property

(Portion of Prosperity Center)

LOCATION:

25 Chong Yip Street, Kwun Tong, Kowloon

NO. OF CAR PARK SPACES:

105

YEAR OF COMPLETION:

1999

APPRAISED VALUE (HK\$ MILLION):

880

GROSS RENTABLE AREA (SQ. FT.):

149,253

NUMBER OF TENANTS:

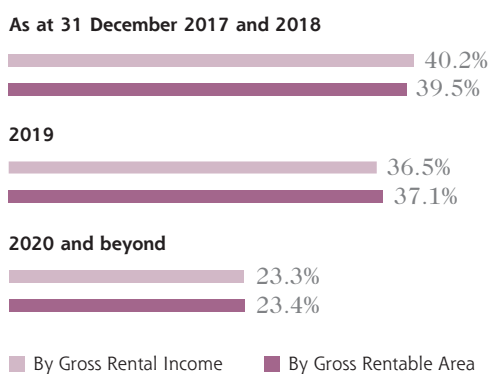
61

TOP 5 TENANTS

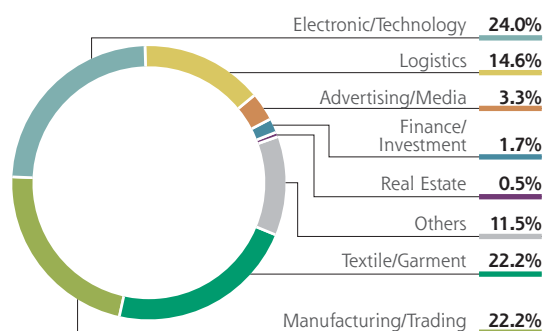
Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Aurora Fashions Asia Limited	Textile/Garment	13,899	9.3%	10.6%
Senko Advanced Components (Hong Kong) Limited	Electronic/Technology	11,733	7.9%	8.0%
Opsec Delta (HK) Limited	Manufacturing/Trading	10,528	7.1%	7.6%
Barco Limited	Electronic/Technology	4,597	3.1%	3.4%
Watch Logistic International Limited & Other	Logistics	4,415	3.0%	3.4%

LEASE EXPIRY PROFILE

(As at 31 December 2017)

TRADE MIX BY
GROSS RENTABLE AREA

(As at 31 December 2017)



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

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

As at 31 December 2017, the occupancy rate of the property was 93.5%.



New Treasure Centre Property

(Portion of New Treasure Centre)

LOCATION:

10 Ng Fong Street, San Po Kong, Kowloon

NO. OF CAR PARK SPACES:

22

YEAR OF COMPLETION:

1995

APPRAISED VALUE (HK\$ MILLION):

340

GROSS RENTABLE AREA (SQ. FT.):

86,168

NUMBER OF TENANTS:

48

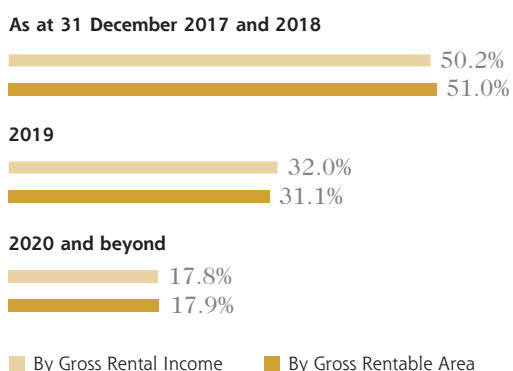
TOP 5 TENANTS

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Goodwell Property Management Limited*	Others	12,404	14.4%	13.1%
Reich Pharm Limited	Others	7,488	8.7%	8.7%
Macrotech Security & Management Services Limited & Others	Others	2,496	2.9%	3.2%
A. Integrity Property Services Limited	Others	2,496	2.9%	3.1%
Yim Hong Kee Company Limited	Manufacturing/Trading	2,519	2.9%	2.9%

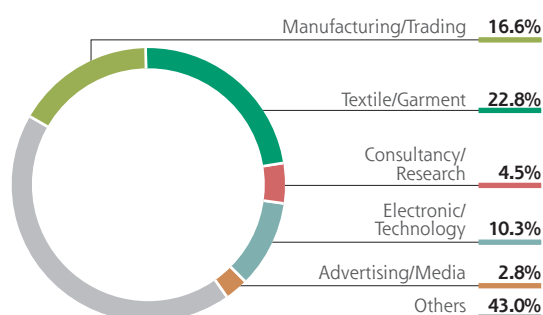
* Goodwell Property Management Limited is a connected person of Prosperity REIT within the meaning of the REIT Code.

LEASE EXPIRY PROFILE

(As at 31 December 2017)

TRADE MIX BY
GROSS RENTABLE AREA

(As at 31 December 2017)



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 2017, the occupancy rate of the property was 97.2%.

A vibrant, low-angle photograph of a bamboo forest. The bamboo stalks are tall, slender, and green, creating a strong vertical rhythm. Sunlight filters through the dense canopy of green leaves, creating a dappled light effect on the forest floor. A path covered in fallen bamboo leaves leads from the bottom left towards the center of the image. The overall atmosphere is serene and natural.

FOCUSED

Strategy

MANAGEMENT DISCUSSION AND ANALYSIS

29

PERFORMANCE HIGHLIGHTS

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

	Year ended 31 December 2017	Year ended 31 December 2016	Percentage change Increase/(Decrease)
Distribution per unit	HK\$0.1780	HK\$0.1777	0.2%

Key financial figures	As at 31 December 2017	As at 31 December 2016	Percentage change Increase/(Decrease)
Net asset value per unit	HK\$5.48	HK\$5.17	6.0%
Property valuation ¹	HK\$10,490 million	HK\$10,777 million	(2.7%)
Gearing ratio ²	21.5%	26.4%	(4.9%) ³

Operation data	Year ended 31 December 2017	Year ended 31 December 2016	Percentage change Increase/(Decrease)
Revenue	HK\$446.2 million	HK\$452.9 million	(1.5%) ⁴
Net property income	HK\$353.6 million	HK\$357.8 million	(1.2%) ⁴
Average effective unit rent	HK\$24.31 per sq. ft.	HK\$23.76 per sq. ft.	2.3%
Occupancy rate (as at 31 December)	97.7%	96.1%	1.6% ³
Cost-to-revenue ratio	20.8%	21.0%	(0.2%) ³

¹ Property valuation as at 31 December 2016 included HFL of HK\$594,000,000 transferred to assets of a disposal group classified as held for sale. Excluding the valuation of HFL which was disposed during the Reporting Year, the percentage change would be 3.0%.

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

³ Absolute change.

⁴ Decrease was mainly due to the revenue loss in HFL as a result of its disposal on 3 March 2017.

OPERATIONS REVIEW

As at 31 December 2017, Prosperity REIT owned a diverse portfolio of seven properties in the decentralized business districts of Hong Kong, comprising all, or a portion of, three Grade A office buildings, one commercial building, two industrial/office buildings and one industrial building. As at 31 December 2017, the total gross rentable area was 1,275,153 sq. ft., with a total of 498 car park spaces.

Information about the properties in the portfolio, as at 31 December 2017, was as follows:

	Location	Gross rentable area sq. ft.	No. of car park spaces	Valuation HK\$ million	Occupancy rate	
Grade A Office						
	The Metropolis Tower	Hung Hom	271,418	98	3,220	100%
	Prosperity Millennia Plaza	North Point	217,955	43	2,140	98.3%
	9 Chong Yip Street	Kwun Tong	136,595	68	1,100	95.3%
Commercial						
	Prosperity Place	Kwun Tong	240,000	83	1,760	98.4%
Industrial/Office						
	Trendy Centre	Lai Chi Kok	173,764	79	1,050	98.1%
	Prosperity Center (portion)	Kwun Tong	149,253	105	880	93.5%
Industrial						
	New Treasure Centre (portion)	San Po Kong	86,168	22	340	97.2%
Total		1,275,153	498	10,490	97.7%	

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain organic growth in the Reporting Year. A stable occupancy rate of 97.7% was recorded as at 31 December 2017, reflecting the effectiveness of the leasing strategies deployed. With efficient streamlining of operations, the cost-to-revenue ratio was maintained at a relatively low level of 20.8%.

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. The REIT Manager also constantly reviews its portfolio from time to time and may consider asset disposal. In the Reporting Year, The REIT Manager captured the opportunity to dispose of HFL at a premium of approximately 49.1% over valuation and the disposal gain was about HK\$299.7 million. A portion of the disposal proceeds of HFL has been used to pay down a part of the term loan, thereby enhancing the financial flexibility of Prosperity REIT.

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
Grade A Office				
The Metropolis Tower	114,841	20,485	135,326	112,226
Prosperity Millennia Plaza	77,095	14,021	91,116	75,058
9 Chong Yip Street	34,842	4,122	38,964	30,316
Commercial				
Harbourfront Landmark (portion)*	4,277	1,479	5,756	4,880
Prosperity Place	69,598	584	70,182	53,145
Industrial/Office				
Trendy Centre	43,343	6,307	49,650	36,316
Prosperity Center (portion)	36,471	3,382	39,853	30,717
Industrial				
New Treasure Centre (portion)	13,438	1,957	15,395	10,942
Total	393,905	52,337	446,242	353,600

* Up to the completion date of the disposal on 3 March 2017.

Revenue

During the Reporting Year, revenue slightly decreased to HK\$446.2 million, being HK\$6.7 million or 1.5% lower than that of 2016. The drop was mainly due to the revenue loss in HFL as a result of its disposal on 3 March 2017.

Net Property Income

For the Reporting Year, the net property income was HK\$353.6 million, being HK\$4.2 million or 1.2% lower than that of 2016. The cost-to-revenue ratio was 20.8%.

Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$261.5 million, representing a total DPU of HK\$0.1780. 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\$26.4 million (equivalent to HK\$0.0180 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 2017. 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 2017 to 31 December 2017 is HK\$127.4 million, equivalent to a DPU of HK\$0.0865. The interim DPU from 1 January 2017 to 30 June 2017 was HK\$0.0915. The total DPU for the Reporting Year is HK\$0.1780, which represents a distribution yield of 5.3%⁴. The DPU increased by 0.2% YoY.

The distribution for the half year from 1 July 2017 to 31 December 2017 will be paid on Friday, 13 April 2018.

⁴ Based on Prosperity REIT's closing unit price of HK\$3.34 as at 29 December 2017.

Liquidity and Financing

As at 31 December 2017, Prosperity REIT had facilities in aggregate of HK\$2,770 million, comprising:

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

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

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

As all facilities bear interests at a variable rate, Prosperity REIT has entered into plain vanilla interest rate swap and cap agreements to mitigate the impact of interest rate fluctuations. As at 31 December 2017, the interest costs for approximately 90% (31 December 2016: 74%) 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 21.5% as at 31 December 2017, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 26.0% as at 31 December 2017.

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

Investment Properties and Property Valuation

For the Reporting Year, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$295.7 million, based on a professional valuation performed by an independent qualified external valuer, Colliers International (Hong Kong) Limited (2016: Jones Lang LaSalle Limited). The movements of fair values are tabulated below:

	31 December 2017 HK\$'000	31 December 2016 HK\$'000
Fair value at the beginning of the year	10,183,000	10,419,000
Additional expenditure	11,303	12,666
Change in fair value of investment properties	295,697	345,334
Transfer to assets of a disposal group classified as held for sale	–	(594,000)*
Fair value at the end of the year	10,490,000	10,183,000

* The amount represents HFL of HK\$594,000,000 transferred to assets of a disposal group classified as held for sale.

Charges on Assets

As at 31 December 2017, all bank loan facilities of Prosperity REIT are unsecured. None of the investment properties of Prosperity REIT were pledged to secure bank loan facilities of Prosperity REIT's finance companies.

Prosperity REIT has provided guarantees for the HK\$1,970 Million Facilities and the HK\$800 Million Facility.

EMPLOYEES

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

CLOSURE OF REGISTER OF UNITHOLDERS

The register of unitholders will be closed from Tuesday, 3 April 2018 to Wednesday 4 April 2018, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 29 March 2018. The payment date of the final distribution will be on Friday, 13 April 2018.

MAJOR REAL ESTATE AGENTS AND CONTRACTORS

Top Five Real Estate Agents

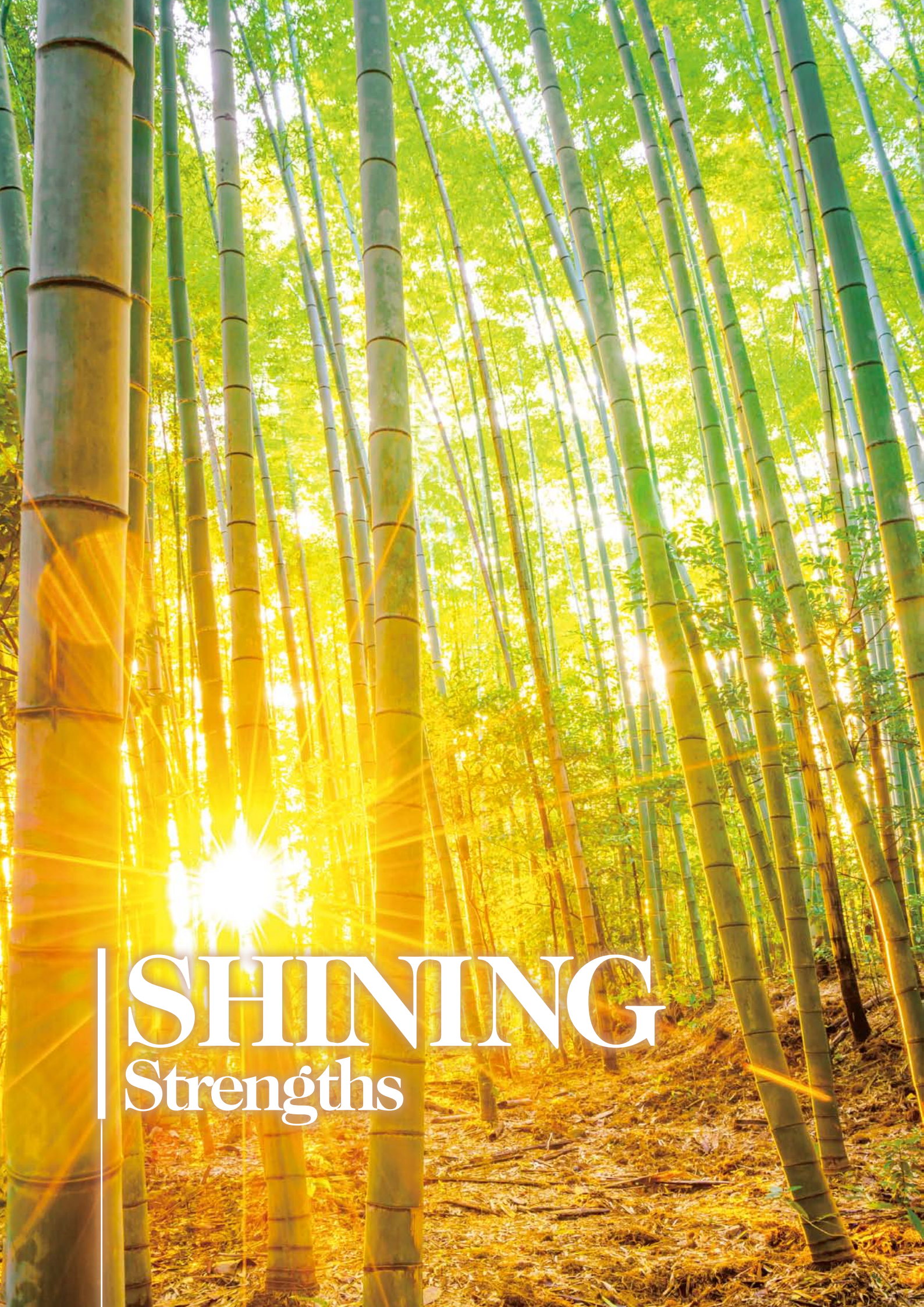
The total commission paid to real estate agents to secure new tenants during the Reporting Year was HK\$5,057,000. The commission paid to the top five real estate agents, summarized as follows, was HK\$2,761,000 and accounted for 54.6% of the total commission paid:

