



PROSPERITY
REIT 泓富產業信託

Stock Code: 808



CRAFTING POSSIBILITIES

Annual Report 2019

TOTAL GROSS
RENTABLE AREA
OF ABOUT

1.28 MILLION
SQ.FT.



**THE METROPOLIS
TOWER**



**PROSPERITY
MILLENNIA
PLAZA**



**9 CHONG
YIP STREET**



**PROSPERITY
PLACE**

7

Prosperity
REIT
Portfolio



**TRENDY
CENTRE**



**PROSPERITY
CENTER PROPERTY**
(portion)



**NEW TREASURE
CENTRE PROPERTY**
(portion)



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**”).

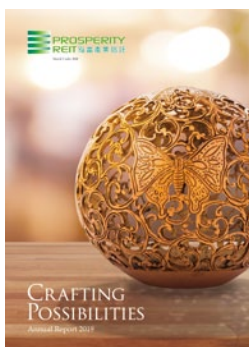
ABOUT THE REIT Manager

ARA Asset Management (Prosperity) Limited is a wholly-owned subsidiary of ARA Asset Management Limited (“**ARA**”), a leading APAC real assets fund manager with a global reach. ARA manages listed and unlisted REITs and private real estate and infrastructure funds in 28 countries.

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.



Crafting requires excellent techniques and rich experiences in making evolutionary art pieces. Through the process of creating stereoscopic art pieces, craftsmen have to be perseverant and determined to make vivid creations. In the design, the REIT Manager is symbolized as a top-notch craftsman, creating numerous possibilities and diversified developments to uphold the core values as an all-rounded company in the industry.

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WE
CARE
FOR

STAFF

TENANTS

COMMUNITY

UNITHOLDERS

ENVIRONMENT



ADVANCED
PERFORMANCE



Chairman's Statement

Dear Unitholders,

On behalf of the Board of Directors (the "**Board**") of ARA Asset Management (Prosperity) Limited, the manager of Prosperity Real Estate Investment Trust ("**Prosperity REIT**"), I am pleased to present the annual report of Prosperity REIT for the financial year ended 31 December 2019 (the "**Reporting Year**").



RESULTS AND DISTRIBUTION

Despite the ongoing US-China trade talks and the local social incident in Hong Kong in 2019, the performance of Prosperity REIT remained resilient.

Both distributable income and distribution per unit ("**DPU**") registered marginal growth. We also saw steady year-on-year growth in net asset value per unit and property valuation by 0.2% and 1.2% to HK\$5.75 and HK\$11,126 million respectively.

In light of these results, I am pleased to announce that our Unitholders will receive a DPU of HK\$0.0895 per unit for the second half representing total DPU of HK\$0.1828 for the year ended 31 December 2019.

MARKET REVIEW

The US-China trade talks have brought headwinds and pressure to the Hong Kong economy, given our close correlation with China.

Hong Kong's GDP has been further impacted by the social incident battering domestic demands since mid of 2019 and experienced downward pressure with the 2019 full year GDP decreased by 1.2%, the first annual contraction in a decade.

On the other hand, despite the challenging situation, China's economic growth still managed to maintain a stable and positive growth of 6.1%.



Chairman's Statement

OPERATION REVIEW

Loomed by the uncertain business environment arising from external trade and domestic issue, we managed to keep stable the topline revenue and net property income. Rental reversion was positive, while occupancy rates remained stable. Our portfolio continues to leverage on the decentralization trend in the Hong Kong office market.

PROSPECTS

Hong Kong economy is at a pivotal moment affected by both external and domestic factors. While the US-China trade tensions will de-escalate with phase one deal signed in January 2020, local retail and hospitality business sectors are under great pressure from the prolonged local social incident. The economic sentiment is further dampened by the outbreak of the coronavirus infection in early 2020.

The outlook for the Hong Kong economy is therefore subject to high uncertainties. Leasing momentum and rental level will inextricably be affected. To mitigate the impact, we will continue to leverage on the ongoing office decentralization trend and seize the opportunities brought by the newly opened Shatin to Central Link (phase 1). Our portfolio's strong presence in the Kowloon East district and Hunghom district will benefit from the broader coverage by the new railway network.

Apart from deploying flexible leasing strategy, we will also keep our persistent prudent and proactive management approach to prepare for the challenges in the coming year. We will also continue to explore opportunities for further growth.





Chairman's Statement

ACKNOWLEDGEMENTS

I would like to once again extend my sincere thanks to all those who have contributed to our success over the past year. Our staff and tenants, service providers and business partners have all played significant roles taking us forward in challenging times.

In particular, my thanks go to my fellow Board members and the management team for their continued dedication and tireless efforts.

I would like to finish by acknowledging and thanking 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, 5 March 2020





ROBUST
ACHIEVEMENTS



Performance Highlights in 2019

DISTRIBUTION PER UNIT ¹

+1.0%

2019 HK\$0.1828



2018 HK\$0.1810



NET ASSET VALUE PER UNIT ²

+0.2%

2019 HK\$5.75



2018 HK\$5.74



REVENUE ¹

+3.5%

2019 HK\$462.3 million



2018 HK\$446.8 million



PROPERTY VALUATION ²

+1.2%

2019 HK\$11,126 million



2018 HK\$10,990 million



AVERAGE EFFECTIVE UNIT RENT ¹

+2.0%

2019 HK\$25.18 per sq. ft.



2018 HK\$24.68 per sq. ft.



NET PROPERTY INCOME ¹

+4.3%

2019 HK\$365.9 million



2018 HK\$350.8 million



Notes:

¹ For the year ended 31 December.

² As at year end.

Trust Review

DIVERSIFIED PROPERTY PORTFOLIO

As at 31 December 2019, 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 2019, the appraised value of the portfolio was HK\$11,126 million. Grade A office buildings, commercial building, industrial/office buildings and industrial building accounted for 61.3%, 17.0%, 18.5% and 3.2% of the total appraised value respectively.

	Valuation HK\$ million as at 31 December 2019	Valuation HK\$ million as at 31 December 2018	Percentage change Increase/(Decrease)
Grade A Office			
The Metropolis Tower	3,370	3,330	1.2%
Prosperity Millennia Plaza	2,300	2,250	2.2%
9 Chong Yip Street	1,150	1,150	0%
Commercial			
Prosperity Place	1,889	1,860	1.6%
Industrial/Office			
Trendy Centre	1,120	1,110	0.9%
Prosperity Center (portion)	936	930	0.6%
Industrial			
New Treasure Centre (portion)	361	360	0.3%
Total	11,126	10,990	1.2%

EFFECTIVE LEASE MANAGEMENT

As a result of proactive tenant recruitment efforts by the REIT Manager, the portfolio's occupancy rate was maintained stable at 97.3% as at 31 December 2019. The portfolio's average effective unit rent increased by 2.0% year-on-year ("YoY") to HK\$25.18 per sq. ft., with a rental reversion rate of 7.4% for the leases successfully renewed in 2019.

As at 31 December 2019, leases expiring in 2020 accounted for 39.0% of the portfolio's gross rental income. Proactive leasing strategies will be continued in 2020 to deliver stable distribution to unitholders.