Real Estate Agents	Nature of Services	Commission Paid HK\$'000	Percentage of Total Commission Paid
Centaline Property Agency Limited	Leasing	1,494	29.5%
Midland Realty	Leasing	482	9.5%
Jones Lang LaSalle Limited	Leasing	291	5.8%
DTZ Cushman & Wakefield (HK) Limited	Leasing	271	5.4%
CBRE Limited	Leasing	223	4.4%
		2,761	54.6%

Top Five Contractors

The total value of service contracts of contractors engaged by Prosperity REIT during the Reporting Year was HK\$64,935,000. The value of contracts of the top five contractors, summarized as follows, was HK\$57,699,000 and accounted for 88.8% 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	28,901	44.5%
Citybase Property Management Limited	Building management	13,709	21.1%
Goodwell-Prosperity Property Services Limited	Building management	10,870	16.7%
E-Park Parking Management Limited	Carpark operation	3,112	4.8%
ANW Contracting Company Limited	Repairs and maintenance	1,107	1.7%
		57,699	88.8%



SHINING

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



CHUI Bok Man, Kelly
Senior Property Manager

DENG Chi Yung, Jonathan
Leasing Manager

WONG Ling Fei
Assistant Chief Manager,
Leasing

CHAN Chun Kwok, Boris
Leasing Manager

SIU Kit Fu, Jeff
Manager, Asset
Management & Investments

YEUNG Tin On, Bruce
Assistant Leasing Manager

NG Chi Wah, Kevin
Assistant Director,
Asset Management

WONG Sze Yu, Kitty
Assistant Property Manager

WONG Lai Hung, Mavis
Chief Executive Officer

SHING Wai Kit, Joe
Senior Technical Manager



SUSTAINABLE |
Philosophy |

ENVIRONMENTAL, SOCIAL AND GOVERNANCE (“ESG”)

OUR PHILOSOPHY

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

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

ABOUT THIS SECTION

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

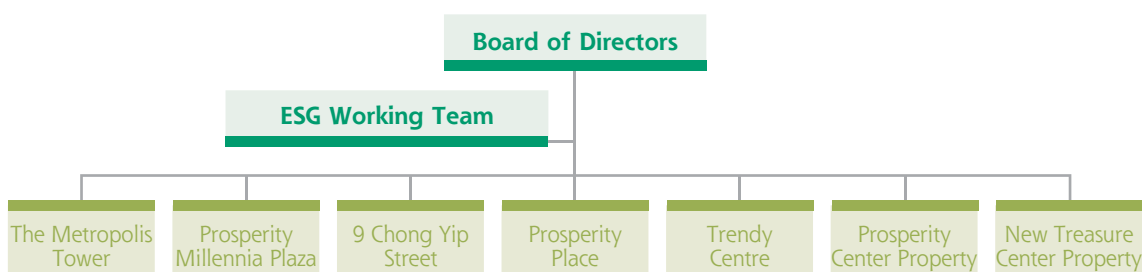
The report focuses on the ESG performance of all properties owned and managed by Prosperity REIT. The seven properties include The Metropolis Tower, Prosperity Millennia Plaza, 9 Chong Yip Street, Prosperity Place, Trendy Centre, Prosperity Center Property and New Treasure Centre Property.

Unless otherwise stated, the report covers our performance within the financial year from 1 January 2017 to 31 December 2017.

For information regarding our corporate governance, please refer to the Corporate Governance Section at page 65.

OUR ESG GOVERNANCE AND MANAGEMENT

ESG Management Structure



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

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

STAKEHOLDER ENGAGEMENT AND MATERIALITY ANALYSIS

Communication with Stakeholders

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



Communication with Unitholders

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

Investor Seminars



Annual General Meeting (AGM)



Property Tour



Press Briefing



Analysts Briefing

Materiality analysis

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

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

ESG Aspects	Issues
 Social — Community	<ul style="list-style-type: none"> Community investment
 Environmental	<ul style="list-style-type: none"> Energy conservation Significant impacts of activities on the environment and natural resources
 Social — Employment and labour practices	<ul style="list-style-type: none"> Employment relations including employee remuneration and welfare, labor standards etc. Occupational health and safety Staff training and education
 Social — Operating practices	<ul style="list-style-type: none"> Data privacy protection for tenants Supply chain management Anti-corruption Service responsibilities

CARING FOR COMMUNITY

Giving Back to the Society

To us, business success is measured beyond monetary value. A successful business is the one which can produce meaningful impact in the society. Therefore, we are determined to share our success with the community, give back to the society, and generate positive effects to people in need. Through actively supporting and participating in CSR activities, we have received the 5 Year Plus Caring Company Award from the Hong Kong Council of Social Service again in 2017. The award recognized our continuous contribution in creating a caring society for all walks of life.



Certificate to the Tenant to express our gratitude to their participation and support



Prosperity REIT continuously organizes blood donation day with Hong Kong Red Cross Blood Transfusion Service, and this time, jointly organized with our major tenant “Canon HK” to support patients in need. In July 2017, we set up two blood donation centres in The Metropolis Tower.



Involving Our Staff



Prosperity REIT received a certificate from AVS at the International Volunteer Day Recognition Ceremony 2017

We encourage our staff to get involved in a variety of community work to give a helping hand to people in need and achieve work-life balance through volunteering. Within the Reporting Year, our staff members dedicated a total of 290 hours to volunteering services such as elderly visits, flag-selling, blood donation activities, and workshops with underprivileged families. In recognition of our staff's contribution to the society, Prosperity REIT was awarded the “Certificate of Appreciation” by the Agency for Volunteer Service (“AVS”), a member agency of the Community Chest, at the International Volunteer Day Recognition Ceremony 2017.

Prosperity REIT has supported a variety of charity events organized by ELCHK for three consecutive years



Building a Committed Voluntary Team at Prosperity REIT

In October 2017, Prosperity REIT received a trophy and a certificate from Evangelical Lutheran Church of Hong Kong (ELCHK) at the 2017 Corporate Partnership Award Presentation Ceremony to honor our contribution and support to their organization over the past three years. ELCHK is an organization which helps vulnerable groups such as the elderly, children and teenagers to live a better life through different charity programs. In 2017, we collaborated with ELCHK in a variety of events to give a helping hand to the underprivileged groups in the society. The followings are the highlights of CSR activities that we partnered with ELCHK:

Involving Our Staff

Our staff members brought along their kids to support the meaningful Flag-Selling Day



In June 2017, our staff and their family members participated in a Flag-Selling Day. All the proceeds would be used to provide rehabilitation service for the needs of intellectual disabled persons.



In September 2017, our volunteers paid a visit to Kwu Tung Elderly Service Center to celebrate Mid-Autumn Festival with the elderly and show our care. We made anti-mosquito cream and did some games and exercises together with the elderly.

Our volunteers showed the love and care to the elderly through the workshop and the mingling session

Involving Our Staff



In December 2017, we hosted and sponsored a “Christmas Party and Cookies DIY” to celebrate the festive season with students from low-income family at our property, Prosperity Place. Our volunteers assisted our tenant to make the Christmas’s cookies in this joyful event.

Students from low-income families were excited and delighted in the cookies workshop

CARING FOR ENVIRONMENT

Managing Our Environmental Performance

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

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

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

Reducing Energy Consumption and Greenhouse Gas Emissions

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

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

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

During the Reporting Year, our properties consumed a total of 7,846,991 kWh of electricity, with the intensity of 6.15kWh/GRA. The figure translates to 4,873.95 tonnes of carbon dioxide equivalent (tCO₂e) generated through purchased electricity consumption, or 0.004 tCO₂e/GRA.

Conserving Water Resources

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

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

During the Reporting Year, 8,965 cubic metre of water were consumed by our properties in total, with the water intensity of 0.007 cubic metre/GRA.

Greening Our Properties

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

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

Limiting Waste Generation

Through promoting 3Rs — Reduce, Reuse and Recycle, we are determined to manage the amount of waste we generated to landfill from our business operations. While more paper recycling was observed across our properties during the year, the clean waste recycling system implemented recorded an overall increase in metal recycled.

Our properties also took part in the Environmental Protection Department’s (EPD) computer recycling program and Hong Kong Environmental Protection Association’s christmas tree and peach blossom recycling scheme with an increase of recycling rate. On the other hand, we worked together with the tenants to recycle their waste to minimize disposal at landfills.

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



Involving Tenants and External Parties

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

Our environmental education initiatives go into the community as well. During the year, we collaborated with ELCHK to host an environmental awareness-raising day (一家大細綠戰隊) for 28 underprivileged primary school students and their parents at Prosperity Place. The participants toured around the property to visit the green facilities, including green wall, rooftop garden, hydroponic organic farm and renewable energy generation sets. In addition, we held a workshop — “Build Your Dream House”, in which the kids and their parents constructed their warm house using recycled ice-cream sticks. The activities aim to cultivate their environmental awareness.

Whenever possible, we arrange venue sponsorship to environmental NGOs as a form of support to their environmental education programs. It also allows the tenants and visitors to learn more about environmental protection.



We introduced our greening facilities to the participants, and utilized recycled materials in the workshop to raise their environmental awareness



Environmental, Social and Governance (“ESG”)

CARING FOR TENANT

Engaging Our Tenants

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

Protecting Data and Privacy

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

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

Handling Complaints

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

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

The winning teams in Sport Fun Day were awarded trophies



Our tenants and staff sharing of lawn bowling technique

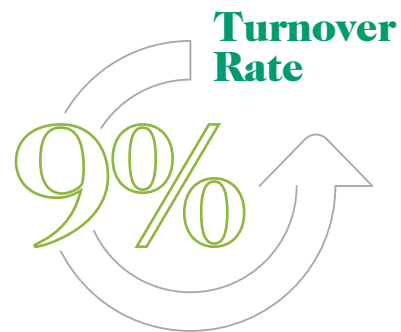
CARING FOR STAFF

Safeguarding Employee’s Rights

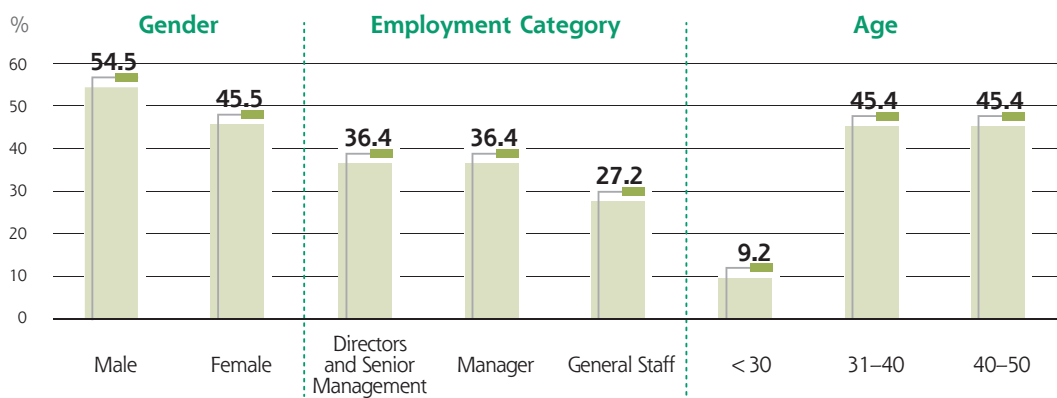
Our staff are the building blocks of our business, and we are dedicated to providing them with a workplace that is pleasant, fulfilling and supportive. Apart from being compliant with the employment-related laws and regulations, we have implemented human resources policy. The policy details employee’s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

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

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



Total Workforce by Category



Maintaining Workplace Safety and Health

We emphasize workplace safety and health which is the first step to providing the staff with positive work experience. Other than complying with occupational safety and health-related ordinances, we are committed to a drug-free and sweat-free workplace. We make use of the Health and Safety Policy and OHSAS 18001-certified safety and health management system. In addition, the Health and Safety Management Committee which consists of different ranks of staff is tasked to facilitate the implementation of the system, promote occupational health and safety matters and enhance the overall workplace conditions.



Besides having the committee to regularly review the incident prevention strategy and ensure the preventive measures implemented are effective, we provide safety training through briefing, tool box talk and lecture. Training and drills on safety principles and emergency procedures regarding fire hazard, use of chemical and electrical appliances are held throughout the year. A total of 827.5 training hours were recorded during the year, with courses including first-aid, safety inspector training and metal scaffolds installation and uninstallation training were organized for the property management staff.

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

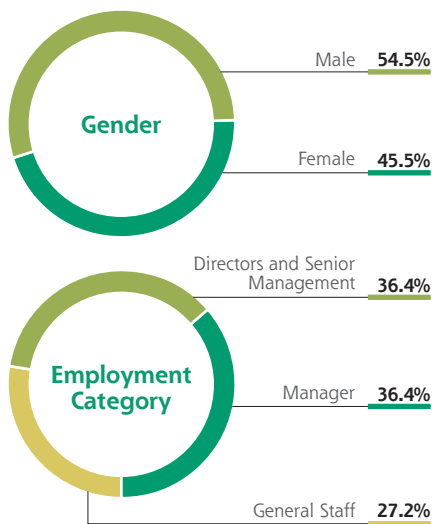
With our effort to create a pleasant work environment to staff, our Trendy Centre and Prosperity Millennia Plaza have been awarded the Good Class Certificate in the Indoor Air Quality Certification Scheme. Our workplace safety and health practices extend to our supply chain. As part of our procurement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

Enriching Career and Personal Experience

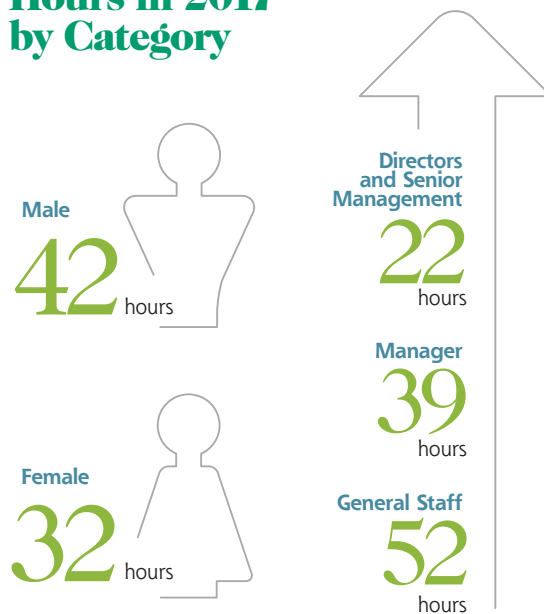
We strive to offer fulfilling experience to staff through giving them learning and development opportunities. In addition to the aforementioned induction and safety training programs, other courses tailored to their everyday work are organized both internally and externally. In an attempt to align the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



Percentage of Employees attended training in 2017 by Category



Average Training Hours in 2017 by Category



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

Environmental, Social and Governance (“ESG”)

FULFILLING OTHER DUTIES FOR SUSTAINABILITY

Supply Chain Management

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

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

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

Anti-corruption

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

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

Service Responsibility

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

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OUR AWARDS



Wood Recycling & Tree Conservation Scheme 2017

by Hong Kong Environmental Protection Association

Indoor Air Quality Certificate • Good Class

by Indoor Air Quality Information Centre



Excellence in Facility Management Award (Office Building)

by The Hong Kong Institute of Facility Management

Charter on External Lighting • Platinum Award

by Environmental Bureau



Caring Company • 5 years+

by The Hong Kong Council of Social Services

HKIRA IR Award • Best IR in Corporate Transaction Small Cap

by Hong Kong Investor Relations Association



2016 Vision Awards Annual Report Competition • Silver Award

by League of American Communications Professionals



2017 International ARC Awards – Annual Report 2016 • Gold Winner

by MerComm, Inc.

ELCHK Corporate Partnership Award

by ELCHK



International Volunteer Day Recognition 2017

by Agency for Volunteer Service

The 8th Hong Kong Outstanding Corporate Citizenship Awards • Merit (SME Category)

by Hong Kong Productivity Council



The 8th Hong Kong Outstanding Corporate Citizenship Awards • Corporate Citizenship Young Power

by Hong Kong Productivity Council

HSBC Living Business Awards 2017 • Green Achievement Award

by Business Environment Council



HSBC Living Business Awards 2017 • Community Engagement Award

by Business Environment Council

DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHICAL INFORMATION

DIRECTORS

Chiu Kwok Hung, Justin

Chairman and Non-executive Director

Dr. CHIU Kwok Hung, Justin, aged 67, is the Chairman of the REIT Manager. He was previously the Chairman of ARA Asset Management Limited (whose shares were withdrawn from listing on 19 April 2017), the holding company of the REIT Manager. Dr. Chiu is also a Non-executive Director of ARA Asset Management (Fortune) Limited as the manager of Fortune REIT (listed in Hong Kong and Singapore), and a Director of ARA Fund Management (Asia Dragon) Limited as the manager of the ARA Asia Dragon Fund. Dr. Chiu joined the CK Group in 1997 and is an Executive Director and a Member of Executive Committee of CK Asset Holdings Limited (listed in Hong Kong), heading the real estate sales, marketing and property management teams.



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

Dr. Chiu has more than 30 years of international experience in real estate in Hong Kong and various countries and is one of the most respected professionals in the property industry in Asia. He was a member of the Standing Committee of the 12th Shanghai Committee of the Chinese People's Political Consultative Conference of the People's Republic of China, and is a Council Member and a Fellow of The Hong Kong Institute of Directors, a Fellow of Hong Kong Institute of Real Estate Administrators, a Vice Chairman 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 University of Cambridge and an Honorary Professor of School of Pharmaceutical Sciences of Sun Yat-Sen University.

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

Lim Hwee Chiang

Non-executive Director

Mr. Lim Hwee Chiang, aged 61, is a Non-executive Director of the REIT Manager. He is the Group Chief Executive Officer and a Director of ARA Asset Management Limited, the holding company of the REIT Manager, 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 also an Independent Director of Teckwah Industrial Corporation Limited (listed in Singapore).



Lim Hwee Chiang
Non-executive Director

Directors and Senior Management Biographical Information

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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). In addition, Mr. Lim is 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 Chairman of the Asia Pacific Real Estate Association (APREA) and the Consultative Committee to the Department of Real Estate, National University of Singapore.

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

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

Wong Lai Hung, Mavis

Executive Director and Chief Executive Officer



WONG Lai Hung, Mavis

*Executive Director and
Chief Executive Officer*

Ms. Wong Lai Hung, Mavis, aged 45, is an Executive Director, the Chief Executive Officer and a Responsible Officer of the REIT Manager. She is also the Chairman of the Disclosures Committee and a member of the Designated (Finance) Committee of the REIT Manager. Ms. Wong has led and/or been a key member of the Investment and Asset Management Team of the REIT Manager since Prosperity REIT was listed in December 2005. She was the Director, Investment and Asset Management of the REIT Manager overseeing the business plans of Prosperity REIT's properties including leasing, property management and asset enhancement strategies, and was responsible for investment strategy and policy. She was then promoted as Acting Chief Executive Officer and re-designated as the Chief Executive Officer on 1 January 2013. Ms. Wong has been a Responsible Officer of the REIT Manager since July 2007.

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

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

Directors and Senior Management Biographical Information

Ma Lai Chee, Gerald

Non-executive Director

Mr. Ma Lai Chee, Gerald, aged 50, is a Non-executive Director of the REIT Manager and a member of the Designated (Finance) Committee. He is a Non-executive Director of ARA Asset Management (Fortune) Limited as the manager of Fortune REIT (listed in Hong Kong and Singapore) and an Alternate Director to Mr. Lai Kai Ming, Dominic, Non-executive Director of Hutchison Telecommunications Hong Kong Holdings Limited (listed in Hong Kong). Mr. Ma joined the CK Group in 1996 and is currently a Member of Executive Committee & General Manager, Corporate Business Development Department of CK Asset Holdings Limited (listed in Hong Kong). He is also a Director of aircraft leasing companies, Accipiter Holdings Designated Activity Company, Accipiter Investments Holdings Designated Activity Company and Vermillion Aviation Holdings Limited, members of CK Asset Holdings Limited.



MA Lai Chee, Gerald

Non-executive Director

Mr. Ma has over 28 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 77, is an Independent Non-executive Director, Chairman of the Audit Committee and a member of each of the Disclosures Committee and Designated (Finance) Committee of the REIT Manager. He is an Independent Non-executive Director of CK Infrastructure Holdings Limited (listed in Hong Kong), Hutchison Telecommunications Hong Kong Holdings Limited (listed in Hong Kong) and SJM Holdings Limited (listed in Hong Kong). Dr. Lan is currently the Chairman of David H T Lan Consultants Ltd., Supervisor of Nanyang Commercial Bank (China), Limited, an Independent Non-executive Director of Cinda Financial Holdings Co., Limited and holds a directorship at Nanyang Commercial Bank Ltd., 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.



LAN Hong Tsung, David

Independent Non-executive Director

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

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

Sng Sow-Mei (alias Poon Sow Mei)

Independent Non-Executive Director



SNG Sow-Mei
*Independent
Non-executive Director*

Mrs. Sng Sow-Mei (alias Poon Sow Mei), aged 76, is an Independent Non-executive Director and a member of the Audit Committee of the REIT Manager. She is an Independent Non-executive Director of CK Infrastructure Holdings Limited (listed in Hong Kong), and an Independent Non-executive Director and the Lead Independent Director of Hutchison Port Holdings Management Pte. Limited as the trustee-manager of Hutchison Port Holdings Trust (listed in Singapore).

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

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

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

Directors and Senior Management Biographical Information

Wong Kwai Lam

Independent Non-executive Director



WONG Kwai Lam

*Independent
Non-executive Director*

Mr. Wong Kwai Lam, aged 68, 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. and 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 Hospital Governing Committee of the Prince of Wales Hospital, a member of the Board of Directors of CUHK Medical Centre Ltd and a member of the Advisory Board of Continuing and Professional Studies of The Chinese University of Hong Kong. He was formerly a member of each of the Advisory Committee and Real Estate Investment Trust (REIT) Committee of the Securities and Futures Commission in Hong Kong and a member of the China Committee of the Hong Kong Trade Development Council.

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

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

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.

Directors and Senior Management Biographical Information

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

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

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

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

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.

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

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

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

Directors and Senior Management Biographical Information

Ms. AU Ka Yee, Irene is the 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.

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

During the Reporting Year, the Compliance Manual was amended to, among others, introduce manager-in-charge of core functions ("**MIC**") and update the roles and responsibilities of the executive officers, in order to comply with the new MIC regime imposed by the Securities and Futures Commission (the "**SFC**").

AUTHORIZATION STRUCTURE

Prosperity REIT is a collective investment scheme authorized by 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;

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

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

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

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

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

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

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

APPOINTMENT AND REMOVAL OF DIRECTORS

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

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

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

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

During the Reporting Year, in-house briefings/reports were given to Directors in respect of the senior management accountability and MIC regime, and an external advisor was engaged to conduct a briefing on the new requirements under the Environmental, Social and Governance Reporting Guide. Besides, the external auditor of Prosperity REIT also gave briefings on hedge accounting, and updates of accounting standards and principles to the members of the Audit Committee.

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

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

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

AUDIT COMMITTEE

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

The Audit Committee's responsibilities also include:

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

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

The Audit Committee meets on a half yearly basis and otherwise on an as-needed basis. The Audit Committee held two meetings during the Reporting Year for considering and reviewing, among others, the 2016 final results, 2017 interim results and other internal controls, risk management and compliance matters of Prosperity REIT. The attendance record of the Audit Committee meetings is as follows:

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

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

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

DISCLOSURES COMMITTEE

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

The Disclosures Committee's responsibilities also include:

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

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

The Disclosures Committee meets on a half yearly basis and otherwise on an as-needed basis. The Disclosures Committee held two meetings during the Reporting Year for considering and reviewing, among others, the 2016 final results announcement and 2017 interim results announcement, the 2016 annual report and 2017 interim report of Prosperity REIT, and other corporate disclosure issues of Prosperity REIT. The Disclosures Committee also reviewed all public announcements issued by Prosperity REIT throughout the Reporting Year. The attendance record of the Disclosures Committee meetings is as follows:

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

DESIGNATED (FINANCE) COMMITTEE

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

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

The meetings of the Designated (Finance) Committee are convened as and when necessary. No meeting of the Designated (Finance) Committee was held during the Reporting Year.

MANAGEMENT OF BUSINESS RISK

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

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

CONFLICTS OF INTEREST

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

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

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

COMMUNICATION WITH UNITHOLDERS AND INVESTORS

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

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

The 2017 Annual General Meeting ("**AGM**") was held on 9 May 2017 and the notice of AGM was sent to unitholders at least 20 clear business days before the AGM. The attendance record of the AGM is as follows:

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

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

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

REPORTING AND TRANSPARENCY

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

As required by the REIT Code, the REIT Manager will ensure that public announcements of material information and developments with respect to Prosperity REIT will be made on a timely basis in order to keep unitholders apprised of the position of Prosperity REIT. Announcements will be made by publishing them on the website of Hong Kong Exchanges and Clearing Limited (the "HKEx") and the website of Prosperity REIT.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparation of a true and fair presentation of the financial statements for the year ended 31 December 2017. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the ability of Prosperity REIT to continue as a going concern.

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

ISSUES OF FURTHER UNITS POST-LISTING

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

CODE GOVERNING DEALINGS IN UNITS BY DIRECTORS OR THE REIT MANAGER AND INTERESTS OF THE SIGNIFICANT UNITHOLDERS

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

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

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

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

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

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

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

The Trust Deed contains provisions to deem the application of Part XV of the SFO. Accordingly, unitholders with a holding of 5% or more of the units in issue have a notifiable interest and will be required to notify the HKEx and the REIT Manager of their holdings in Prosperity REIT. The REIT Manager shall then send copies of such notifications received by it to the Trustee. The REIT Manager keeps a register for the purposes of maintaining disclosure of interests in units of Prosperity REIT, which is available for inspection by the Trustee and any unitholder at any time during business hours upon reasonable notice to the REIT Manager.

MATTERS TO BE DECIDED BY UNITHOLDERS BY SPECIAL RESOLUTION

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

CHANGES OF DIRECTORS' INFORMATION

Subsequent to publication of the 2017 Interim Report of Prosperity REIT, the REIT Manager received notifications regarding the following changes of Directors' information:

- (1) Mr. Lim Hwee Chiang was appointed as the Chairman of the Asia Pacific Real Estate Association (APREA) with effect from 2 October 2017.
- (2) Dr. Lan Hong Tsung, David was conferred with Honorary Degree of Doctor of Business Administration by University of the West of England (UWE Bristol) on 28 November 2017.
- (3) Mr. Wong Kwai Lam ceased to be a member of the Investment Sub-Committee of the Chinese University of Hong Kong with effect from 10 January 2018 and was appointed as the Chairman of Opera Hong Kong Limited with effect from 16 January 2018.

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 2017.

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 2017 HK\$	Rental deposit received as at 31 December 2017 HK\$
Goodwell Property Management Limited	Subsidiary of a significant holder ¹	Tenancy of property of Prosperity REIT ²	1,798,664	500,172
Hutchison Telephone Company Limited	Associated company of a significant holder ¹	Licence of property of Prosperity REIT ³	80,365	20,244
Hutchison Hain Organic (Hong Kong) Limited	Associated company of a significant holder ¹	Tenancy of property of Prosperity REIT ⁴	969,857	258,424
Total			2,848,886	778,840

Notes:

1. Significant holder being CK Asset Holdings Limited ("CK Asset").
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 HFL (HFL was disposed on 3 March 2017).
4. For Units 1703A, 1703B and 1704, 9 Chong Yip Street.

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 2017 HK\$
Goodwell Property Management Limited ¹	Subsidiary of a significant holder ³	Remuneration of DMC Manager	212,935
Goodwell Property Management Limited ²	Subsidiary of a significant holder ³	Remuneration of Carpark Manager	8,153
Citybase Property Management Limited ¹	Subsidiary of a significant holder ³	Remuneration of DMC Manager	307,247
Citybase Property Management Limited ²	Subsidiary of a significant holder ³	Remuneration of Carpark Manager	74,661
Harbourfront Landmark Premium Services Limited ¹	Subsidiary of a significant holder ³	Remuneration of DMC Manager	47,190
Total			650,186

Notes:

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

CONNECTED PARTY TRANSACTIONS — EXPENSES

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

Name of Connected Person	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Expenses for the year ended 31 December 2017 HK\$
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder ²	Property management and lease management fee	10,964,557
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder ²	Marketing service fee	11,324,952
E-Park Parking Management Limited	Subsidiary of a significant holder ²	Carpark lease agency fee	3,111,884
CK Asset Companies ¹	Subsidiaries of a significant holder ²	Back-office support service fee	63,512
Jones Lang LaSalle Limited	Principal Valuer ³	Leasing Commission	291,333
Total			25,756,238

Notes:

1. CK Asset Companies include Harbour Plaza North Point Catering Limited, Harbour Plaza Metropolis Limited and Hutchison Hotel Hong Kong Limited.
2. Significant holder being CK Asset.
3. Jones Lang LaSalle Limited was the Principal Valuer of Prosperity REIT up to 30 November 2017.

CONNECTED PARTY TRANSACTIONS — OTHERS

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

Name of Connected Person	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Expenses for the year ended 31 December 2017 HK\$
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee fee	3,115,366
ARA Asset Management (Prosperity) Limited	REIT Manager	Base fee and variable fees	51,954,343
ARA Asset Management (Prosperity) Limited	REIT Manager	Divestment fee	4,428,708
Jones Lang LaSalle Limited	Principal Valuer ¹	Valuation fees	70,875
Colliers International (Hong Kong) Limited	Principal Valuer ¹	Valuation fees	145,000
Total			59,714,292

Note:

1. Jones Lang LaSalle Limited was the Principal Valuer of Prosperity REIT up to 30 November 2017 and Colliers International (Hong Kong) Limited is the Principal Valuer of Prosperity REIT since 1 December 2017.

CONNECTED PARTY TRANSACTION WITH HSBC GROUP* FOR BANK DEPOSITS

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

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

OTHER CONNECTED PARTY TRANSACTIONS

The following companies had provided carpark management services and property management services to Prosperity REIT during the Reporting Year and hence amounts due from Prosperity REIT as at 31 December 2017 were as follows:

Name of Connected Person	Amount payable HK\$
Goodwell-Prosperity Property Services Limited	4,267,398
Goodwell Property Management Limited	3,737,956
E-Park Parking Management Limited	535,243
Citybase Property Management Limited	940,549
Total	9,481,146

CONFIRMATION BY THE INEDS

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

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

CONFIRMATION BY THE AUDITOR OF PROSPERITY REIT

Messrs. Deloitte Touche Tohmatsu, auditor of Prosperity REIT, was engaged to report on Prosperity REIT and its subsidiaries' continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions on leasing/licensing transactions, property management arrangements, third party services and other operational transactions and transactions involving ordinary banking and financial services disclosed by Prosperity REIT and its subsidiaries from pages 76 to 80 of the Annual Report in accordance with the waiver from strict compliance with disclosure requirements under Chapter 8 of the REIT Code granted by the SFC. A copy of auditor's letter has been provided by Prosperity REIT to the SFC.

CONFIRMATION BY THE REIT MANAGER AND THE TRUSTEE OF CORPORATE FINANCE TRANSACTION WITH THE HSBC GROUP

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

REPURCHASE, SALE OR REDEMPTION OF UNITS

During the Reporting Year, other than the disposal of 19,662,000 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 2017		As at 31 December 2016
	Number of Units	Percentage of Unitholdings ⁶	Number of Units
Total Win Group Limited ¹	176,328,129	12.00%	176,328,129
Wide Option Investments Limited ¹	98,883,559	6.73%	98,883,559
HKSCC Nominees Limited ²	1,071,404,326	72.91%	1,056,106,066
HSBC ³	1,217,250	0.08%	27,757,250
ARA Asset Management (Prosperity) Limited ⁴	225	0.00002%	3,936,008
Lan Hong Tsung, David ⁵	350,000	0.02%	350,000

Notes:

- Total Win Group Limited ("**Total Win**") was a connected person of Prosperity REIT as it was a significant holder (as defined under the REIT Code) of Prosperity REIT as at 31 December 2017. Total Win was an indirect wholly-owned subsidiary of CK Asset, which was therefore deemed to hold 176,328,129 units held by Total Win as at 31 December 2017.

Wide Option Investments Limited ("**Wide Option**") was a connected person of Prosperity REIT as it was an indirect wholly-owned subsidiary of CK Asset, which was therefore deemed to hold 98,883,559 units held by Wide Option as at 31 December 2017.