Trust Review

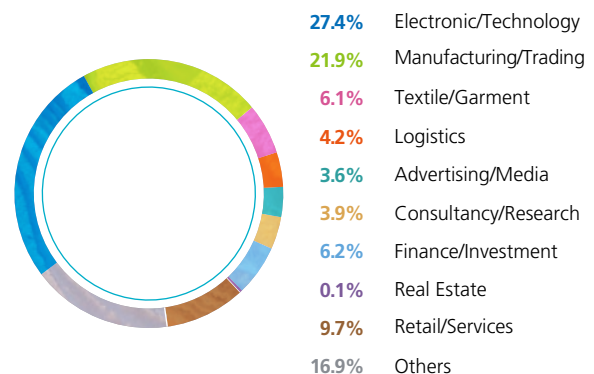
**LEASE EXPIRY PROFILE BY GROSS RENTAL INCOME
(AS AT 31 DECEMBER 2019)**

	31 December 2019 & 2020	2021	2022 and Beyond
The Metropolis Tower	19.5%	50.0%	30.5%
Prosperity Millennia Plaza	46.4%	37.6%	16.0%
9 Chong Yip Street	40.9%	29.3%	29.8%
Prosperity Place	47.8%	32.5%	19.7%
Trendy Centre	38.6%	30.1%	31.3%
Prosperity Center (portion)	63.7%	25.7%	10.6%
New Treasure Centre (portion)	53.5%	38.0%	8.5%
Portfolio	39.0%	37.9%	23.1%

WELL-BALANCED TENANT MIX

As at 31 December 2019, Prosperity REIT had a total of 611 tenants. Most of these tenants were from business sectors such as electronic, technology, manufacturing, trading, as well as services trade. 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 57% (in terms of gross rentable area) of our tenants are medium-to-large sized enterprises. It is the long-term goal of the REIT Manager to maintain a well-balanced mix of tenants with credible financial standing to ensure a stable stream of rental income.

**TRADE MIX BY GROSS RENTABLE AREA
(As at 31 December 2019)**


Size of Tenant Premises on Gross Rentable Area (as at 31 December 2019)	Percentage
Above 10,000 sq. ft.	11.4%
5,001 sq. ft.–10,000sq. ft.	16.4%
2,001 sq. ft.–5,000 sq. ft.	29.6%
1,001 sq. ft.–2,000 sq. ft.	29.0%
1,000 sq. ft. and below	13.6%
Total	100.0%



Trust Review

CLOSE-TO-ZERO RENT DELINQUENCY RATE

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

ASSET ENHANCEMENT

It is an established strategy of the REIT Manager to provide premium rentable space in order to achieve sustainable rental growth. To this end, asset enhancement initiatives have been planned and executed on a continuous basis. During the Reporting Year, a number of asset enhancement works were carried out at 9 Chong Yip Street, Prosperity Place and Prosperity Millennia Plaza (to be completed in February 2020). Asset enhancement initiatives will continue in 2020 across the portfolio, with prudently planned payback periods.

OUTLOOK

Since its listing on 16 December 2005 (the “**Listing Date**”), Prosperity REIT has met challenges posed by various economic uncertainties, and has achieved 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 2020 through our proven expertise in professional management.



Trust Review

9 CHONG YIP STREET

Considering higher operation and maintenance costs of the existing aging variable refrigerant volume (“VRV”) split type air-conditioning system serving the common area in the building, we have replaced the whole air-conditioning system with a new one in order to upkeep a reliable and efficient air-conditioning provision.



New VRV air-conditioning system

PROSPERITY PLACE

A projected outdoor lightbox has been installed on the lower portion of building façade for capturing the busy street traffic attention and fostering a stronger retail image of the building. This increases the revenue as well.





Trust Review

PROSPERITY MILLENNIA PLAZA

The G/F lobby area is being renovated in order to bring the building in line with the market standard and fully reflect the strategic location of the building. The renovation work is in progress and to be completed in February 2020.





TOWERING
PERFORMANCE



Prosperity REIT Portfolio



THE METROPOLIS TOWER

LOCATION:

10 Metropolis Drive, Hung Hom, Kowloon

YEAR OF COMPLETION:

2001

GROSS RENTABLE AREA (SQ. FT.):

271,418

NO. OF CAR PARK SPACES:

98

APPRAISED VALUE (HK\$ MILLION):

3,370

NUMBER OF TENANTS:

104



Prosperity REIT Portfolio

TOP 5 TENANT¹

Tenants	Trade	GRA* (sq. ft.)	% of GRA*	% of GRI**
Hutchison Whampoa (China) Limited	Others	18,161	6.7%	6.3%
NEC Hong Kong Limited	Electronic/Technology	18,161	6.7%	5.9%
Sumitomo Mitsui Banking Corporation	Finance/Investment	18,161	6.7%	5.9%
Hong Kong Taiyo Yuden Company Limited	Electronic/Technology	7,768	2.9%	2.9%
Bestgroup Holding Limited	Finance/Investment	7,413	2.7%	2.8%

* Gross rentable area
** Gross rental income

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 2019, the occupancy rate of the property was 99.6%.

LEASE EXPIRY PROFILE

(As at 31 December 2019)

As at 31 December 2019 and 2020

19.5%

19.0%

2021

50.0%

51.4%

2022 and beyond

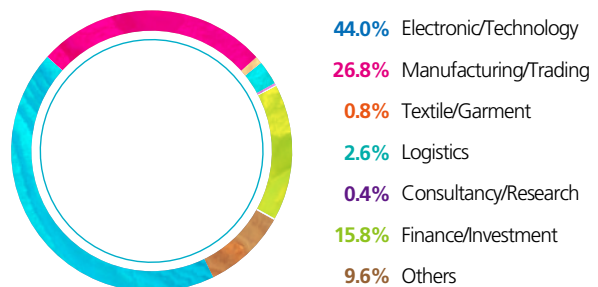
30.5%

29.6%

■ By Gross Rental Income ■ By Gross Rentable Area

TRADE MIX BY GROSS RENTABLE AREA

(As at 31 December 2019)



¹ Top 5 tenants are measured based on tenant's contribution to the rental income of the property in December 2019.



Prosperity REIT Portfolio



PROSPERITY MILLENNIA PLAZA

LOCATION:

663 King's Road, North Point, Hong Kong

YEAR OF COMPLETION:

1999

GROSS RENTABLE AREA (SQ. FT.):

217,955

NO. OF CAR PARK SPACES:

43

APPRAISED VALUE (HK\$ MILLION):

2,300

NUMBER OF TENANTS:

82



Prosperity REIT Portfolio

TOP 5 TENANTS

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Lamex Trading Company Limited	Manufacturing/Trading	16,132	7.4%	6.8%
Excel Technology International (HK) Limited	Electronic/Technology	11,058	5.1%	4.7%
JDB Holdings Limited	Consultancy/Research	8,867	4.1%	4.6%
The Hong Kong & China Gas Company Limited	Others	8,314	3.8%	4.1%
Uni-Asia Holdings Limited & Others	Logistics	8,314	3.8%	4.0%

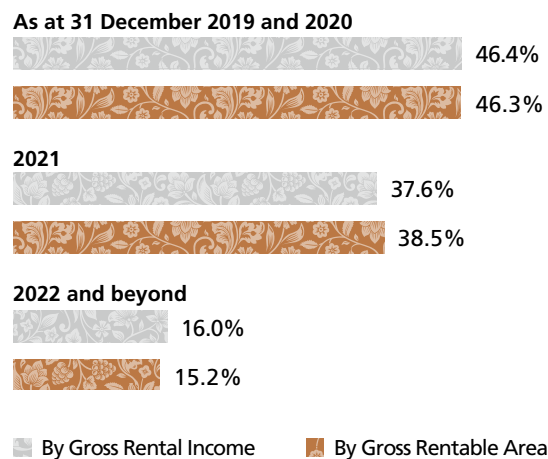
With panoramic sea view of the Victoria Harbour and strategically located in the Island East office district, Prosperity Millennium Plaza stands adjacent to the Harbour Plaza North Point Hotel and across from the North Point Government Offices. Served by a convenient transportation network, the building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

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

As at 31 December 2019, the occupancy rate of the property was 99.5%.