Therefore, CK Asset was deemed to hold 275,211,688 units as at 31 December 2017, of which 176,328,129 units were held by Total Win and 98,883,559 units were held by Wide Option.
- HKSCC Nominees Limited was a connected person of Prosperity REIT as it was a significant holder (as defined under the REIT Code) of Prosperity REIT as at 31 December 2017. So far as the REIT Manager is aware of, HKSCC Nominees Limited held such units as a nominee.
- 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 2017 and 31 December 2016. The Trustee's directors, senior executives, officers and their associates had no beneficial interest in any units as at 31 December 2017 and 31 December 2016. The controlling entity, holding company, subsidiary or associated company of the Trustee were beneficially interested in 1,217,250 units and 27,657,250 units as at 31 December 2017 and 31 December 2016 respectively.
- 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 2017.
- 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 2017.
- The total number of issued units as at 31 December 2017 was 1,469,395,447.

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 2017.

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

As at 31 December 2017, 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 ^{Note}
ARA Asset Management (Prosperity) Limited	225	0.00002%
Lan Hong Tsung, David	350,000	0.02%

Note: The total number of issued units as at 31 December 2017 was 1,469,395,447.

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 2017.

VALUATION REPORT

Our Ref: 17-12736
2 March 2018

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

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

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

Dear Sirs,

INSTRUCTIONS, PURPOSE AND VALUATION DATE

We refer to the instruction from ARA Asset Management (Prosperity) Limited (the **“Manager”**), acting as the manager of Prosperity Real Estate Investment Trust (**“Prosperity REIT”**), and HSBC Institutional Trust Services (Asia) Limited (the **“Trustee”**) to conduct a property valuation for the Prosperity REIT’s property portfolio (the **“Portfolio”**) for the Annual Report of Prosperity REIT for the financial year ending on 31 December 2017. We confirm that we have carried out inspection, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the Market Value (as defined hereunder) of the Portfolio, with the benefit of existing tenancies, as at 31 December 2017 (the **“Valuation Date”**) for accounting, mortgage security and testing financial covenants purposes.

THE PORTFOLIO

The Portfolio comprises the following property interests:

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

VALUATION STANDARDS

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

VALUATION BASIS

Our valuation has been made on the basis of Market Value as defined by IVSC and adopted by HKIS and RICS, set out as “the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm’s-length transaction after proper marketing and where the parties had each acted knowledgeable, prudently and without compulsion”.

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

VALUATION ASSUMPTIONS

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

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

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

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

VALUATION METHODOLOGIES

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

Term and Reversion Method estimates the value of properties or assets on a market basis by capitalising net rental income on a fully leased basis. This method is used when a property or asset is leased out for a specific term. This technique considers both the current passing rental income from existing tenancies and the potential future reversionary income at market level, by capitalising both at appropriate rates. In calculating the net rental income for this purpose, deduction is made for outgoings such as property management fees, capital expenditure, vacancy loss, and other necessary expenses.

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

SOURCES OF INFORMATION

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

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

TITLE INVESTIGATION

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

SITE INSPECTION

We have inspected the exterior, and where possible, the interior of the Portfolio on 13 December 2017, 18 December 2017 and 19 December 2017.

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

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

PLANT AND MACHINERY

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

TELECOMMUNICATION FACILITIES

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

CURRENCY

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

SATISFACTION OF PROPERTY VALUER CRITERIA IN REIT CODE

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

CONFIDENTIALITY AND NON-DISCLOSURE

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

DISCLOSURE OF INTEREST

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

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

Yours faithfully,

For and on behalf of

Colliers International (Hong Kong) Ltd

Vincent Cheung

BSc(Hons) MBA FRICS MHKIS RPS(GP) MISCM MHKSI

MCIREA REGISTERED REAL ESTATE APPRAISER PRC

Deputy Managing Director

Valuation & Advisory Services — Asia

Note: Vincent Cheung holds a Master of Business Administration and he is a Registered Professional Surveyor with over 20 years' experience in real estate industry and assets valuations sector. His experience on valuations covers Hong Kong, Mainland China, Macau, Taiwan, South Korea, Malaysia, Vietnam, Cambodia and other overseas countries. Vincent is a fellow member of the Royal Institution of Chartered Surveyors, a member of The Hong Kong Institute of Surveyors, a member of Institute of Shopping Centre Management, a member of Hong Kong Securities and Investment Institute, a member of China Institute of Real Estate Appraiser and a Registered Real Estate Appraiser PRC. Vincent is one of the valuers on the “list of property valuers for undertaking valuation for incorporation or reference in listing particulars and circulars and valuations in connection with takeovers and mergers” as well as a Registered Business Valuer of the Hong Kong Business Valuation Forum.

VALUATION SUMMARY

Properties	Approx. Gross Area (sq ft)	No. of Carparking Space (lots)	Market Value as at 31 December 2017
1. The Metropolis Tower	271,418	98	HK\$3,220,000,000
2. Prosperity Millennia Plaza	217,955	43	HK\$2,140,000,000
3. 9 Chong Yip Street	136,595	68	HK\$1,100,000,000
4. Prosperity Place	240,000	83	HK\$1,760,000,000
5. Trendy Centre	173,764	79	HK\$1,050,000,000
6. Portion of Prosperity Center	149,253	105	HK\$880,000,000
7. Portion of New Treasure Centre	86,168	22	HK\$340,000,000
Total	1,275,153	498	HK\$10,490,000,000

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2017
1. The Metropolis Tower, 10 Metropolis Drive, Hung Hom, Kowloon, Hong Kong 24,734/247,769th equal and undivided parts or shares of and in Kowloon Inland Lot No. 11077	<p>The Metropolis Tower is a 15-storey office building comprising 11th to 28th Floors (13th, 14th and 24th floor numbers are omitted) built over a multi-storey retail/carparking podium on a registered site area of approximately 50,058 sq m (538,824 sq ft). The building was built in 2001.</p> <p>The Metropolis Tower is the office portion of the comprehensive mixed-use complex, called The Metropolis. The Metropolis comprises other components including a shopping centre (Fortune Metropolis), two 18-storey residential towers (The Metropolis Residence) and a 12-storey hotel (Harbour Plaza Metropolis).</p> <p>The Metropolis Tower comprises the entire office units from the 11th to 28th Floors with a total gross area of approximately 25,215 sq m (271,418 sq ft). The total saleable area is approximately 18,833 sq m (202,717 sq ft).</p> <p>The property also comprises 98 carparking spaces within the retail/carparking podium of the development.</p> <p>Kowloon Inland Lot No. 11077 is held under Conditions of Grant No. 12444 for a term from 14 February 1997 to 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The office portion of the property was let under various tenancies for various terms with the latest expiry in November 2020, yielding a total monthly rental income of approximately HK\$9,510,140, exclusive of Government rates and rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 100.0%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$359,000 during the period from January 2017 to December 2017.</p>	<p>HK\$3,220,000,000</p> <p>(HONG KONG DOLLARS THREE BILLION TWO HUNDRED AND TWENTY MILLION)</p> <p>Estimated net property yield was approximately 3.7%.</p>

Notes:

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

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

- (2) The property is currently zoned for "Other Specified Uses (Commercial Development and Freight Yard)" purposes under the approved Hung Hom Outline Zoning Plan No. S/K9/26 gazetted on 10 November 2017.
- (3) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (4) The estimated net property yield is based on the net monthly rental income for December 2017 and average net monthly car parking income for the period of January 2017 to December 2017.
- (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
2015 and before	106,493	39.2%	3,646,740	38.3%	27	27.5%
2016	109,558	40.4%	3,841,600	40.4%	37	37.8%
2017	55,367	20.4%	2,021,800	21.3%	34	34.7%
Total	271,418	100.0%	9,510,140	100.0%	98	100.0%

Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2017 and 2018	149,161	55.0%	5,133,640	54.0%	40	40.8%
2019	97,787	36.0%	3,474,600	36.5%	42	42.9%
2020 and beyond	24,470	9.0%	901,900	9.5%	16	16.3%
Total	271,418	100.0%	9,510,140	100.0%	98	100.0%

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	46,353	17.1%	1,629,500	17.1%	17	17.3%
More than 2 years and up to 3 years	225,065	82.9%	7,880,640	82.9%	81	82.7%
More than 3 years	0	0.0%	0	0.0%	0	0.0%
Total	271,418	100.0%	9,510,140	100.0%	98	100.0%

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2017
2. Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong	<p>Prosperity Millennia Plaza is a 32-storey office building (including 3 mechanical floors and a refuge floor) together with a 2-level basement carport. It is erected on portion of a site with a registered site area of approximately 3,404 sq m (36,641 sq ft). The building was built in 1999.</p> <p>The 2-level basement of the property is for carparking and ancillary purposes. The 1st Floor (Ground Floor is omitted from floor numbering) is used for lobby and circulation purposes whereas the remaining upper floors from the 2nd to 32nd Floors (4th, 13th, 14th and 24th floor numbers are omitted) are for office uses.</p> <p>The property comprises the entire office units with a total gross area of approximately 20,249 sq m (217,955 sq ft). The total saleable area is approximately 14,551 sq m (156,630 sq ft).</p> <p>The property also consists of 43 carparking spaces within the 2-level basement.</p> <p>Inland Lot No. 8885 is held under Conditions of Exchange No. 12374 for a term from 24 January 1996 to 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The office portion of the property was let under various tenancies for various terms with the latest expiry in September 2020, yielding a total monthly rental income of approximately HK\$6,396,500, exclusive of Government rates and rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 98.3%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$300,000 during the period from January 2017 to December 2017.</p>	<p>HK\$2,140,000,000</p> <p>(HONG KONG DOLLARS TWO BILLION ONE HUNDRED AND FORTY MILLION)</p> <p>Estimated net property yield was approximately 3.8%.</p>

Notes:

- (1) The registered owner of the property is Conestoga Limited.
- (2) The property is currently zoned for "Commercial" purposes under the approved North Point Outline Zoning Plan No. S/H8/26 gazetted on 25 August 2017.
- (3) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (4) The estimated net property yield is based on the net monthly rental income for December 2017 and average net monthly car parking income for the period of January 2017 to December 2017.
- (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
2015 and before	83,545	39.0%	2,453,000	38.3%	16	19.0%
2016	54,211	25.3%	1,641,000	25.7%	24	28.6%
2017	76,589	35.7%	2,302,500	36.0%	44	52.4%
Total	214,345	100.0%	6,396,500	100.0%	84	100.0%

Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2017 and 2018	116,558	54.4%	3,459,700	54.1%	32	38.1%
2019	39,628	18.5%	1,171,900	18.3%	28	33.3%
2020 and beyond	58,159	27.1%	1,764,900	27.6%	24	28.6%
Total	214,345	100.0%	6,396,500	100.0%	84	100.0%

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	38,842	18.1%	1,184,300	18.5%	22	26.2%
More than 2 years and up to 3 years	132,695	61.9%	3,923,800	61.4%	55	65.5%
More than 3 years	42,808	20.0%	1,288,400	20.1%	7	8.3%
Total	214,345	100.0%	6,396,500	100.0%	84	100.0%

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2017
3. 9 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong	9 Chong Yip Street is a 25-storey Grade A office building with ancillary parking erected on a registered site area of approximately 966 sq m (10,394 sq ft). The building was built in 2004.	The office portion of the property was let under various tenancies for various terms with the latest expiry in November 2020, yielding a total monthly rental income of approximately HK\$2,829,212, exclusive of Government rates and rent, management fees and utility charges.	HK\$1,100,000,000 (HONG KONG DOLLARS ONE BILLION AND ONE HUNDRED MILLION)
Kwun Tong Inland Lot No. 444	<p>Portion of the Ground Floor and 1st to 3rd Floors are for carparking and mechanical plant room whereas the remaining portion of the Ground Floor is used for a lobby. The upper floors from the 5th to 27th Floors (4th, 14th and 24th floor numbers are omitted) are designed for office purposes.</p> <p>The total gross area of the property (excluding parking lots) is approximately 12,690 sq m (136,595 sq ft). The total saleable area is approximately 9,230 sq m (99,349 sq ft).</p> <p>The property also consists of 64 carparking spaces, 4 loading/unloading spaces and 5 motor cycle parking spaces.</p> <p>Kwun Tong Inland Lot No. 444 is held under a Government Lease for a term of 99 years less the last 3 days thereof commencing from 1 July 1898. The lease has been extended to expire on 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>Estimated net property yield was approximately 3.3%.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 95.3%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$162,000 during the period from January 2017 to December 2017.</p>	

Notes:

- (1) The registered owner of the property is Clifton Properties Limited.
- (2) The property is currently zoned for "Other Specified Uses (Business)" purposes under the approved Kwun Tong (South) Outline Zoning Plan No. S/K14S/21 gazetted on 3 November 2017.
- (3) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (4) The estimated net property yield is based on the net monthly rental income for December 2017 and average net monthly car parking income for the period of January 2017 to December 2017.
- (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
2015 and before	30,237	23.2%	670,200	23.7%	11	25.6%
2016	39,584	30.4%	876,112	31.0%	12	27.9%
2017	60,322	46.4%	1,282,900	45.3%	20	46.5%
Total	130,143	100.0%	2,829,212	100.0%	43	100.0%

Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2017 and 2018	38,307	29.4%	855,200	30.2%	17	39.5%
2019	55,044	42.3%	1,201,412	42.5%	16	37.2%
2020 and beyond	36,792	28.3%	772,600	27.3%	10	23.3%
Total	130,143	100.0%	2,829,212	100.0%	43	100.0%

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	26,017	20.0%	565,300	20.0%	10	23.3%
More than 2 years and up to 3 years	97,546	74.9%	2,119,112	74.9%	32	74.4%
More than 3 years	6,580	5.1%	144,800	5.1%	1	2.3%
Total	130,143	100.0%	2,829,212	100.0%	43	100.0%

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Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2017
4. Prosperity Place, 6 Shing Yip Street, Kwun Tong, Kowloon, Hong Kong	<p>Prosperity Place is a 27-storey commercial building with ancillary parking and loading/unloading facilities erected on a registered site area of approximately 1,858 sq m (20,000 sq ft). The building was built in 1996.</p> <p>Prosperity Place has been granted a waiver letter in September 2012 with conversion from industrial/office uses to commercial uses under the revitalization of industrial buildings policy by the Government.</p> <p>Ground Floor of the building is for entrance lobby, commercial and loading/unloading purposes; 1st and 2nd Floors of the building are for carparking and/or loading/unloading purposes; whereas the remaining upper floors from the 3rd to 29th Floors (4th, 14th and 24th floor numbers are omitted) are for commercial purposes.</p> <p>The property comprises the entire commercial units with a total gross area of approximately 22,297 sq m (240,000 sq ft). The total saleable area is approximately 14,754 sq m (158,813 sq ft).</p> <p>The property also consists of a total of 83 carparking spaces.</p>	<p>The commercial portion of the property was let under various tenancies for various terms with the latest expiry in October 2020, yielding a total monthly rental income of approximately HK\$4,932,491, 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\$124,000.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 98.4%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$451,000 during the period from January 2017 to December 2017.</p>	<p>HK\$1,760,000,000</p> <p>(HONG KONG DOLLARS ONE BILLION SEVEN HUNDRED AND SIXTY MILLION)</p> <p>Estimated net property yield was approximately 3.8%.</p>
Kun Tong Inland Lot No. 62	<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>		

Notes:

- (1) The registered owner of the property is Bandick Limited.
- (2) The following encumbrance is registered against the property upon our recent Land Registry search:
 - Relaxation Letter from District Lands Office/Kowloon East vide Memorial No. 16082300790081, dated 8 August 2016.
- (3) The property is currently zoned for "Other Specified Uses (Business)" purposes under the approved Kwun Tong (South) Outline Zoning Plan No. S/K14S/21 gazetted on 3 November 2017.
- (4) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (5) The estimated net property yield is based on the net monthly rental income for December 2017 and average net monthly car parking income for the period of January 2017 to December 2017.
- (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
2015 and before	66,476	28.2%	1,308,591	26.5%	26	20.8%
2016	52,257	22.1%	1,150,603	23.3%	35	28.0%
2017	117,383	49.7%	2,473,297	50.2%	64	51.2%
Total	236,116	100.0%	4,932,491	100.0%	125	100.0%

Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2017 and 2018	92,222	39.1%	1,894,200	38.4%	54	43.2%
2019	83,607	35.4%	1,795,580	36.4%	46	36.8%
2020 and beyond	60,287	25.5%	1,242,711	25.2%	25	20.0%
Total	236,116	100.0%	4,932,491	100.0%	125	100.0%

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	74,957	31.7%	1,631,378	33.1%	48	38.4%
More than 2 years and up to 3 years	146,561	62.1%	3,008,657	61.0%	75	60.0%
More than 3 years	14,598	6.2%	292,456	5.9%	2	1.6%
Total	236,116	100.0%	4,932,491	100.0%	125	100.0%

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2017
5. Trendy Centre, 682 Castle Peak Road, Lai Chi Kok, Kowloon, Hong Kong	Trendy Centre is a 30-storey industrial/office building with ancillary parking and loading/unloading facilities erected on a registered site area of approximately 1,394 sq m (15,000 sq ft). The building was built in 1998.	The industrial/office portion of the property was let under various tenancies for various terms with the latest expiry in November 2020, yielding a total monthly rental income of approximately HK\$3,370,400, exclusive of Government rates and rent, management fees and utility charges.	HK\$1,050,000,000 (HONG KONG DOLLARS ONE BILLION AND FIFTY MILLION)
New Kowloon Inland Lot No. 6224	<p>Portion of the Ground Floor and 1st to 3rd Floors are for carparking and/or loading/unloading purposes whereas the remaining portion of the Ground Floor is used for lobby and retail shops. The upper floors from the 5th to 33rd Floors (4th, 13th, 14th and 24th floor number is omitted) are designed for industrial/office purposes.</p> <p>The property comprises the entire units within the building with a total gross area of approximately 16,143 sq m (173,764 sq ft). The total saleable area is approximately 10,934 sq m (117,696 sq ft).</p> <p>The property also consists of 79 carparking spaces.</p> <p>New Kowloon Inland Lot No. 6224 is held under Conditions of Exchange No. 12399 for a term from 24 July 1996 to 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 98.1%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$413,000 during the period from January 2017 to December 2017.</p>	<p>Estimated net property yield was approximately 4.3%.</p>

Notes:

- (1) The registered owner of the property is Top Easy Profits Limited.
- (2) The property is currently zoned for "Other Specified Uses (Business 1)" purposes under the approved Cheung Sha Wan Outline Zoning Plan No. S/K5/37 gazetted on 16 December 2016.
- (3) In accordance with the property owner's standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (4) The estimated net property yield is based on the net monthly rental income for December 2017 and average net monthly car parking income for the period of January 2017 to December 2017.
- (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
2015 and before	13,780	8.1%	271,700	8.1%	13	8.5%
2016	67,172	39.4%	1,253,550	37.2%	63	41.2%
2017	89,570	52.5%	1,845,150	54.7%	77	50.3%
Total	170,522	100.0%	3,370,400	100.0%	153	100.0%

Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2017 and 2018	54,012	31.7%	1,005,200	29.8%	55	36.0%
2019	79,298	46.5%	1,573,700	46.7%	68	44.4%
2020 and beyond	37,212	21.8%	791,500	23.5%	30	19.6%
Total	170,522	100.0%	3,370,400	100.0%	153	100.0%

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	45,944	26.9%	854,400	25.4%	37	24.2%
More than 2 years and up to 3 years	124,578	73.1%	2,516,000	74.6%	116	75.8%
More than 3 years	0	0.0%	0	0.0%	0	0.0%
Total	170,522	100.0%	3,370,400	100.0%	153	100.0%

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2017
6. Portion of Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong (see note (1))	<p>The property comprises various office/workshop units and retained areas within Prosperity Center, which is a 26-storey industrial/office building with ancillary parking and loading/unloading facilities. It is erected on a registered site area of approximately 1,889 sq m (20,333 sq ft), and was built in 1999.</p> <p>Portion of the Ground Floor, 2nd to 5th Floors of the building (1st and 4th floor numbers are omitted) are for carparking and/loading/unloading purposes whereas the remaining portion of the Ground Floor and upper floors from the 6th to 30th Floors (13th, 14th and 24th floor numbers are omitted) are for office/workshop purposes.</p> <p>The property comprises portion of Prosperity Center with a total gross area of approximately 13,866 sq m (149,253 sq ft). The total saleable area is approximately 10,096 sq m (108,669 sq ft).</p> <p>The property also consists of 91 carparking spaces, 13 lorry parking spaces and 1 container parking space within the building.</p> <p>Kwun Tong Inland Lot No. 729 is held under Conditions of Exchange No. 12317 for a term from 6 August 1994 to 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The office/workshop portion of the property was let under various tenancies for various terms with the latest expiry in October 2020, yielding a total monthly rental income of approximately HK\$2,580,100, exclusive of Government rates and rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 93.5%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$369,000 during the period from January 2017 to December 2017.</p>	<p>HK\$880,000,000</p> <p>(HONG KONG DOLLARS EIGHT HUNDRED AND EIGHTY MILLION)</p> <p>Estimated net property yield was approximately 4.0%.</p>

Notes:

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

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

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

(3) The property is currently zoned for “Other Specified Uses (Business)” purposes under the Kwun Tong (South) Outline Zoning Plan No. S/K14S/21 gazetted on 3 November 2017.

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

(5) The estimated net property yield is based on the net monthly rental income for December 2017 and average net monthly car parking income for the period of January 2017 to December 2017.

(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
2015 and before	19,943	14.3%	376,900	14.6%	10	14.9%
2016	50,446	36.2%	931,200	36.1%	24	35.8%
2017	69,096	49.5%	1,272,000	49.3%	33	49.3%
Total	139,485	100.0%	2,580,100	100.0%	67	100.0%

Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2017 and 2018	55,071	39.5%	1,038,500	40.2%	29	43.3%
2019	51,823	37.1%	940,800	36.5%	26	38.8%
2020 and beyond	32,591	23.4%	600,800	23.3%	12	17.9%
Total	139,485	100.0%	2,580,100	100.0%	67	100.0%

Tenancy Duration Profile

Tenancy Duration	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
2 years and below	40,051	28.7%	763,400	29.6%	23	34.3%
More than 2 years and up to 3 years	99,434	71.3%	1,816,700	70.4%	44	65.7%
More than 3 years	0	0.0%	0	0.0%	0	0.0%
Total	139,485	100.0%	2,580,100	100.0%	67	100.0%

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2017
7. Portion of New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon, Hong Kong (see note (1))	The property comprises various factory units within New Treasure Centre, which is a 30-storey industrial building (including a Mezzanine Floor) with ancillary parking and loading/unloading facilities. It is erected on a registered site area of approximately 1,304 sq m (14,040 sq ft), and was built in 1995.	The factory portion of the property was let under various tenancies for various terms with the latest expiry in November 2020, yielding a total monthly rental income of approximately HK\$1,011,700, exclusive of Government rates and rent, management fees and utility charges.	HK\$340,000,000 (HONG KONG DOLLARS THREE HUNDRED AND FORTY MILLION)
11,163/26,198th equal and undivided parts or shares of and in New Kowloon Inland Lot No. 4864	<p>Portion of the Ground Floor and Mezzanine of the building are for carparking and/or loading/unloading purposes whereas the remaining upper floors from the 1st to 31st Floors (4th, 14th and 24th floor numbers are omitted) are used for factory purposes.</p> <p>The property has a total gross area of approximately 8,005 sq m (86,168 sq ft). The total saleable area is approximately 5,948 sq m (64,021 sq ft).</p> <p>The property also consists of flat roof areas on the 1st Floor with a total area of approximately 402 sq m (4,327 sq ft) and 22 carparking spaces within the building.</p> <p>New Kowloon Inland Lot No. 4864 is held under a Government Lease for a term of 99 years less the last 3 days thereof commencing from 1 July 1898. The lease has been extended to expire on 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>yielding a total monthly rental income of approximately HK\$1,011,700, exclusive of Government rates and rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 97.2%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$155,000 during the period from January 2017 to December 2017.</p>	<p>Estimated net property yield was approximately 4.1%.</p>

Notes:

- (1) The property comprises Units 101 (and portion of Flat Roof adjacent thereto), 103 (and portion of Flat Roof adjacent thereto) and 107 on 1st Floor, 201–207 on 2nd Floor, 301–303 and 306–307 on 3rd Floor, 501–507 on 5th Floor, 603 and 606–607 on 6th Floor, 703 on 7th Floor, 801–803 and 806–807 on 8th Floor, 1005 on 10th Floor, 1201–1205 and 1207 on 12th Floor, 1302–1303 and 1306 on 13th Floor, 1506–1507 on 15th Floor, 1602–1605 and 1607 on 16th Floor, 1702–1707 on 17th Floor, 1801–1807 on 18th Floor, 2202–2205 on 22nd Floor, 2301–2303 and 2306–2307 on 23rd Floor, 2706–2707 on 27th Floor, 2803 on 28th Floor, 2903 and 2906–2907 on 29th Floor (Unit No. 04 is omitted on each floor) and 22 carparking spaces, New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon.
- (2) The registered owner of the property is Haskins Investments Limited.
- (3) The property is currently zoned for “Other Specified Uses (Business)” purposes under the approved Tsz Wan Shan, Diamond Hill & San Po Kong Outline Zoning Plan No. S/K11/29 gazetted on 16 December 2016.
- (4) In accordance with the property owner’s standard terms and conditions of a tenancy agreement, the landlord is to be responsible for structural and external repairs and the tenant is to be responsible for internal repairs of the property.
- (5) The estimated net property yield is based on the net monthly rental income for December 2017 and average net monthly car parking income for the period of January 2017 to December 2017.
- (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
2015 and before	18,506	22.1%	209,800	20.7%	5	9.8%
2016	30,270	36.1%	369,400	36.5%	23	45.1%
2017	35,008	41.8%	432,500	42.8%	23	45.1%
Total	83,784	100.0%	1,011,700	100.0%	51	100.0%

Tenancy Expiry Profile

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2017 and 2018	42,710	51.0%	507,700	50.2%	24	47.1%
2019	26,041	31.1%	323,600	32.0%	19	37.2%
2020 and beyond	15,033	17.9%	180,400	17.8%	8	15.7%
Total	83,784	100.0%	1,011,700	100.0%	51	100.0%

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	27,664	33.0%	343,400	33.9%	21	41.2%
More than 2 years and up to 3 years	56,120	67.0%	668,300	66.1%	30	58.8%
More than 3 years	0	0.0%	0	0.0%	0	0.0%
Total	83,784	100.0%	1,011,700	100.0%	51	100.0%

OFFICE MARKET OVERVIEW

1. Introduction

The office leasing market regained momentum in Q4 2017, with net take-up moving back to the positive territory. The new quality office buildings have set a higher benchmark for the districts, with good amenities, tenant profiles, and management. 2018 will have over 3 million sq ft of new office space completed, almost 50% higher than the annual average over the past two decades. Rents on Hong Kong Island should not feel much pressure due to the fast take up rate of new buildings. Kowloon East rents should stay firm, as low rents are attractive for relocation amid the rising rents and low vacancy on Hong Kong Island.

2. Office Demand

Demand for office space remained strong in Q4 as companies were in expansion mode, with the overall net absorption at 321,450 sq ft. A strong year was recorded in 2017, with an annual net take-up of 959,172 sq ft, giving a figure of four times more than 2016.

Hong Kong Island recovered from the negative net take-up in Q3, with a positive net take up at 231,696 sq ft. Although Admiralty recorded a negative net take-up due to companies relocating to other districts, total net take-up in Central/Admiralty stayed positive thanks to the strong demand for Central offices. Wan Chai/Causeway Bay and Island East maintained stable net take up. 18 King Wah Road in North Point and Lee Garden Three in Causeway Bay, which had obtained the occupation permit in September and November respectively, added a total of 694,210 sq ft of net floor area of new office space for Hong Kong Island. These buildings have attracted strong interest from tenants for pre-commitment, and recorded fast take up rate.

Overall vacancy increased to 4.9% from 4.5% in Q3 due to the completion of major new supply. The vacancy rate of Central/Admiralty fell 10 basis point to 2.3% as Central vacancy rate fell below 2%. The vacancy rate in Causeway Bay increased to above 5% due to the completion of Lee Garden Three which was about half leased upon completion.

Kowloon East's vacancy rate declined further to 8.3%. 1.6 million sq ft of gross floor area of new office space which was supposed to be completed in 2017 has been delayed to 2018.

The overall positive net take-up indicates that the market has regained its growing momentum. Central and Sheung Wan are still popular among PRC financial companies but new leases signed are mostly medium size with space less about 4,000 sq ft or smaller, as large floor area are hard to find. Huarong Group has leased a floor in the Bank of China Tower, while China Minsheng Bank has leased multiple units in AIA Central.

New developments being completed in Q4, or to be completed in 2018 on Hong Kong Island have been popular as they provide good amenities and quality tenant profile. One Taikoo Place in Quarry Bay and Lee Garden Three in Causeway Bay have achieved over 50% of pre-commitment as of the end of 2017.

Flexible workspaces expanded quickly in Q4. They have been actively exploring Kowloon where a large floor area with affordable rent are easier to be found.

Atlas Workbase, a new coworking operator, leased 47,210 sq ft of gross floor area in Tsim Sha Tsui. WeWork, the world's leading coworking operator, leased 71,560 sq ft of gross floor area in Mapletree Bay Point, a new development to be launched in 2018 in Kwun Tong.

With the technology sector emerging fast in Hong Kong, technology, media and telecommunications (TMT) companies have taken the top share of new leased space in Kowloon, notably Kowloon East. Lazybug, a local software development company, has taken 29,735 sq ft of gross floor area in Two Harbour Square.

3. Office Supply

Our latest update suggests that 2018 will have over 3 million sq ft of office space to be completed, almost 50% higher than the annual average over the past two decades. Among all new offices expected to be completed in 2018, the spotlight will be on One Taikoo Place in Quarry Bay with a total gross floor area of 1 million sq ft. We expect Quarry Bay to reinvent itself as a new premium business district for finance and professional services with improved connectivity via the Central-Wanchai Bypass, better business amenities, and new quality offices. We believe office rents in Quarry Bay will rise the fastest of all sub-markets in Hong Kong. On the other hand, a vast supply of approximately 1.5 million sq ft of new office space will be provided in Kowloon East in 2018.

4. Office Rent

Overall Grade A office rents increased 0.9% QOQ. Despite low vacancy, rents in Central/Admiralty stayed the same with most individual landlords increasing rent-free periods to three months or longer. The new quality office buildings have set a higher benchmark for the districts, with good amenities, tenant profiles and management.

Rental growth in Tsim Sha Tsui accelerated by 2.7% QOQ. Despite some existing tenants relocating to Kowloon East for rental savings, leasing demand was well supported by companies setting up new offices, flexible workspace operators, financial companies and insurance companies. Rents in Kowloon East, which has the largest amount of new supply, has stayed firm at 0.8% QOQ increment as the large rental difference with Hong Kong Island has tempted occupiers to consider Kowloon East for relocation. Buildings, such as Millennium City, which adjoin MTR stations were popular, and landlords have been maintaining firm the asking rent amid the increasing demand. However, developments located further away from the MTR stations have maintained higher vacancy levels.

5. Forecast

Tenants are getting more optimistic about their business prospects. PRC companies are the most confident about their business outlook. Thus, Hong Kong's office market should benefit from this expansionary cycle. The banking and financial sectors, and the TMT sector should be the strongest driver of rental growth in 2018 amid the positive business outlook and increased adoption of technology in business and daily lives. Given the current low vacancy rate against strengthening leasing demand, we expect overall rent to increase 4% in 2018.

Hong Kong Island office rent should benefit from stronger demand despite higher supply in 2018. Rents in Central will remain firm as demand from PRC companies remains strong. Amid positive business sentiment and expanding global economy, multinational companies will be less likely to downsize despite staying cost conscious.

More tenants started to feel the pressure from increasing rent on Hong Kong Island, we expect the relocation trend across the harbour to continue in 2018. The Kowloon East office market is becoming more widely accepted due to factors such as the significant cost savings from the huge rental gap, limited availability for expansion space on Hong Kong Island, and improving amenities in Kowloon East. A strong demand is likely to offset the large amount of new supply in regard to the desirable pre-commitment rates in new office developments such as Two Harbour Square and Mapletree Bay Point. Kowloon East rents should start gaining momentum again, and so we expect rents there to increase by 1.0% in 2018.