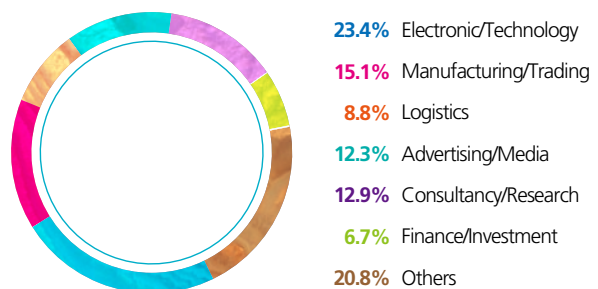
LEASE EXPIRY PROFILE

(As at 31 December 2019)



TRADE MIX BY GROSS RENTABLE AREA

(As at 31 December 2019)





Prosperity REIT Portfolio



9 CHONG YIP STREET

LOCATION:

9 Chong Yip Street, Kwun Tong, Kowloon

YEAR OF COMPLETION:

2004

GROSS RENTABLE AREA (SQ. FT.):

136,595

NO. OF CAR PARK SPACES:

68

APPRAISED VALUE (HK\$ MILLION):

1,150

NUMBER OF TENANTS:

41



Prosperity REIT Portfolio

TOP 5 TENANTS

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Fundpark Limited	Electronic/Technology	8,026	5.9%	5.7%
Totes Isotoner Corporation (H.K.) Limited	Manufacturing/Trading	6,580	4.8%	5.1%
Tenant ^{note}	Others	6,580	4.8%	5.1%
Hipcon Trading Limited	Manufacturing/Trading	6,580	4.8%	5.0%
Plan International Hong Kong Limited	Others	6,580	4.8%	5.0%

Note: Tenant requested for anonymity

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.

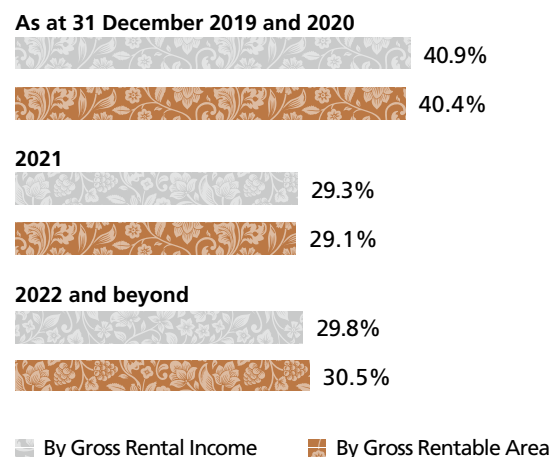
9 Chong Yip Street is in close proximity to the Ngau Tau Kok MTR station and is easily accessible by private and public transportation such as taxis and franchised buses. Further, it is adjacent to one of Prosperity REIT's existing properties, namely Prosperity Center, and is only 10 minutes away from 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 2019, the occupancy rate of the property was 97.9%.

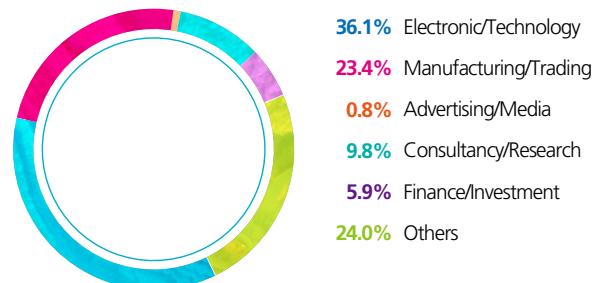
LEASE EXPIRY PROFILE

(As at 31 December 2019)



TRADE MIX BY GROSS RENTABLE AREA

(As at 31 December 2019)



Prosperity REIT Portfolio



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):

1,889

NUMBER OF TENANTS:

120



Prosperity REIT Portfolio

TOP 5 TENANTS

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
I Dance Enterprise Limited	Retail/Services	10,000	4.2%	4.5%
Evlite Electronics Company Limited	Electronic/Technology	11,819	4.9%	4.4%
Dickson Yoga Company Limited	Retail/Services	10,000	4.2%	3.8%
Bai Communications Limited	Electronic/Technology	8,157	3.4%	3.5%
Gain Long Group Limited	Retail/Services	5,402	2.3%	2.9%

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.

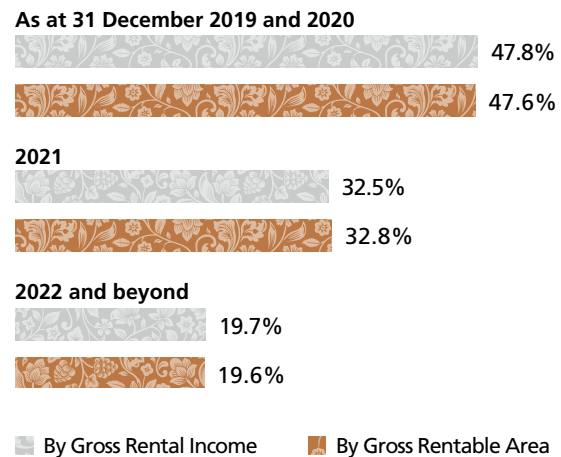
Many new Grade A office buildings were newly developed in the past few years, Kowloon East has seen significant urban improvements on a number of fronts, including prominent modern architecture and dynamic shopping malls, along with leisure and public spaces. With the implementation of Kai Tak Development 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 2019, the occupancy rate of the property was 93.4%.

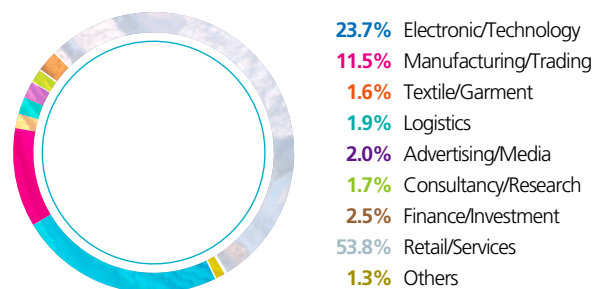
LEASE EXPIRY PROFILE

(As at 31 December 2019)



TRADE MIX BY GROSS RENTABLE AREA

(As at 31 December 2019)





Prosperity REIT Portfolio



TRENDY CENTRE

LOCATION:

682 Castle Peak Road, Lai Chi Kok, Kowloon

YEAR OF COMPLETION:

1998

GROSS RENTABLE AREA (SQ. FT.):

173,764

NO. OF CAR PARK SPACES:

79

APPRAISED VALUE (HK\$ MILLION):

1,120

NUMBER OF TENANTS:

146



Prosperity REIT Portfolio

TOP 5 TENANTS

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Tenant ^{note}	Others	8,761	5.0%	4.8%
Lush Asia Limited	Manufacturing/Trading	1,718	1.0%	4.1%
Madrid Group Limited & Others	Others	708	0.4%	2.9%
Amidas Hong Kong Limited	Electronic/Technology	3,268	1.9%	1.9%
Onco Medical Laboratory Limited & Others	Others	2,958	1.7%	1.7%

Note: Tenant requested for anonymity

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 2019, the occupancy rate of the property was 95.1%.

LEASE EXPIRY PROFILE

(As at 31 December 2019)

As at 31 December 2019 and 2020

By Gross Rental Income: 38.6%

By Gross Rentable Area: 37.7%

2021

By Gross Rental Income: 30.1%

By Gross Rentable Area: 31.7%

2022 and beyond

By Gross Rental Income: 31.3%

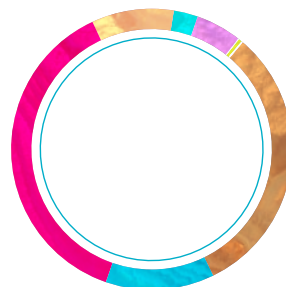
By Gross Rentable Area: 30.6%

■ By Gross Rental Income

■ By Gross Rentable Area

TRADE MIX BY GROSS RENTABLE AREA

(As at 31 December 2019)



- 12.6% Electronic/Technology
- 37.9% Manufacturing/Trading
- 9.4% Textile/Garment
- 2.8% Logistics
- 5.3% Advertising/Media
- 0.4% Finance/Investment
- 31.6% Others



Prosperity REIT Portfolio



PROSPERITY CENTER PROPERTY (Portion of Prosperity Center)

LOCATION:

25 Chong Yip Street, Kwun Tong, Kowloon

YEAR OF COMPLETION:

1999

GROSS RENTABLE AREA (SQ. FT.):

149,253

NO. OF CAR PARK SPACES:

105

APPRAISED VALUE (HK\$ MILLION):

936

NUMBER OF TENANTS:

69



Prosperity REIT Portfolio

TOP 5 TENANTS

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Aurora Fashions Asia Limited	Textile/Garment	13,899	9.3%	9.9%
Senko Advanced Components (Hong Kong) Limited	Electronic/Technology	11,733	7.9%	8.0%
Opsec Delta (HK) Limited	Manufacturing/Trading	10,528	7.1%	7.4%
Barco Limited	Electronic/Technology	4,597	3.1%	3.3%
Taiseimusen (H.K.) Company Limited	Manufacturing/Trading	3,714	2.5%	2.5%

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 2019, the occupancy rate of the property was 97.0%.

LEASE EXPIRY PROFILE

(As at 31 December 2019)

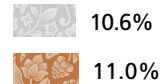
As at 31 December 2019 and 2020



2021



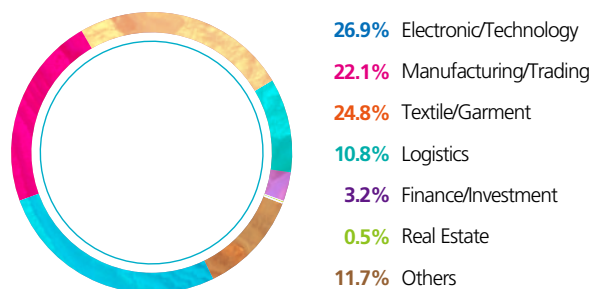
2022 and beyond



■ By Gross Rental Income ■ By Gross Rentable Area

TRADE MIX BY GROSS RENTABLE AREA

(As at 31 December 2019)



Prosperity REIT Portfolio



NEW TREASURE CENTRE PROPERTY (Portion of New Treasure Centre)

LOCATION:

10 Ng Fong Street, San Po Kong, Kowloon

YEAR OF COMPLETION:

1995

GROSS RENTABLE AREA (SQ. FT.):

86,168

NO. OF CAR PARK SPACES:

22

APPRAISED VALUE (HK\$ MILLION):

361

NUMBER OF TENANTS:

49



Prosperity REIT Portfolio

TOP 5 TENANTS

Tenants	Trade	GRA (sq. ft.)	% of GRA	% of GRI
Goodwell Property Management Limited*	Others	12,404	14.4%	12.3%
Reich Pharm Limited	Others	6,522	7.6%	7.4%
Macrotech Security & Management Services Limited & Others	Others	2,496	2.9%	3.0%
Yim Hong Kee Company Limited	Manufacturing/Trading	2,519	2.9%	3.0%
Menkin Industrial (China) Limited	Manufacturing/Trading	2,496	2.9%	2.9%

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

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 2019, the occupancy rate of the property was 100%.

LEASE EXPIRY PROFILE

(As at 31 December 2019)

As at 31 December 2019 and 2020

By Gross Rental Income: 53.5%

By Gross Rentable Area: 52.8%

2021

By Gross Rental Income: 38.0%

By Gross Rentable Area: 38.5%

2022 and beyond

By Gross Rental Income: 8.5%

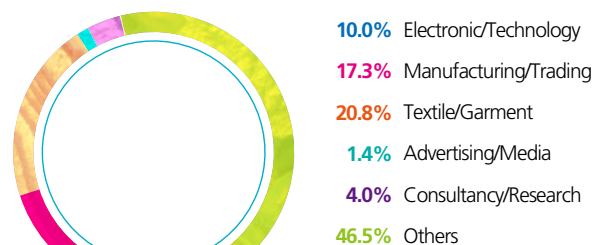
By Gross Rentable Area: 8.7%

By Gross Rental Income








By Gross Rentable Area

TRADE MIX BY GROSS RENTABLE AREA

(As at 31 December 2019)





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)



FOCUSED
STRATEGY

Management Discussion and Analysis

PERFORMANCE HIGHLIGHTS

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

	Year ended 31 December 2019	Year ended 31 December 2018	Percentage change Increase/(Decrease)
Distribution per unit	HK\$0.1828	HK\$0.1810	1.0%

	As at 31 December 2019	As at 31 December 2018	Percentage change Increase/(Decrease)
Key financial figures			
Net asset value per unit	HK\$5.75	HK\$5.74	0.2%
Property valuation	HK\$11,126 million	HK\$10,990 million	1.2%
Gearing ratio ¹	20.3%	20.6%	(0.3%) ²

	Year ended 31 December 2019	Year ended 31 December 2018	Percentage change Increase/(Decrease)
Operation data			
Revenue	HK\$462.3 million	HK\$446.8 million	3.5%
Net property income	HK\$365.9 million	HK\$350.8 million	4.3%
Average effective unit rent	HK\$25.18 per sq. ft.	HK\$24.68 per sq. ft.	2.0%
Occupancy rate (as at 31 December)	97.3%	97.6%	(0.3%) ²
Cost-to-revenue ratio	20.9%	21.5%	(0.6%) ²

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

² Absolute change.



Management Discussion and Analysis

OPERATIONS REVIEW

As at 31 December 2019, 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 2019, 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 2019, 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	3,370	99.6%
	Prosperity Millennia Plaza	North Point	217,955	43	2,300	99.5%
	9 Chong Yip Street	Kwun Tong	136,595	68	1,150	97.9%
Commercial						
	Prosperity Place	Kwun Tong	240,000	83	1,889	93.4%
Industrial/Office						
	Trendy Centre	Lai Chi Kok	173,764	79	1,120	95.1%
	Prosperity Center (portion)	Kwun Tong	149,253	105	936	97.0%
Industrial						
	New Treasure Centre (portion)	San Po Kong	86,168	22	361	100.0%
Total			1,275,153	498	11,126	97.3%

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain a stable occupancy rate of 97.3% as at 31 December 2019, 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 20.9%.

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.

Management Discussion and Analysis

FINANCIAL REVIEW

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

	Turnover HK\$'000	Rental related income HK\$'000	Revenue HK\$'000	Net property income HK\$'000
Grade A Office				
The Metropolis Tower	115,293	24,297	139,590	113,744
Prosperity Millennia Plaza	81,990	15,591	97,581	80,426
9 Chong Yip Street	35,498	4,422	39,920	30,035
Commercial				
Prosperity Place	74,169	1,035	75,204	58,749
Industrial/Office				
Trendy Centre	44,281	6,683	50,964	37,498
Prosperity Center (portion)	38,111	3,504	41,615	32,365
Industrial				
New Treasure Centre (portion)	15,261	2,179	17,440	13,049
Total	404,603	57,711	462,314	365,866

Revenue

During the Reporting Year, revenue increased to HK\$462.3 million, being HK\$15.5 million or 3.5% higher than that of 2018. The increase was mainly due to the increase in rental income in our flagship property, The Metropolis Tower.

Net Property Income

For the Reporting Year, the net property income was HK\$365.9 million, being HK\$15.1 million or 4.3% higher than that of 2018 mainly as a result of the increase in revenue while cost is well controlled. The cost-to-revenue ratio was 20.9%.

Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$274.7 million, representing a total DPU of HK\$0.1828. 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\$8.0 million (equivalent to HK\$0.0053 per unit), which have been recorded in the consolidated statement of profit or loss and other comprehensive income for the Reporting Year.



Management Discussion and Analysis

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 2019. 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 2019 to 31 December 2019 is HK\$134.9 million, equivalent to a DPU of HK\$0.0895. The interim DPU from 1 January 2019 to 30 June 2019 was HK\$0.0933. The total DPU for the Reporting Year is HK\$0.1828, which represents a distribution yield of 6.0%³. The DPU increased by 1.0% YoY.