INDUSTRIAL MARKET OVERVIEW

1. Introduction

Hong Kong's trade sector has benefited from a strong economy and from buoyant domestic and foreign merchandise trade demand. Growth in total exports remained strong while retail sales showed an appreciable YOY growth in November 2017. Investors have shown growing interest in investing in strata-title industrial properties, converting such properties into small workstations amid the strong demand from small and medium sized enterprises and start-up companies. We expect industrial properties to be a key focus in 2018 for investors who expect the government to launch a new round of revitalisation scheme for industrial buildings.

2. Industrial Demand

Supported by global economy acceleration and growth of external trade in 2017, leasing demand for warehouses has remained strong in Hong Kong. The latest Nikkei Purchasing Managers' Index (PMI) rebounded up to 51.5 in December from 50.7 in November, a four-year high since February 2014. Driven by the stronger rise in output and renewed order book growth, Hong Kong's business activity has expanded at a fast pace.

The combined value in October and November of total exports increased by 7.3% YOY partly because of Hong Kong's retail market rebounded in 2017, which increased the warehouse demand from retailers and wholesalers. While air cargo throughput increased by 6.9% YOY, port container throughput declined 3.2% YOY.

During Alibaba's "Double 11" in November 2017, the 24-hour sale recorded a new high compared to previous years, reaching a total gross merchandise volume of RMB168 billion, up by 39% YOY.

Among the top cross-border buying countries and regions in mainland China, Hong Kong recorded the second highest transaction volume after Russia. According to Statista, the total revenue and average revenue per user in Hong Kong's e-commerce market grew by 12.5% YOY and 4.1% YOY respectively, in 2017. Indicating that Hong Kong's e-commerce market has started to pick up.

3. Industrial Rent

Strong e-commerce demand drove the demand for logistics services and warehouses in Hong Kong. Warehouse landlords started to refurbish their facilities to cater for the increasing warehousing demand. DHL Express, one of the biggest postal and logistics companies in the world, invested HKD2.9 billion to expand the capacity of its Central Asia Hub. The logistics centre in the Hong Kong International Airport, grew by 50% to cater for the needs of substantial growth in e-commerce and international trading in the region and around the world. In Q4 2017, overall warehouse rent increased by 0.6% QOQ.

4. Industrial Investment

Investment sentiment has been the most positive in recent years after Ms Carrie Lam's policy address, announcing that the Hong Kong government will consider implementing the industrial revitalisation scheme again. With the expectation of a new revitalisation scheme round, namely Revitalisation Scheme 2.0, to be launched by Hong Kong Government in 2018, industrial properties have become more attractive for investors.

Apart from revitalising or redeveloping an entire building, an increasing number of investors would like to invest in strata-title industrial properties and undertake their conversion to small workstations for small and medium-sized enterprises (SMEs and start-up companies).

According to our research, total industrial property transactions of over HKD30 million recorded a quarterly high in Q4 2017, up by 32% QOQ to HKD8.02 billion. This figure was supported by the record high volume of strata title investment, which surged by 86% QOQ. For example, Lead Harvest Group bought the entire 13th floor of Zung Fu Industrial Buildings in Quarry bay for HKD218.5 million. With the gross floor area of 15,000 sq ft, the unit price was HKD14,600 per sq ft. The group has purchased five floors for HKD935 million starting from January 2016. The adjoining new office developments should energise the market with the necessary amenities to further support the growth of the property value, suggesting a high redevelopment potential.

The total consideration of en-bloc investment (over HKD30 million) was also a record high in Q4 2017 and posted a QOQ increase of 11%. Maxwell Electronic Group sold the whole block of Maxwell Industrial Buildings in Kwun Tong for a total of HKD1,039 million to Laws Group. The unit price was HKD6,043 per sq ft. Meanwhile, Winner Godown Building in Tsuen Wan was sold for HKD2,160 million, with gross floor area of 500,000 sq ft, translating to HKD4,320 per sq ft, to Billion Development. With limited supply of industrial buildings, we expect the potential Revitalisation Scheme 2.0 to continue to encourage investors to acquire industrial buildings.

5. Forecast

Global real GDP growth in 2018 is expected to be higher than 2017, and reach the highest level since 2010, although certain Asian countries may experience mild slowdowns from very strong levels in 2017. We believe that Hong Kong's merchandise trade will remain favourable in 2018, supported by rising commodity prices and stronger overseas demand. Moreover, the trade policy of the US president, Donald Trump, toward China has been more moderate than his election campaign suggested. As the most important transshipment port for mainland China, we expect Hong Kong will still benefit from the trade between the U.S. and China.

The details of the Revitalisation Scheme 2.0, announced in October's policy address, are likely to be released by mid-2018. The scheme will focus on the consolidation of ownership to facilitate comprehensive conversion and other non-industrial uses, such as transitional houses, recreational centres, and retail spaces. The scheme should further intensify the supply in the industrial market, which will support the investment demand and industrial property prices.

The growth of air cargo throughput outpaced the growth of port container throughput in 2017. While logistics demand has been shifting from sea-freight to air-freight, the rapid growth of the e-commerce market should further strengthen the logistics and warehouse demand at the international airport.

Furthermore, the overall vacancy rate of industrial properties during the end of 2017 remained low, at 6.4% on average, especially for logistics warehouse sat 4.9%. We project no new supply of logistics warehouses in 2018. The existing stock ought to decline as a result of the potential Revitalisation Scheme 2.0, which would allow landlords to convert industrial buildings to other uses. Therefore, with the declining supply and growing demand for logistics warehouses, we expect the logistics warehouse vacancy rate to decrease in 2018.

Overall, we remain optimistic about the industrial property market in 2018. Based on our forecasts, the prices and rents of warehouse and flatted factory increase by 10% YOY and 5% YOY respectively.

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 2017.

HSBC Institutional Trust Services (Asia) Limited

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

15 March 2018

INDEPENDENT AUDITOR'S REPORT

**To the Unitholders of
Prosperity Real Estate Investment Trust**

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Prosperity Real Estate Investment Trust ("**Prosperity REIT**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 112 to 151, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, and of its financial transactions and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
<p>Valuation of investment properties</p> <p>We identified the valuation of investment properties as a key audit matter as they represented 96% of total assets of the Group as at 31 December 2017 and significant judgement is required in determining their fair value.</p> <p>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\$10,490.0 million as at 31 December 2017 and their change in fair value included in the profit for the year was HK\$295.7 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.</p> <p>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.</p>	<p>Our procedures in relation to the valuation of investment properties included:</p> <ul style="list-style-type: none"> • Evaluating the competence, capabilities and objectivity of the Valuer; • Obtaining an understanding of the valuation process and significant assumptions and critical judgements to assess if the approaches meet relevant accounting requirements and industry norms; • Evaluating the appropriateness of the judgements made by the REIT Manager and the Valuer, in particular the valuation model and the capitalisation rates based on our knowledge of the property market in Hong Kong; and • Assessing the reasonableness of other key parameters, including market rentals, in the valuation model by comparing them against market data and entity-specific information such as rental income, tenancy summary, capital expenditures details and size of the properties on a sample basis.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole 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 HKSA's will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. In addition, we are required to assess whether the consolidated financial statements of the Group have been properly prepared, in all material respects, in accordance with the relevant provisions of the Trust Deed and the relevant disclosure provisions of Appendix C of the REIT Code.

Independent Auditor's Report

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

15 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 HK\$'000	2016 HK\$'000
Revenue	5	446,242	452,926
Property management fees		(10,965)	(10,858)
Property operating expenses	6	(81,677)	(84,221)
Total property operating expenses		(92,642)	(95,079)
Net property income		353,600	357,847
Interest income		5,225	24
Manager's fee		(51,954)	(53,426)
Trust and other expenses	7	(9,276)	(15,805)
Gain on disposed property company	11(ii)	299,695	–
Change in fair value of investment properties		295,697	345,334
Change in fair value of derivative financial instruments		(18,050)	45,242
Finance costs	8	(86,775)	(76,115)
Profit before taxation and transactions with unitholders		788,162	603,101
Taxation	9	(39,737)	(37,857)
Profit for the year, before transactions with unitholders		748,425	565,244
Distribution to unitholders		(261,533)	(258,362)
Profit for the year, after transactions with unitholders		486,892	306,882
Other comprehensive income — Item that may be reclassified subsequently to profit or loss:			
Reclassification of hedging reserve to profit or loss		–	1,261
Other comprehensive income for the year		–	1,261
Total comprehensive income for the year, after transactions with unitholders		486,892	308,143
Income available for distribution to unitholders		261,533	258,362
Basic earnings per unit (HK\$)	10	0.51	0.39

DISTRIBUTION STATEMENT

For the year ended 31 December 2017

	2017 HK\$'000	2016 HK\$'000
Profit for the year, before transactions with unitholders	748,425	565,244
Adjustments:		
Manager's fee	50,815	52,280
Gain on disposed property company	(299,695)	–
Change in fair value of investment properties	(295,697)	(345,334)
Change in fair value of derivative financial instruments	18,050	(45,242)
Finance costs	26,411	16,997
Deferred tax	13,224	14,417
Income available for distribution (note (i))	261,533	258,362
Distributions to unitholders:		
HK\$0.0915 (2016: HK\$0.0906) per unit for the six months ended 30 June (note (ii))	134,096	131,372
HK\$0.0865 (2016: HK\$0.0871) per unit for the six months ended 31 December (note (iii))	127,437	126,990
	261,533	258,362
Total distribution per unit (HK\$)	0.1780	0.1777

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\$50,815,000 (2016: HK\$52,280,000) out of the total manager's fee of HK\$51,954,000 (2016: HK\$53,426,000) (the differences of HK\$1,139,000 (2016: HK\$1,146,000) are paid in cash);
- (b) change in fair value of investment properties of HK\$295,697,000 (2016: HK\$345,334,000), loss on fair value change of derivative financial instruments of HK\$18,050,000 (2016: a gain of HK\$45,242,000), and a gain on disposed property company of HK\$299,695,000 (2016: nil);
- (c) adjustment in respect of the difference between the accounting finance cost of HK\$86,775,000 (2016: HK\$76,115,000) less cash finance cost of HK\$60,364,000 (2016: HK\$59,118,000); and
- (d) deferred tax provision of HK\$13,224,000 (2016: HK\$14,417,000).
- (ii) The distribution per unit of HK\$0.0915 for the six months ended 30 June 2017 (six months ended 30 June 2016: HK\$0.0906) is calculated based on Prosperity REIT's income available for distribution of HK\$134,096,000 (six months ended 30 June 2016: HK\$131,372,000) over 1,465,548,870 units (30 June 2016: 1,449,733,936 units), representing units in issue as at 30 June 2017 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 2017. The distribution was paid to unitholders on 12 September 2017.
- (iii) The distribution per unit of HK\$0.0865 for the six months ended 31 December 2017 (six months ended 31 December 2016: HK\$0.0871) is calculated based on Prosperity REIT's income available for distribution of HK\$127,437,000 (six months ended 31 December 2016: HK\$126,990,000) over 1,473,137,260 units (31 December 2016: 1,457,894,330 units), representing units in issue as at 31 December 2017 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 2017

	Notes	2017 HK\$'000	2016 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	11	10,490,000	10,183,000
Derivative financial instruments	12	20,341	38,436
		10,510,341	10,221,436
Current assets			
Derivative financial instruments	12	1,528	–
Trade and other receivables	13	8,667	39,332
Bank balances and cash	14	363,451	72,444
		373,646	111,776
Assets of a disposal group classified as held for sale	11(ii)	–	595,560
Total current assets		373,646	707,336
Total assets		10,883,987	10,928,772
Non-current liabilities, excluding net assets attributable to unitholders			
Derivative financial instruments	12	1,539	56
Term loans	15	2,303,945	2,833,308
Deferred tax liabilities	16	186,669	175,489
Total non-current liabilities, excluding net assets attributable to unitholders		2,492,153	3,008,853
Current liabilities			
Trade and other payables	17	185,775	212,564
Amount due to related companies	18	9,481	7,252
Secured revolving loan	15	–	20,000
Provision for taxation		2,152	1,861
Manager's fee payable		13,246	13,562
Distribution payable		127,437	126,990
		338,091	382,229
Liabilities directly associated with assets of a disposal group classified as held for sale	11(ii)	–	21,969
Total current liabilities		338,091	404,198
Total liabilities, excluding net assets attributable to unitholders		2,830,244	3,413,051
Net assets attributable to unitholders		8,053,743	7,515,721
Units in issue ('000)	19	1,469,395	1,453,669
Net asset value per unit (HK\$) attributable to unitholders	20	5.48	5.17

The consolidated financial statements on pages 112 to 151 were approved and authorised for issue by ARA Asset Management (Prosperity) Limited on 15 March 2018 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 2017

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

Consolidated Statement of 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
OPERATIONS					
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, after transaction with unitholders	–	–	1,261	306,882	308,143
UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS					
Units issued to REIT Manager (note 19)	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 CASH FLOWS

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For the year ended 31 December 2017

	2017 HK\$'000	2016 HK\$'000
Operating activities		
Profit before taxation and transactions with unitholders	788,162	603,101
Adjustments for:		
Allowance (reversal of allowance) for doubtful debts	126	(34)
Manager's fees paid/payable in units	50,815	52,280
Gain on disposed property company	(299,695)	–
Change in fair value of investment properties	(295,697)	(345,334)
Change in fair value of derivative financial instruments	18,050	(45,242)
Interest income	(5,225)	(24)
Finance costs	86,775	76,115
Operating cashflow before working capital changes	343,311	340,862
Increase (decrease) in amount due to related companies	1,404	(2,744)
Decrease (increase) in trade and other receivables	413	(609)
Increase in trade and other payables	2,607	4,778
(Decrease) increase in Manager's fee payable	(1)	8
Cash generated from operations	347,734	342,295
Income tax paid	(26,222)	(23,872)
Net cash from operating activities	321,512	318,423
Investing activities		
Interest received	5,225	24
Additional expenditure to investment properties	(11,303)	(12,666)
Net proceeds from disposal of a property company	871,351	–
Net cash from (used in) investing activities	865,273	(12,642)
Financing activities		
(Repayment) Drawdown of term loan	(530,000)	3,900
Drawdown of secured revolving loan	–	179,000
Repayment of secured revolving loan	(20,000)	(159,000)
Bank facility origination fees	(25,774)	(900)
Interest payment of term loans and revolving loan	(60,364)	(59,118)
Distribution to unitholders	(261,086)	(260,684)
Net cash used in financing activities	(897,224)	(296,802)
Net increase in cash and cash equivalents	289,561	8,979
Cash and cash equivalents at beginning of the year	73,890	64,911
Cash and cash equivalents at end of year	363,451	73,890
Represented by: bank balances and cash	363,451	72,444
bank balances and cash included in assets classified as held for sale	–	1,446
	363,451	73,890

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

1 GENERAL

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

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

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

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

(a) Property management fees

Under the property management agreement dated 29 November 2005 between the REIT Manager and Goodwell-Prosperity Property Services Limited (the "Property Manager"), the Property Manager will receive from each of the property holding subsidiaries a fee of 3% per annum of gross property revenue for the provision of property management services and lease management services.

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

(b) Marketing services

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

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

(c) Trustee's fees

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

Notes to the Consolidated Financial Statements

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For the year ended 31 December 2017

1 GENERAL (continued)

(d) Manager's fees

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

Base fee

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

Variable fee

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

2 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKAS 7	<i>Disclosure Initiative</i>
Amendments to HKAS 12	<i>Recognition of Deferred Tax Assets for Unrealised Losses</i>
Amendments to HKFRS 12	<i>As part of the Annual Improvements to HKFRSs 2014-2016 Cycle</i>

Except as described below, 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.

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

Amendments to HKAS 7 Disclosure Initiative (continued)

A reconciliation between the opening and closing balances of these items is provided in note 28. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 28, the application of these amendments has had no impact on the Group’s consolidated financial statements.