The distribution for the half year from 1 July 2019 to 31 December 2019 will be paid on Tuesday, 7 April 2020.

Liquidity and Financing

As at 31 December 2019, 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 2019.

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 interest rate swap agreements to mitigate the impact of interest rate fluctuations. As at 31 December 2019, the interest costs for approximately 70% (31 December 2018: 50%) of Prosperity REIT's outstanding term loans have been hedged through interest rate swaps.

The total borrowings of Prosperity REIT, excluding the bank facilities origination fees, as a percentage of Prosperity REIT's gross assets was 20.3% as at 31 December 2019, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 25.2% as at 31 December 2019.

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.

³ Based on Prosperity REIT's closing unit price of HK\$3.05 as at 31 December 2019.

Management Discussion and Analysis

Investment Properties and Property Valuation

For the Reporting Year, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$128.1 million, based on a professional valuation performed by an independent qualified external valuer, Colliers International (Hong Kong) Limited. The movements of fair values are tabulated below:

	31 December 2019 HK\$'000	31 December 2018 HK\$'000
Fair value at the beginning of the year	10,990,000	10,490,000
Additional expenditure	7,888	12,118
Change in fair value of investment properties	128,112	487,882
Fair value at the end of the year	11,126,000	10,990,000

Charges on Assets

As at 31 December 2019, 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 the 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 Friday, 27 March 2020 to Monday, 30 March 2020, 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 Rooms 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Thursday, 26 March 2020. The payment date of the final distribution will be on Tuesday, 7 April 2020.



Management Discussion and Analysis

MAJOR REAL ESTATE AGENTS AND CONTRACTORS

Top Five Real Estate Agents

The total commission paid to real estate agents to secure new tenants during the Reporting Year was HK\$5,106,000. The commission paid to the top five real estate agents, summarized as follows, was HK\$2,931,000 and accounted for 57.4% of the total commission paid:

Real Estate Agents	Nature of Services	Commission Paid HK\$'000	Percentage of Total Commission Paid
Midland Realty	Leasing	855	16.8%
Jones Lang LaSalle Limited	Leasing	727	14.2%
Colliers International Agency Limited	Leasing	644	12.6%
Prime Property Consultants Limited	Leasing	361	7.1%
Centaline Property Agency Limited	Leasing	344	6.7%
		2,931	57.4%

Top Five Contractors

The total value of service contracts of contractors engaged by Prosperity REIT during the Reporting Year was HK\$68,902,000. The value of contracts of the top five contractors, summarized as follows, was HK\$59,827,000 and accounted for 86.8% 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	39,982	58.0%
Goodwell-Prosperity Property Services Limited	Building management	11,288	16.4%
Citybase Property Management Limited	Building management	4,470	6.5%
E-Park Parking Management Limited	Carpark operation	3,305	4.8%
ANW Contracting Company Limited	Repairs and maintenance	782	1.1%
		59,827	86.8%



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.



- | | |
|---|--|
| <p>1 Law Un Ying, Anita
<i>Chief Property Manager</i></p> <p>2 WONG Sze Yu, Kitty
<i>Property Manager</i></p> <p>3 DENG Chi Yung, Jonathan
<i>Leasing Manager</i></p> <p>4 YEUNG Tin On, Bruce
<i>Assistant Leasing Manager</i></p> <p>5 WONG Ling Fei
<i>Assistant Chief Manager, Leasing</i></p> | <p>6 WONG Lai Hung, Mavis
<i>Chief Executive Officer</i></p> <p>7 CHAN Chun Kwok, Boris
<i>Leasing Manager</i></p> <p>8 NG Chi Wah, Kevin
<i>Assistant Director, Asset Management</i></p> <p>9 SIU Kit Fu, Jeff
<i>Manager, Asset Management & Investments</i></p> <p>10 SHING Wai Kit, Joe
<i>Senior Technical Manager</i></p> |
|---|--|



SUSTAINABLE
MANAGEMENT



Environmental, Social and Governance (ESG)

OUR PHILOSOPHY

Prosperity REIT believes embracing social responsibility and putting it into practice is essential to a company's long-term success. Therefore, we aim to bring advancement to our organization by fully adhering to various Environmental, Social and Governance (**ESG**) standards. We actively collaborate with our key stakeholders so that we can showcase our core values of sustainable development — Respect, Excellence, Integrity and Teamwork — to our community, environment, tenants, staff and unitholders.

A set of well-established ESG policies has been implemented to integrate sustainability into our real estate investment and operations decisions. These policies facilitate strategic decision-making that helps us reduce our impact on the environment and society, thereby ensuring that our business grows responsibly and sustainably, and brings value to the community. We believe our dedicated commitment and contribution to CSR programs will provide investors and employees the confidence to collaborate closely with us. In the future, we plan to follow the model of corporate citizenship and look forward to bringing more benefits to the environment and society.

ABOUT THIS SECTION

This section describes the ESG performance and management approaches of Prosperity REIT in material areas of sustainable development. It is prepared in accordance with the ESG Reporting Guide set out in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (**Listing Rules**).

Within the scope of this section, our portfolio comprises all seven assets directly owned and managed by Prosperity REIT, including 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 covered our ESG approach and performance from 1 January 2019 to 31 December 2019.

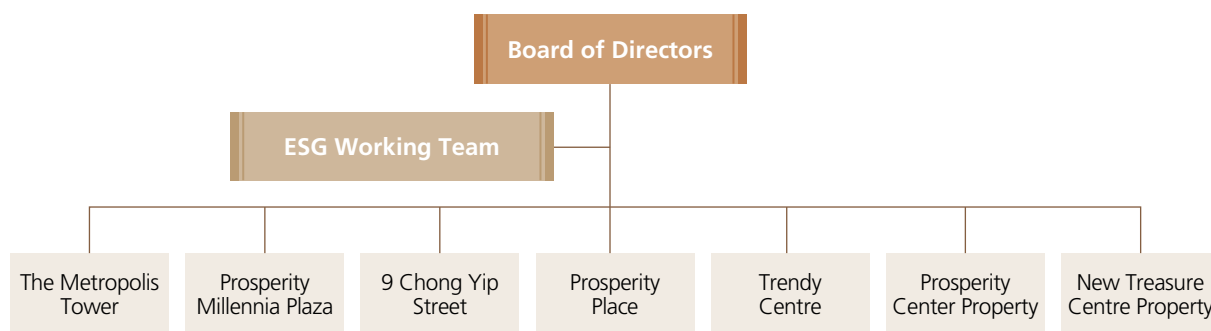
For information regarding our corporate governance, please refer to the Corporate Governance Section on page 75.



Environmental, Social and Governance (ESG)

OUR ESG GOVERNANCE AND MANAGEMENT

ESG Management Structure



At Prosperity REIT, we believe that a company's responsibility goes beyond just producing financial returns for our unitholders. We also have to empower our employees and give back to society. To drive sustainable development, people of all ranks, including our Board of Directors, REIT Manager and Property Manager, come together and make earnest efforts to build up our ESG governance and management structure.

The Board, by incorporating ESG considerations into business decisions, is responsible for setting goals, developing strategies with regard to ESG performance and approving the final report. To facilitate their regular evaluation of Prosperity REIT's ESG performance, an ESG Working Team has been formed to oversee our ESG practice implementation. The team is comprised of the CEO and senior management of REIT Manager, and reports to the Board of Directors. Under the current team structure, the Asset Management team and Property Manager are responsible for monitoring the environmental performance of our seven assets and identifying green asset enhancement opportunities. The Investor Relations team is responsible for designing and implementing corporate responsibility projects that benefit our society. To lead and supervise the preparation of the ESG report in the Annual Report, the REIT Manager and Property Manager work closely together to identify material issues, complete data collection process and compile the report. Besides, we have also engaged an independent consultant to facilitate our data consolidation process and provide strategic advice on our future ESG development.



Environmental, Social and Governance (ESG)

In line with the Group-level policies from ARA Asset Management Limited (ARA) in managing ESG matters, we set requirements for Prosperity REIT’s performance in environmental, social and governance aspects, which include the following:

ARA Group-level Policies

Environment	
<p>Environmental Policy</p> 	<p>ARA aims to manage and monitor its environmental practices on a variety of environmental issues, including climate change adaptation, greenhouse gases (GHG) emission reduction, energy management, water consumption, waste management and green office management. Based on the requirements, Prosperity REIT works closely with the Property Manager to educate tenants through the implementation of environmental initiatives/ measures.</p>
Social	
<p>Diversity and Anti-Discrimination Policy</p> 	<p>ARA upholds a fair employment procedure based on merit, and regardless of age, race, gender, religion, national origin, sexual orientation, family status, disability, medical condition or other characteristics. It upholds a fair and respectful workplace by providing employees with equal opportunities. Rewards and promotions are based on ability, performance, contribution and experience.</p>
<p>Avoid Child and Forced Labor Policy</p> 	<p>ARA prohibits the employment of anyone below the age of 13 years in any form of labor. It does not tolerate any forced labor of any kind, including slave labor, prison labor, indentured labor, or bonded labor, including forced overtime hours.</p>
<p>Health, Safety and Well-being Policy</p> 	<p>ARA values the health and safety of its employees. It strives to provide a safe working environment and prohibit any unlawful use of drug by introducing Drug-Free Workplace policy. Employee wellness activities are organized to promote positive work-life balance and healthy life-style, ranging from social events, health talks and sports and fitness events.</p>
<p>Performance Appraisal Policy</p> 	<p>ARA has adopted an Open Appraisal System which allows supervisors and subordinates to evaluate and discuss on their performances, as well as their expectations on their working conditions, trainings and future career development on annual basis.</p>
<p>Career Development Policy</p> 	<p>ARA addresses the importance of employees’ career development and personal growth. Trainings are recommended to employees based on the needs of the organization. Employees are encouraged to attend conferences and seminars for updating industry knowledge and business networking. Company sponsorship scheme is in place to support employees in continuing education.</p>
<p>Remuneration, Compensation and Benefits Policy</p> 	<p>ARA conducts salary review annually to ensure the remuneration package is competitive enough for talent retention. ARA also offers various compensation and benefits to attract talents and increase work incentives, such as bonuses, employee retirement benefit, leave benefit, medical consultations, dental, health benefits and insurance benefits, etc.</p>



Environmental, Social and Governance (ESG)

Governance

Anti-Bribery Policy



ARA does not tolerate any misconduct including bribery, anti-competition, money laundering, fraud and corruption. ARA requires all employees to adhere to a Code of Conduct and to conduct themselves in a manner consistent with the values of ARA.

Policy on Conflict of Interest



ARA adopts a strict set of procedures to address relevant risks to prevent any potential conflict of interests. A prudent review will be conducted by the company's audit committee on an ongoing basis for all related party transactions and such transactions must be approved by the audit committee.

Fraud Risk Management Framework



ARA sets up a framework that outlines a stringent mechanism of internal control including hiring, evaluating and compensating of employees, business relationships with customers, suppliers and stakeholders and business strategy and operations to manage fraud risks. The processes of identifying and assessing inherent and potential fraud risks are clearly defined and incorporated as part of the Risk Profile Register.

Whistle Blowing Policy



ARA has put in place a Whistle Blowing Policy to encourage employees and external parties to report to the Board directly when they suspect any possible improprieties in relation to business ethics.

Cyber Security Policy



ARA is aware of the rising concerns over cyber risk and its potential threats to company's business. It adheres to the appropriate and legal use of ARA's information technology ("IT") infrastructure and system. IT policy is set to provide guidance for the effective use of use of electronic communications, computers, IT and network systems to maintain the integrity of computers, networks, data and all IT property interests.

Risk Management

Effective risk management is essential to achieve Prosperity REIT's strategic goals. To mitigate business risks in our operations, we have implemented the enterprise risk management (ERM) framework, which adopts a systematic and standardized method to provide clear responsibility and accountability structures for risk management, and consists of three main parts, including risk governance, risk infrastructure and supervision of risk ownership. The Audit Committee assists the Board in overseeing and monitoring the implementation and effectiveness of the ERM framework and processes, approves risk profile, reviews risk responses, and formulates a risk management strategy. Currently, our ERM system has included ESG risks relating to talent management and health and safety management at property management level. In the future, we plan to incorporate more environmental and social considerations into our ERM system.



Environmental, Social and Governance (ESG)

STAKEHOLDER ENGAGEMENT AND MATERIALITY ANALYSIS

Communication with Stakeholders

Operating in the property management industry, Prosperity REIT has a wide array of different stakeholders, including unitholders, tenants, vendors, service providers, suppliers, employees and the community. We believe that being responsive to stakeholders’ concerns enables us to constantly improve our business practice and sustain good relationships. Moreover, their insights and opinions are of paramount importance in reaffirming our business focus and developing our long-term sustainability strategies.

In light of this, the REIT Manager engages with our key stakeholder group regularly and gathers their opinions through various means.

UNITHOLDERS	COMMUNITY	TENANTS	EMPLOYEES	VENDORS, SERVICE PROVIDERS, SUPPLIERS
<ul style="list-style-type: none"> • General meetings and seminars • Results briefings • Corporate website • Investor conferences/ meetings • Property tours 	<ul style="list-style-type: none"> • Community work • Sponsorship and learning program 	<ul style="list-style-type: none"> • Mingling events (e.g. sport fun day, seasonal promotion events) 	<ul style="list-style-type: none"> • Cohesion activities (e.g. annual spring dinners, team-building activities) • Corporate training • Annual performance review • Face-to-face meeting • Staff engagement events (e.g. spring dinner, volunteering work) 	<ul style="list-style-type: none"> • Meetings • Site visits

Environmental, Social and Governance (ESG)

Communication with Unitholders

An investment trust cannot succeed without the support of unitholders. We regularly communicate our financial performance and overall ESG performance through different channels, including but not limited to the methods listed above. Through our effective communication with our unitholders, we strive to build trust and uphold the transparency and fairness of our corporate governance.

Annual General Meeting (AGM)



Investor seminars



Property tour



Analysts briefing



Press briefing





Environmental, Social and Governance (ESG)



Materiality Analysis

To achieve a better understanding of ESG issues relevant to Prosperity REIT, we conducted a materiality analysis in 2016, wherein we took into account the expectations of representatives from across the business.

To solicit the views of internal and external stakeholders, we asked them to rank the importance of ESG issues from 1 (not important at all) to 6 (very important) through an online survey. In addition, we used the results from our regular communication on ESG matters and in-depth interviews with stakeholders for preparing the materiality list.

During the Reporting Year, the list of material issues was updated by taking peer review as an additional parameter for consideration to better categorize Prosperity REIT's material ESG issues.

The following issues were identified and prioritized according to their relevance and significance to Prosperity REIT and its stakeholders:

ESG aspects	Issues
Environmental 	<ul style="list-style-type: none"> • Energy efficiency • GHG emission reduction • Water management
Social — Employment and labor 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 — Service responsibility 	<ul style="list-style-type: none"> • Tenant satisfaction • Tenant health and safety
Social — Community 	<ul style="list-style-type: none"> • Community investment
Governance — Operating practices 	<ul style="list-style-type: none"> • Data privacy protection for tenants • Supply chain management • Anti-corruption

Environmental, Social and Governance (ESG)

CARING FOR COMMUNITY

Giving back to society

A successful business not only generates profit for the company and its shareholders, but also shares its success with the community. We strive to create positive impacts in society while developing our business. In 2019, Prosperity REIT was awarded the 5 Year Plus Caring Company Logo by the Hong Kong Council of Social Service in recognition of our outstanding performance in community service.