New and revised HKFRSs issued but not effective

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

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the related Amendments ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ⁴
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ²
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ²
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle ¹
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle ²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ Effective for annual periods beginning on or after a date to be determined

⁴ Effective for annual periods beginning on or after 1 January 2021

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For the year ended 31 December 2017

2 APPLICATION OF NEW AND REVISED 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 which are relevant to the Group are described as follow:

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 financial assets are measured at their fair value at 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 *Financial Instruments: Recognition and Measurement*. 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.

In relation to the impairment of financial assets, the REIT Manager anticipates that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group’s financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the REIT Manager, the adoption of the expected credit loss model will have no material impact on the accumulated amount of impairment loss as the amount is insignificant. The REIT Manager anticipates the impact on initial application of HKFRS 9 will not be material as all other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

HKFRS 16 Leases

The Group currently considers refundable rental deposits received of HK\$139,135,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The REIT Manager anticipates that the application of other new and amendments to HKFRSs and interpretations in the future will not have a material effect on the Group's consolidated financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation of financial statements

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of Prosperity REIT.

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

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments that are measured at 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 *Share-based Payment*, leasing transactions that are within the scope of HKFRS 17 *Leases*, and the measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

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For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

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

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

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

(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.

The Group 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 the Group obtains control over the subsidiary and ceases when the Group 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 the Group gains control until the date when the Group ceases to control the subsidiary.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of consolidation *(continued)*

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

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

(c) Investment properties

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

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

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

(d) Financial instruments

Financial assets and financial liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

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 (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Financial instruments *(continued)*

Financial assets

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

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees 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 or expense is recognised 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.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

Financial liabilities

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

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

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

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

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

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.

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.

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.

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For the year ended 31 December 2017

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 recognises 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.

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

Rental 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Revenue recognition *(continued)*

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 (and disposal groups) 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) Borrowing cost

Borrowing costs directly attributable to the acquisition of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. 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.

(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.

Notes to the Consolidated Financial Statements

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For the year ended 31 December 2017

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Taxation (continued)

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all deductible temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such 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).

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

4 KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

5 REVENUE

	2017 HK\$000	2016 HK\$000
Gross rental from investment properties		
Rental income	365,644	369,921
Car park income	28,261	26,547
	393,905	396,468
Rental related income	52,337	56,458
	446,242	452,926

6 PROPERTY OPERATING EXPENSES

	2017 HK\$'000	2016 HK\$'000
Audit fee	1,248	1,323
Building management fees	37,878	39,223
Car park operating expenses	7,553	7,226
Government rent and rates	779	1,269
Lease commission	5,057	6,282
Legal cost and stamp duty	1,562	1,244
Marketing service fee	11,325	10,323
Others	1,303	1,225
Repairs and maintenance	8,055	8,168
Secretarial fee	595	645
Tax fees	181	206
Utilities	5,925	6,892
Valuation fees (paid to principal valuers)	216	195
	81,677	84,221

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For the year ended 31 December 2017

7 TRUST AND OTHER EXPENSES

	2017 HK\$'000	2016 HK\$'000
Acquisition expenses	–	6,895
Audit fee	272	204
Back-office support service fee	64	128
Bank charges	1,700	1,789
Legal and professional fees	805	579
Public relations-related expenses	397	303
Registrar fee	600	600
Trust administrative expenses	2,323	2,123
Trustee's fee	3,115	3,184
	9,276	15,805

8 FINANCE COSTS

	2017 HK\$'000	2016 HK\$'000
Interest expense on:		
Secured term loan	58,546	51,982
Unsecured term loans	18,416	11,686
Equalisation of interest expense through interest rate swaps	9,801	11,810
	86,763	75,478
Secured revolving loan	12	637
	86,775	76,115

9 TAXATION

	2017 HK\$'000	2016 HK\$'000
Current tax	26,910	23,871
Over-provision in prior year	(397)	(431)
Deferred tax (note 16)	13,224	14,417
	39,737	37,857

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 2017

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:

	2017 HK\$'000	2016 HK\$'000
Income tax expense at statutory rate of 16.5%	130,047	99,512
Over-provision in prior year	(397)	(431)
Tax effect of non-taxable income	(99,102)	(64,451)
Tax effect of non-deductible expenses	4,741	5,620
Tax effect of utilisation of tax losses previously not recognised	–	(29)
Tax effect of tax loss not recognised	5,650	–
Tax effect of utilisation of deductible temporary differences not recognised	(2,325)	(2,341)
Others	1,123	(23)
Taxation for the year	39,737	37,857

10 BASIC EARNINGS PER UNIT

The basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$748,425,000 (2016: HK\$565,244,000) by the weighted average of 1,465,575,357 (2016: 1,449,792,732) units in issue during the year, taking into account the units issuable as manager's fee for its service in the last quarter of the relevant distribution year.

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

11 INVESTMENT PROPERTIES

	2017 HK\$'000	2016 HK\$'000
FAIR VALUE		
At beginning of the year	10,183,000	10,419,000
Additional expenditure	11,303	12,666
Change in fair value of investment properties	295,697	345,334
Transfer to assets of a disposal group classified as held for sale	–	(594,000)
At end of the year	10,490,000	10,183,000

Notes to the Consolidated Financial Statements

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For the year ended 31 December 2017

11 INVESTMENT PROPERTIES *(continued)*

- (i) All of the Group's property interests in office buildings, commercial buildings, industrial/office buildings and industrial building located in Hong Kong to earn rentals or for capital appreciation purposes. They are measured using the fair value model and are classified and accounted for as investment properties.

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

On 31 December 2017, an independent valuation on the investment properties was undertaken by Colliers International (Hong Kong) Limited (2016: Jones Lang LaSalle Limited). Both firms are independent qualified external valuers not connected to the Group and has appropriate professional qualifications and recent experience in the valuation of similar properties in the relevant locations. The valuation of the properties, falls under level 3 of the fair value hierarchy, was arrived at using the income capitalisation method cross-referenced to 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 2017 and average net monthly car parking income for the period of January 2017 to December 2017. 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 3.6% to 4.2% (2016: 3.7% to 4.2%) for capitalisation of the current passing rental income over the existing lease term and 3.6% to 4.2% (2016: 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.

None of the Group's investment properties as at 31 December 2017 was pledged to secure banking facilities granted to the Group. As at 31 December 2016, the Group's investment properties with aggregate carrying value of HK\$5,639,900,000 was pledged to secure the banking facilities granted to the Group.

- (ii) On 8 December 2016, a letter of intent was signed by the REIT Manager (in its capacity as manager of Prosperity REIT) and an independent third party ("the Purchaser") in respect of the sale of the Harbourfront Landmark Property through disposal of its holding company, Harbour Champ Limited. 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 note 13 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 20 January 2017, the Trustee (in its capacity as trustee of Prosperity REIT) as vendor and the REIT Manager entered into the relevant share purchase agreement with the Purchaser and the disposal was completed on 3 March 2017 for a cash consideration of HK\$877,378,000 (representing the gross consideration of HK\$885,741,000 minus the adjusted net asset value of Harbour Champ Limited of HK\$8,363,000 as at completion date of the disposal). The disposal resulted in a gain of approximately HK\$299,695,000.

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11 INVESTMENT PROPERTIES (continued)

(ii) (continued)

Analysis of assets and liabilities over which control was lost:

	Upon disposal HK\$'000	2016 HK\$'000
Investment properties	594,000	594,000
Trade and other receivables	240	114
Bank balances and cash	–	1,446
Trade and other payables	(10,141)	(10,745)
Amount due to related companies	–	(825)
Deferred tax liabilities	(12,443)	(10,399)
Net assets disposed/Net assets	571,656	573,591

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

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

Net cash inflow arising on disposal is as follows:

Net proceeds from disposal	871,351
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During the year ended 31 December 2017, HK\$5,756,000 out of the Group's revenue and HK\$2,690,000 out of the Group's profit for the year were attributable to the subsidiary disposed.

12 DERIVATIVE FINANCIAL INSTRUMENTS

	2017 HK\$'000	2016 HK\$'000
Reflected on consolidated statement of financial position based on remaining contractual maturity as:		
Non-current assets	20,341	38,436
Current assets	1,528	–
Non-current liabilities	(1,539)	(56)
	20,330	38,380

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.

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12 DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Derivatives:

Contracts with total notional amount of HK\$2,116,000,000 will mature from December 2018 to September 2022. These contracts have fixed interest payments at rates ranging from 0.455% to 1.483% per annum and have floating interest receipts at three months Hong Kong Interbank Offered Rate ("HIBOR") or at three months HIBOR minus 1.5% if HIBOR is within a pre-determined range (if applicable) with HIBOR being repriced every three months for both years presented.

The total change in fair value of the derivative financial instruments amounting to a loss of HK\$18,050,000 is recognised to profit or loss during the year ended 31 December 2017 (2016: a gain of HK\$45,242,000).

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

	2017 HK\$'000	2016 HK\$'000
Trade receivables	561	1,061
Less: allowance for doubtful debts	(129)	(3)
	432	1,058
Deposit receivable for assets classified as held for sale	–	30,000
Deposit and prepayments	8,235	8,274
	8,667	39,332

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

	2017 HK\$'000	2016 HK\$'000
Current – 1 month	178	129
2 – 3 months	254	929
	432	1,058

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

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

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13 TRADE AND OTHER RECEIVABLES (continued)

Movement in the allowance for doubtful debt:

	2017 HK\$'000	2016 HK\$'000
Balance at beginning of the year	3	37
Allowance (reversal of allowance) for doubtful debts	126	(34)
Balance at the end of the year	129	3

14 BANK BALANCES AND CASH

	2017 HK\$'000	2016 HK\$'000
Cash at bank	363,451	72,444

Cash at bank, with aggregate value of HK\$213,451,000 (2016: HK\$72,444,000) are placed with The Hongkong and Shanghai Banking Corporation Limited, a related company of the Trustee at the market interest rate.

15 BORROWINGS

	2017 HK\$'000	2016 HK\$'000
Secured term loan	–	2,070,000
Unsecured term loans	2,340,000	800,000
Bank facility origination fees	(36,055)	(36,692)
	2,303,945	2,833,308
Secured revolving loan	–	20,000
	2,303,945	2,853,308
Carrying amount repayable:		
Within one year	–	20,000
Within a period of more than two years but not exceeding five years	2,303,945	2,833,308
	2,303,945	2,853,308

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15 BORROWINGS (continued)

Details of the terms and conditions of the Group's facilities as at 31 December 2017 and 31 December 2016 are as follows:

- (i) HK\$1,540,000,000 unsecured term loan bears interest at floating interest rate of HIBOR + 0.82% per annum and is repayable in full on 30 November 2022;
- (ii) HK\$430,000,000 unsecured revolving loan bears interest at floating rate of HIBOR + 0.82% per annum and is repayable on demand;
- (iii) HK\$800,000,000 unsecured term loan bears interest at floating interest rate of HIBOR + 1.05% per annum and is repayable in full on 31 August 2021;
- (iv) HK\$2,070,000,000 secured term loan bears interest at floating interest rate of HIBOR + 1.35% per annum. This loan was fully repaid on 30 November 2017 of which HK\$1,540,000,000 was settled by the renewal of the new facility as set out in (i); and
- (v) HK\$430,000,000 secured revolving loan bears interest at floating interest rate of HIBOR + 1.35% per annum and is repayable on demand. This revolving loan was discharged on 30 November 2017.

Prosperity REIT has provided guarantees for all the facilities. As at 31 December 2016, the secured term loans and revolving credit facility are secured by certain investment properties of the Group as disclosed in note 11.

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:

	2017 HK\$'000	2016 HK\$'000
Balance at beginning of the year	36,692	40,689
Addition	25,774	13,000
Amortised during the year	(26,411)	(16,997)
Balance at the end of the year	36,055	36,692

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

16 DEFERRED TAX LIABILITIES

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

	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Total HK\$'000
As at 1 January 2016	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
Charge to profit or loss	11,639	1,585	13,224
Release upon disposal (<i>note 11(iii)</i>)	(2,044)	–	(2,044)
As at 31 December 2017	194,493	(7,824)	186,669

At the end of the reporting period, tax loss amounting to approximately HK\$45,701,000 (31 December 2016: HK\$11,460,000) 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\$26,108,000 (2016: HK\$ HK\$29,191,000) in respect of the investment properties measured at fair value. The carrying amount of such properties are presumed to be recovered entirely through sale. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not expected to be reversed upon disposal of the properties.

17 TRADE AND OTHER PAYABLES

	2017 HK\$'000	2016 HK\$'000
Trade payables	1,495	2,082
Deposits received as earnest money	–	30,000
Tenants' deposits		
— Outside parties	138,356	131,395
— Related parties	779	774
Rental received in advance		
— Outside parties	3,589	4,195
Other payables	41,556	44,118
	185,775	212,564

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17 TRADE AND OTHER PAYABLES (continued)

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

	2017 HK\$'000	2016 HK\$'000
Current – 1 month	473	421
2 – 3 months	357	1,055
Over 3 months	665	606
	1,495	2,082

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\$83,245,000 (2016: HK\$84,789,000)

18 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.

19 UNITS IN ISSUE

	Number of units	HK\$'000
Balance as at 1 January 2016	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
Payment of manager's base fee and variable fee through issuance of new units during the year	15,726,217	51,130
Balance as at 31 December 2017	1,469,395,447	3,142,543

Subsequent to the end of the reporting period, 3,741,813 units (2016: 4,225,100 units) at HK\$3.4642 (2016: HK\$3.1424) 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 2017 was HK\$3.34 (31 December 2016: HK\$3.06).

20 NET ASSET VALUE PER UNIT ATTRIBUTABLE TO UNITHOLDERS

The net asset value per unit is calculated based on the net assets attributable to unitholders and the total number of 1,469,395,447 units in issue as at 31 December 2017 (1,453,669,230 units in issue as at 31 December 2016).

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21 MAJOR NON-CASH TRANSACTION

During the year, the REIT Manager earned manager's fee of HK\$51,954,000 (2016: manager's fee of HK\$53,426,000) of which HK\$50,815,000 (2016: HK\$52,280,000) was paid or payable through the issuance of units to the REIT Manager. An amount of HK\$37,853,000 (2016: 39,004,000) had been settled through the issuance of units to the REIT Manager while the balance of HK\$12,962,000 (2016: HK\$13,276,000) were paid in units subsequent to the year end.

As described in note 11(ii), the 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 as at 31 December 2016.

As described in note 15(iv), a portion of the bank borrowings was settled by the renewal of the new facility.

22 FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2017 HK\$'000	2016 HK\$'000
Loans and receivables		
Trade receivables	432	1,058
Deposit receivable for assets of a disposal group classified as held for sale	–	30,000
Bank balances and cash	363,451	73,890
	363,883	104,948
Financial assets		
<i>Derivative instruments</i>		
Interest rate swaps, net	20,330	38,380
Financial liabilities at amortised costs		
Trade payables	(1,495)	(2,082)
Amount due to related companies	(9,481)	(8,077)
Secured term loan	–	(2,045,433)
Unsecured term loans	(2,303,945)	(787,875)
Secured revolving loan	–	(20,000)
Manager's fee payable	(13,246)	(13,562)
Distribution payable	(127,437)	(126,990)
	(2,455,604)	(3,004,019)
Unitholders' funds	8,053,743	7,515,721

Details of the financial instruments are disclosed in respective notes.

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22 FINANCIAL INSTRUMENTS (continued)

(b) Financial risks management objectives and policies

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

(i) Interest rate risk

The Group is primarily exposed to cash flow interest rate risk in relation to variable-rate secured term loan (see note 15 for details of these borrowings). The Group manages its exposure to interest rate movements on its bank borrowings by swapping a majority proportion of these borrowings from floating rates to fixed rates. In order to achieve this result, the Group entered into interest rate swaps in respect of its term loans (see note 12 for details).

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

	Term loans HK\$'000	Fair value of interest rate swaps HK\$'000
2017		
Profit for the year	(11,700)	20,855
2016		
Profit for the year	(14,350)	29,849

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

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

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For the year ended 31 December 2017

22 FINANCIAL INSTRUMENTS *(continued)*

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

(ii) Credit risk

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

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

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.

(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 2017, the Group has three bank loan facilities of HK\$2,770,000,000 (2016: HK\$3,300,000,000), comprising two term loans with total of HK\$2,340,000,000 (2016: HK\$2,870,000,000) and a revolving credit facility of HK\$430,000,000 (2016: HK\$430,000,000). None (2016: HK\$20,000,000) of the revolving credit facility was drawn as at 31 December 2017. Details of the borrowing are set out in note 15.

As at 31 December 2017, all bank loan facilities are unsecured. Prosperity REIT has provided guarantees for these bank loan facilities. As at 31 December 2016, certain investment properties, with aggregate carrying value of HK\$5,639,900,000 have been pledged to secure the banking credit facilities granted to the Group.

The Group, with a cash balance of HK\$363,451,000 (2016: HK\$73,890,000) and available unutilised revolving credit facility of approximately HK\$430,000,000 (2016: HK\$410,000,000) as at 31 December 2017, has sufficient financial resources and facilities to satisfy its commitments and working capital requirements.

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22 FINANCIAL INSTRUMENTS (continued)

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

(iii) Liquidity risk management (continued)

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 flows are presented based on the expected interest payment. When the amount payable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

	Weighted average interest rate %	Less than 1 month or on demand HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	2 to 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31/12/2017 HK\$'000
2017							
Non-derivative							
Trade payables	-	665	357	473	-	1,495	1,495
Tenants' deposits	-	8,203	2,985	44,702	83,245	139,135	139,135
Amount due to related companies	-	9,481	-	-	-	9,481	9,481
Term loans	1.43%	3,701	7,044	32,833	2,401,905	2,445,483	2,303,945
Manager's fee payable	-	13,246	-	-	-	13,246	13,246
Distribution payable	-	-	-	127,437	-	127,437	127,437
Cash outflow		35,296	10,386	205,445	2,485,150	2,736,277	2,594,739
Derivatives – net settlement (receipt)							
Interest rate swaps		-	1,153	(2,869)	(26,014)	(27,730)	(20,330)
	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
2016							
Non-derivative							
Trade payables	-	606	1,055	421	-	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	1.90%	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		53,580	12,343	214,762	3,079,758	3,360,443	3,144,789
Derivatives – net settlement (receipt)							
Interest rate swaps		-	1,153	(2,869)	(42,392)	(44,108)	(38,380)

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22 FINANCIAL INSTRUMENTS *(continued)*

(c) Fair value

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

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

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

23 NET CURRENT ASSETS

At the end of the reporting period, the Group's net current assets, defined as current assets less current liabilities, amounted to HK\$35,555,000 (2016: net current assets of HK\$303,138,000). The Group has in place a revolving credit facility (as disclosed in note 15) to meet its liabilities as they fall due.

24 TOTAL ASSETS LESS CURRENT LIABILITIES

At the end of the reporting period, the Group's total assets less current liabilities amounted to HK\$10,545,896,000 (2016: HK\$10,524,574,000).

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25 SEGMENTAL REPORTING

During the year, Prosperity REIT invested in eight (2016: 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 (until the completion date of its disposal on 3 March 2017), Prosperity Place, Trendy Centre, a portion of Prosperity Center and a portion of New Treasure Centre. These properties are the basis on which the REIT Manager, being the chief operating decision maker, reports Prosperity REIT's segment information for the purpose of resource allocation and performance assessment.

Segment revenue and results

For the year ended 31 December 2017

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

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

Notes to the Consolidated Financial Statements

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25 SEGMENTAL REPORTING (continued)

Segment revenue and results (continued)

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.

Segment assets

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

	2017 HK\$'000	2016 HK\$'000
The Metropolis Tower	3,220,000	3,168,000
Prosperity Millennia Plaza	2,140,000	2,043,000
9 Chong Yip Street	1,100,000	1,091,000
Portion of Harbourfront Landmark	–	594,000
Prosperity Place	1,760,000	1,699,000
Trendy Centre	1,050,000	1,011,000
Portion of Prosperity Center	880,000	854,000
Portion of New Treasure Centre	340,000	317,000
Total segment assets	10,490,000	10,777,000
Other assets	393,987	151,772
Consolidated assets	10,883,987	10,928,772

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

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26 OPERATING LEASE ARRANGEMENTS

	2017 HK\$'000	2016 HK\$'000
Minimum lease income under operating leases included in the consolidated statement of profit or loss and other comprehensive income	365,644	369,921
	2017 HK\$'000	2016 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	299,109	316,219
In the second to fifth year inclusive	201,572	189,359
Total	500,681	505,578

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

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27 CONNECTED AND RELATED PARTY TRANSACTIONS

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

	Note	2017 HK\$'000	2016 HK\$'000
Rent and rental related income from			
Goodwell Property Management Limited	(a)	1,799	1,701
Hutchison Telephone Company Limited	(b)	80	97
Hutchison Hain Organic (Hong Kong) Limited	(b)	970	951
Carpark lease agency fee for the operations of the Group's carpark			
E-Park Parking Management Limited	(a)	3,112	2,940
Property management fee			
Goodwell-Prosperity Property Services Limited	(a)	10,965	10,858
Marketing service fee			
Goodwell-Prosperity Property Services Limited	(a)	11,325	10,323
Back-office support service fee			
CK Asset Companies	(a)	64	128
Lease commission			
Jones Lang LaSalle Limited	(c)	291	–
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited	(d)	3,115	3,184
Manager's fee			
ARA Asset Management (Prosperity) Limited	(e)	51,954	53,426
Divestment fee			
ARA Asset Management (Prosperity) Limited	(e)	4,429	–
Balances as at year end with connected and related parties are as follows:			
Amount due to			
Citybase Property Management Limited	(a)	941	553
Goodwell-Prosperity Property Services Limited	(a)	4,267	3,772
Goodwell Property Management Limited	(a)	3,738	2,851
Harbourfront Landmark Premium Services Limited	(a)	–	647
E-Park Parking Management Limited	(a)	535	254
Deposits placed with the Group for the lease of the Group's properties			
Goodwell Property Management Limited	(a)	500	497
Hutchison Telephone Company Limited	(b)	20	24
Hutchison Hain Organic (Hong Kong) Limited	(b)	259	259

Notes to the Consolidated Financial Statements

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For the year ended 31 December 2017

27 CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

Notes:

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

Under the REIT Code, the deed of mutual covenant which binds the REIT Manager and all the owners of a development and their successors-in-title which include members of CK Asset group technically constitutes a contract between the Group and CK Asset group. Remuneration to the building managers, wholly-owned subsidiaries of CK Asset, for the building management services provided constitutes a connected party transaction. During the year, remuneration paid from the funds of the buildings, attributable to the properties owned by the Group, to the building managers amounted to HK\$650,000 (2016: HK\$886,000).

28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Term loans and secured revolving loan <i>(Note 15)</i> HK\$'000	Distribution payable HK\$'000	Total HK\$'000
At 1 January 2017	2,853,308	126,990	2,980,298
Financing cash flows	(636,138)	(261,086)	(897,224)
Finance costs	86,775	–	86,775
Distribution to unitholders	–	261,533	261,533
At 31 December 2017	2,303,945	127,437	2,431,382

LIST OF SUBSIDIARIES

Name of company	Place of incorporation	Effective equity interest held by Prosperity REIT				Share capital	Principal activities in Hong Kong
		As at 31 December 2017		As at 31 December 2016			
		Directly %	Indirectly %	Directly %	Indirectly %		
Bandick Limited	Hong Kong	100	–	100	–	HK\$2	Property investment
Clifton Properties Limited	Hong Kong	–	100	–	100	HK\$10,000	Property investment
Conestoga Limited	Hong Kong	–	100	–	100	HK\$10,000	Property investment
Haskins Investments Limited	Hong Kong	100	–	100	–	HK\$2	Property investment
Harbour Champ Limited	British Virgin Islands	–	–	100	–	US\$1	Property investment
Jade Arch Investment Limited	British Virgin Islands	100	–	100	–	HK\$15,053	Investment holding
Prodes Company Limited	Hong Kong	–	100	–	100	HK\$10	Property owner
Progain Group Limited	British Virgin Islands	100	–	100	–	US\$1	Financing
Top Easy Profits Limited	British Virgin Islands	100	–	100	–	US\$1	Property investment
Unicenter Limited	British Virgin Islands	100	–	100	–	US\$1	Investment holding
Unique Champ Investments Limited	British Virgin Islands	100	–	100	–	US\$1	Investment holding
Vital Vision Enterprises Limited	British Virgin Islands	100	–	100	–	US\$1	Financing
Winrise Champion Limited	British Virgin Islands	–	100	–	100	US\$1	Property investment
Wisdom Champion Limited	British Virgin Islands	100	–	100	–	US\$1	Property investment
Wisdom Champion (12) Limited	British Virgin Islands	100	–	100	–	US\$1	Property investment

Name of company	Place of incorporation	Effective equity interest held by Prosperity REIT				Share capital	Principal activities in Hong Kong
		As at 31 December 2017		As at 31 December 2016			
		Directly %	Indirectly %	Directly %	Indirectly %		
Wisdom Champion (15) Limited	British Virgin Islands	100	-	100	-	US\$1	Property investment
Wisdom Champion (16) Limited	British Virgin Islands	100	-	100	-	US\$1	Property investment
Wisdom Champion (17) Limited	British Virgin Islands	100	-	100	-	US\$1	Property investment
Wisdom Champion (18) Limited	British Virgin Islands	100	-	100	-	US\$1	Property investment
Wisdom Champion (19) Limited	British Virgin Islands	100	-	100	-	US\$1	Property investment
Wisdom Champion (20) Limited	British Virgin Islands	100	-	100	-	US\$1	Property investment
Wisdom Champion (21) Limited	British Virgin Islands	100	-	100	-	US\$1	Property investment
Wisdom Champion (22) Limited	British Virgin Islands	100	-	100	-	US\$1	Property investment
Wisdom Champion (23) Limited	British Virgin Islands	100	-	100	-	US\$1	Property investment
Wisdom Champion (25) Limited	British Virgin Islands	100	-	100	-	US\$1	Property investment
Wisdom Champion (26) Limited	British Virgin Islands	100	-	100	-	US\$1	Property investment
Wisdom Champion (27) Limited	British Virgin Islands	100	-	100	-	US\$1	Property investment
Wisdom Champion (28) Limited	British Virgin Islands	100	-	100	-	US\$1	Property investment
Diamond Champ Enterprises Limited	British Virgin Islands	100	-	100	-	US\$1	Dormant

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

PERFORMANCE TABLE

Results Analysis for the year ended 31 December

	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000
Gross rental from investment properties	393,905	396,468	382,691	350,240	292,240
Net property income	353,600	357,847	345,479	312,056	266,931
Profit for the year, before transactions with unitholders	748,425	565,244	692,591	466,493	695,729
Distribution to unitholders	261,533	258,362	254,083	231,364	209,056
Earnings per unit (HK\$)	0.51	0.39	0.48	0.33	0.50
Distribution per unit (HK\$)	0.1780	0.1777	0.1768	0.1630	0.1495

Major assets and liabilities of Prosperity REIT as at 31 December

	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000
Investment properties	10,490,000	10,777,000 ⁽³⁾	10,419,000	9,890,000	8,518,000
Bank loans, excluding bank facility origination fees	(2,340,000)	(2,890,000)	(2,854,000)	(2,854,000)	(1,795,000)
Net asset value	8,053,743	7,515,721	7,155,735	6,668,686	6,361,402
Net asset value per unit (HK\$) ⁽¹⁾	5.48	5.17	4.98	4.70	4.57
Other Information					
The highest traded price during the year (HK\$)	3.46	3.61	3.05	2.74	3.09
The highest (discount)/premium of the traded price to net asset value	(36.9%)	(30.2%)	(38.8%)	(41.7%)	(32.4%)
The lowest traded price during the year (HK\$)	3.06	2.61	2.59	2.18	2.19
The lowest discount of the traded price to net asset value	(44.2%)	(49.5%)	(48.0%)	(53.6%)	(52.1%)
The net yield per unit based on market price at the end of year	5.3% ⁽²⁾	5.8%	6.3%	6.2%	6.6%

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

² Based on the distribution per unit of HK\$0.1780 for the year ended 31 December 2017 and the closing market price of HK\$3.34 as at 29 December 2017.

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

INVESTMENT PROPERTIES PORTFOLIO

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As at 31 December 2017

Property	Type	Lease term	Lease expiry date	Location	Valuation 2017 HK\$ Million
The Metropolis Tower	O	Medium-term lease	30 June 2047	10 Metropolis Drive Hung Hom Kowloon Hong Kong	3,220
Prosperity Millennia Plaza	O	Medium-term lease	30 June 2047	663 King's Road North Point Hong Kong	2,140
9 Chong Yip Street	O	Medium-term lease	30 June 2047	9 Chong Yip Street Kwun Tong Kowloon Hong Kong	1,100
Prosperity Place	C	Medium-term lease	30 June 2047	6 Shing Yip Street Kwun Tong Kowloon Hong Kong	1,760
Trendy Centre	I/O	Medium-term lease	30 June 2047	682 Castle Peak Road Lai Chi Kok Kowloon Hong Kong	1,050
Prosperity Center (portion)	I/O	Medium-term lease	30 June 2047	25 Chong Yip Street Kwun Tong Kowloon Hong Kong	880
New Treasure Centre (portion)	I	Medium-term lease	30 June 2047	10 Ng Fong Street San Po Kong Kowloon Hong Kong	340
Total					10,490

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

SUMMARY FINANCIAL INFORMATION

Following is a summary of the consolidated statement of profit or loss and other comprehensive income and the consolidated statement of financial position of Prosperity REIT for the past financial years prepared on a basis as consistent to the financial year ended 31 December 2017:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 Dec 2017 HK\$'000	Year ended 31 Dec 2016 HK\$'000	Year ended 31 Dec 2015 HK\$'000	Year ended 31 Dec 2014 HK\$'000	Year ended 31 Dec 2013 HK\$'000
Revenue	446,242	452,926	438,723	403,413	341,883
Profit before taxation and transactions with unitholders	788,162	603,101	728,766	498,117	724,393
Taxation	(39,737)	(37,857)	(36,175)	(31,624)	(28,664)
Profit for the years, before transactions with unitholders	748,425	565,244	692,591	466,493	695,729
Distribution to unitholders	261,533	258,362	254,083	231,364	209,056
Distribution per unit (HK\$)	0.1780	0.1777	0.1768	0.1630	0.1495

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000
Non-current assets	10,510,341	10,221,436	10,419,000	9,890,000	8,518,000
Current assets	373,646	707,336	73,714	75,200	66,772
Current liabilities	338,091	404,198	344,074	338,001	307,565
Net assets attributable to unitholders	8,053,743	7,515,721	7,155,735	6,668,686	6,361,402

CORPORATE INFORMATION

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BOARD OF DIRECTORS OF THE REIT MANAGER

CHIU Kwok Hung, Justin
Chairman and Non-executive Director

LIM Hwee Chiang
Non-executive Director

WONG Lai Hung, Mavis
Executive Director and Chief Executive Officer

MA Lai Chee, Gerald
Non-executive Director

LAN Hong Tsung, David
Independent Non-executive Director

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

WONG Kwai Lam
Independent Non-executive Director

COMPANY SECRETARY OF THE REIT MANAGER

SENG SZE Ka Mee, Natalia

TRUSTEE

HSBC Institutional Trust Services (Asia) Limited

AUDITOR OF PROSPERITY REIT

Deloitte Touche Tohmatsu

PRINCIPAL VALUER

Colliers International (Hong Kong) Limited

PRINCIPAL BANKERS

DBS Bank Limited
Sumitomo Mitsui Banking Corporation
The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISER

Baker & McKenzie

REGISTERED OFFICE

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99 Queen's Road Central
Hong Kong

UNIT REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
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183 Queen's Road East, Wan Chai
Hong Kong

STOCK CODE

The Stock Exchange of Hong Kong Limited: 808

INVESTOR RELATIONS

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KEY DATES

Annual Results Announcement	15 March 2018
Closure of Register of Unitholders for Final Distribution	3 April to 4 April 2018 (both days inclusive)
Payment of Final Distribution	13 April 2018
Closure of Register of Unitholders for Annual General Meeting	8 May to 11 May 2018 (both days inclusive)
Annual General Meeting	11 May 2018

This annual report 2017 ("**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.

The Annual Report (in both English and Chinese versions) has been posted on Prosperity REIT's website at www.prosperityreit.com and the website of Hong Kong Exchanges and Clearing Limited at 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.



Stock Code: 808



www.prosperityreit.com

Manager



ARA Asset Management (Prosperity) Limited

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