Our staff participated in the Caring Company Partnership Expo 2019 to exchange ideas on CSR operations with different companies in Hong Kong.

In May, Prosperity REIT participated in the Caring Company Partnership Expo 2019 held at the Hong Kong Convention & Exhibition Centre. The exhibition booths on social service, social enterprise and sustainability helped the participants understand more about the community partnership initiatives undertaken by other companies with similar goals as well as to explore possible community partnership opportunities and CSR solutions.

Blood Donation Day at The Metropolis Tower

Prosperity REIT strives to support all community service initiatives. In September, we partnered with the Hong Kong Red Cross Blood Transfusion Service to organize a Blood Donation Day at The Metropolis Tower, where a mobile blood donation center was set up. For the second year in a row, the blood donation activity for tenants received great support and there were a total of 43 participants.



Our tenants participated in the Blood Donation Day at The Metropolis Tower.



Environmental, Social and Governance (ESG)

Involving our staff

Our staff are encouraged to participate in different community events, while achieving a good work-life balance. During the Reporting Year, our employees participated in various voluntary activities, such as farming experience and Zentangle Workshop for low-income families, as well as business operation workshops for high school students, contributing to a total of 447 volunteering hours.

The AVS International Volunteer Day Recognition Ceremony 2019

To recognize our contribution to volunteering services, the company was awarded the Certificate of Appreciation by the Agency for Volunteer Service (AVS) for 3 consecutive years. The Certificate of Appreciation not only acknowledges our efforts, it also motivates us to keep contributing to the community.



The Company was awarded the Certificate of Appreciation at the International Volunteer Day Recognition Ceremony 2019.



Environmental, Social and Governance (ESG)

Staff Blood Donation Day — Group donation category

We have always encouraged our staff to actively participate in blood donation campaigns. At the beginning of the year, Prosperity REIT's team members visited the Central District Donor Centre of the Hong Kong Red Cross to donate blood. We regularly organize blood donation activities so we can help the people in need.



Our staff visited the Central District Donor Centre for blood donation.



Building a Committed Voluntary Team

To build a stronger bond with the community, Prosperity REIT partners with non-profit organizations to provide community services. A series of activities are organized to bring people together and build community spirit. Below are the highlights of events organized in 2019:

Zentangle workshop for students

We partnered with The Youth Career Development Service under Evangelical Lutheran Church of Hong Kong (ELCHK), a comprehensive social service organization which provides diverse and innovative services for the grassroots and the underprivileged with love and care. In April, we organized a Zentangle workshop for low-income family students at Prosperity Place. Zentangle is an easy-to-learn and fun method of creating images using structured patterns that gives peace of mind and helps improve one's focus. During the workshop, the students were also introduced to the greening facilities at Prosperity Place to promote the concept of green behavior.



Our staff and students completed the Zentangle drawings together.



Environmental, Social and Governance (ESG)

Business immersion program for the youth

Prosperity REIT established a partnership with ELCHK in organizing a mentorship program for the youth to develop their leadership skills and provide them an insight into the world of business. With the success of the first-year mentorship program, we adjusted the program content and structure to enhance the learning experience of students. It included participation in a four-stage business immersion program.

Stage 1: A tour was organized for high school students at Prosperity Place to understand the company's business operation. We also exchanged our ideas with students and advised them on their academic and future career development.



A tour was organized for students to understand the business operation of Prosperity REIT.

Stage 2: To equip students with the practical skill sets needed to start their own business, they were invited to participate in the production process of soaps and lipsticks along their teammates. This allowed them the opportunity to understand the product characteristics better. It was also a team-building activity for the students as they were able to understand the strengths of their teammates through the interactions.



Students participated in the "soap and lipstick" workshop to learn the production process of the products to be promoted in their business.

Environmental, Social and Governance (ESG)

Stage 3: With the deeper understanding of the products, the students prepared a business proposal to present their ideas and business strategy in promoting the products. Our volunteer team acted as mentors to provide guidance and advice on modifying their proposals.



Students presented their business proposal to our staff.

Stage 4: To put their proposals into action, students ran and promoted their businesses at Prosperity Place for two days in July. Students with outstanding performance were presented with appreciation awards. The program was a great experience for them to learn how to run a business in the real world. The teamwork also strengthened their interpersonal and communication skills.



Students put their business ideas into action by running sales booths at Prosperity Place.



Environmental, Social and Governance (ESG)

CARING FOR ENVIRONMENT

Managing Our Environmental Performance

Prosperity REIT's core missions are to maximize the benefits of our unitholders and provide people with a livable ambience for work and leisure. In managing our properties' portfolio, we are aware of the growing importance of environmental protection in creating sustainable spaces. Of all our asset enhancement initiatives in recent years, the concept of "promoting green life to the community" has become an integral part of our work culture. We have set it as one of our five fundamental objectives. As we continue to expand the existing asset base, we plan on decoupling our environmental footprint with the gross rentable area (GRA).

To better standardize and provide overarching guidance on our environmental practices, our Property Manager has established an Environmental Protection Policy. Under the policy, our operations need to strictly adhere to the relevant environmental laws and regulations, including but not limited to Energy Efficiency Ordinance (Cap. 610), Waste Disposal Ordinance (Cap. 354), Vienna Convention for the Protection of the Ozone Layer, 1985, as supplemented by Protocol in 1987 (Eleventh edition (2018)) etc. The policy states that the Property Manager will have to provide environmental training to employees, procure eco-friendly materials and invite tenants for collaboration. In addition, we also have a green procurement policy which serves as a good example on how to further expand our influence along the supply chain.

Putting our green commitment into practice, our Property Manager has established an ISO 14001-accredited environmental management system (EMS). The system includes an environmental management handbook, procedure and guidelines for environmental protection. During their operations, our Property Manager strives to reduce energy and resource consumption and promote the concept of recycling. To ensure effective implementation, the Property Manager has established an Environmental Management Committee to oversee its environmental performance.

Reducing Energy Consumption and Greenhouse Gas Emissions

The energy use in buildings accounts for most of the greenhouse gas emissions in Hong Kong. There is thus an urgent need for property operators to reduce their energy demand. We have adopted different environmental initiatives to achieve reduction of energy consumption and enhanced energy efficiency. For instance, our Property Manager has developed a list of environmental measures for green office to be implemented in their office operations. The practices include encouraging double-sided printing, recycling printed papers, using energy-efficient office equipment and posting labels and signs to promote environmental protection.

Besides, our properties have undergone several asset enhancement programs, such as the installation of insulating glass walls and energy-efficient chiller sets, in order to reduce their energy demand. To gain better control and achieve more efficient use of energy, we have also adopted a smart building management system and motion detectors that enable power-down of non-essential lights, elevators and other facilities in our assets. It helps avoid any unnecessary use of energy during nighttime.

	2018	2019
Electricity consumption (kWh)	7,333,776	6,944,460
Energy consumption intensity (kWh/sq. ft)	5.75	5.45
GHG emissions (tCO ₂ e)	4,388.64	4,151.37
GHG emissions intensity (tCO ₂ e/sq. ft)	0.0034	0.0033



Environmental, Social and Governance (ESG)

Conserving Water Resources

Acknowledging the importance of water conservation, we continue to identify different water-saving opportunities at our assets. Making good use of technological advancement, we have installed different devices, such as bathroom basins with auto-sensors, to enhance water efficiency at our properties.

	2018	2019
Water consumption (m ³)	9,539	8,634
Water consumption intensity (m ³ /sq. ft)	0.0075	0.0068

Greening Our Properties

Believing environmental protection does not necessarily come at the cost of business interest, we embed environmental considerations into our property designs. The greenery on our assets' premises, like the vertical green walls in the lobbies and roof gardens, do not simply offer eco-healthy features, but also create an aesthetically pleasant environment for our tenants and users.

We have also complemented our vertical green walls with a sponge soil and irrigation system, with water pipes running along the top and bottom of the walls behind the vegetation. The system hydrates the plants twice a month to ensure there are healthy conditions for them to grow.

Besides, our rooftop garden provides enjoyment opportunities for our tenants. Whenever there are available spaces at our organic farm, we invite applications from our tenants and successful applicants are provided with a farming box. In addition, seasonal farming activities are organized that have received positive feedback from participants.

Limiting Waste Generation

We are dedicated to reducing the amount of waste generated. In our efforts towards it, we have adopted a 3-R strategy (Reduce, Reuse and Recycle) in our day-to-day business operations. To avoid unnecessary purchase, we recycle and reuse the Christmas tree at our properties each year. We raise tenants' awareness on recycling their waste and minimizing disposal at landfills by putting up promotional posters and setting up designated areas for recycling. Besides, we also took part in the Environmental Protection Department's (EPD) computer and peach blossom recycling programs.

With the implementation of the recycling scheme, the results of waste generation and reduction were as follows:

	2018	2019
Non-hazardous waste		
Paper consumed (kilograms)	938	997.6
Paper recycled* (kilograms)	5,819	4,983
Toner cartridge waste used (pieces)	5	10
Toner cartridge waste recycled (pieces)	5	10
Hazardous waste		
Fluorescent light tube replaced (pieces)	738	798
Fluorescent light tube recycled (pieces)*	295	392
Computer waste recycled (pieces)	22	0

* including tenant recycling figures



Environmental, Social and Governance (ESG)

Involving Tenants and External Parties

To create synergies in our environmental work, we involve tenants and other relevant parties for environmental advocacy and partnership. Our environmental advocacy goes into the community. During the year, we partnered with ELCHK to host different educational activities. Through organizing these activities, we hope to let the public understand the preciousness of nature and embrace a low-carbon lifestyle.

Farm visit

In December, we partnered with ELCHK to organize a farm visit for low-income family students at "Our Hands Farm" in Yuen Long. Our staff and students farmed together and enjoyed the fresh farm-to-dish vegetables and dumplings for lunch. The activity provided them with an opportunity to take a break from the hustle and bustle of life, enjoy the organic farming experience and benefit from low-carbon, local agricultural products.



Our staff and students farmed together at Our Hands Farm.



Students prepared handmade dumplings with the help of our staff.

Greening facilities tour

In April, we organized an environmental awareness raising tour for a group of underprivileged primary school students and their parents at Prosperity Place. As part of the program, the participants visited the green facilities at the property, including the green wall, rooftop garden, hydroponic organic farm and renewable energy generation sets.

In addition, we promote energy conservation and sustainable lifestyle by providing our tenants with newsletters containing eco-friendly information and green tips. We also invite them to participate in different eco-friendly activities, such as our seasonal rooftop farming. To foster better partnership, we also welcome our tenants and external parties to share green ideas and suggestions on the continuous improvement of our properties.



Students took part in the environmental awareness raising tour at Prosperity Place.



Environmental, Social and Governance (ESG)

CARING FOR TENANTS

Engaging Our Tenants

We always foster and cherish trusted long-term relationships with our tenants. In November, we hosted our annual tenant engagement event — Sport Fun Day — in which we organized stacking games and arcade basketball games. The event provided a platform for our staff to interact proactively with our tenants and build strong business relationships.



Our tenants and staff using ropes to pile up bricks into towers.



We treated food and beverage to the attendees on Sport Fun Day.



Our staff teamed up with the tenants to play arcade basketball games.



Environmental, Social and Governance (ESG)

Protecting Data and Privacy

A property management business always involves the collection of sensitive personal data. Thus, we ensure to exercise extreme caution to protect the information provider's privacy in our day-to-day operations. Besides complying with the Personal Data (Privacy) Ordinance (Cap. 486) and other relevant regulations, our Property Manager has developed a Personal Data and Classified Data Handling Guideline to handle the collected data and avoid data leakage. To raise awareness of data risks and data protection, appropriate trainings are provided on a regular basis to personnel having permanent or regular access to personal data.

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

Handling Complaints

To enhance the efficiency and effectiveness of complaint resolution, we have adopted a working instruction for the purpose. Our tenants can raise their concerns or requests by mail, phone, fax, email or in person. As soon as the information is received, we will take prompt action to offer corrective and preventive solutions to the tenants. In addition, we will follow up on the incidents to ensure the complaints are resolved. The entire handling processes is documented for future reference, while all personal information collected throughout the processes remains strictly confidential and is not disclosed to or obtained by any person. In 2019, we received one substantiated complaint against our property management service regarding water seepage from the ceiling of the tenant. The complaint was handled and investigated, and problem fixed in a throughout and efficient manner. Thereafter, we contacted the tenant to ensure the complaint is satisfactorily resolved and documented the handling process.

Tenant Satisfaction

We value our tenants' opinions and advice as they help improve our services. The annual tenant satisfaction survey allows us to review our tenants' satisfaction rate and provide them with timely feedback. In this Reporting Year's tenant satisfaction survey, our property management service was rated as highly satisfactory. As mentioned above, we developed a working instruction to handle complaints and enquiries in a timely manner and take follow-up actions to ensure the incidents are resolved. Such practices help ensure customer satisfaction for our services.

Tenant Health and Safety

We are committed to providing a healthy and safe experience for our tenants. Maintaining high standards of hygiene at each of our assets is essential to the health of our tenants. For instance, the air distribution units in Mechanical Ventilation and Air Conditioning (MVAC) System is cleaned on a regular basis to ensure good air filtration. In the Reporting Year, all of the wholly owned properties in our portfolio, were accredited the "Good" Class under the Indoor Air Quality Certificate Scheme. To ensure the safety of our tenants, we conduct monthly safety inspections and checking, as well as organize regular fire drills and automated external defibrillator (AED) training at our properties so as to teach both tenants and staff how to handle emergency situations.



Environmental, Social and Governance (ESG)

CARING FOR STAFF

Safeguarding Employee's Rights

Our staff plays a key role in the success of our business, and we are committed to providing a supportive, inclusive and respectful workplace for them. To protect their rights, we strictly comply with the applicable employment laws and ordinances in Hong Kong, including the Employment Ordinance (Cap. 57), Employees' Compensation Ordinance (Cap. 282) and anti-discrimination ordinances. Our Employee Handbook has been compiled to clarify and explain their rights and duties. The Employee Handbook includes information on compensation, recruitment, promotion, working hours, rest periods, equal opportunity and anti-discrimination. Besides, we respect the freedom and rights of our employees to be a part of any association or engage in collective bargaining. We strictly prohibit any form of child labor and forced labor. During the year, no non-compliance cases were reported in the operation.

On the recruitment front, we have adopted a set of employment practices to ensure fairness. We do not tolerate any form of discrimination and provide employees equal opportunities regardless of age, race, gender, religion, national origin, sexual orientation, family status, disability, medical condition or other characteristics. The company upholds a high standard of ethical behavior in business operations. Employees are expected to follow the Code of Conduct and avoid any unethical behavior at the workplace. In addition, workshops on diversity and inclusion were held to raise the awareness of our staff in constructing an inclusive workplace.

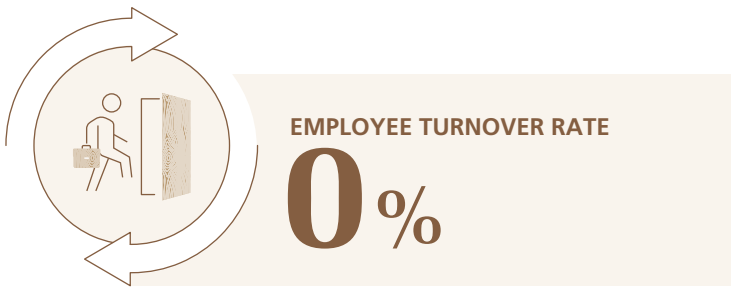
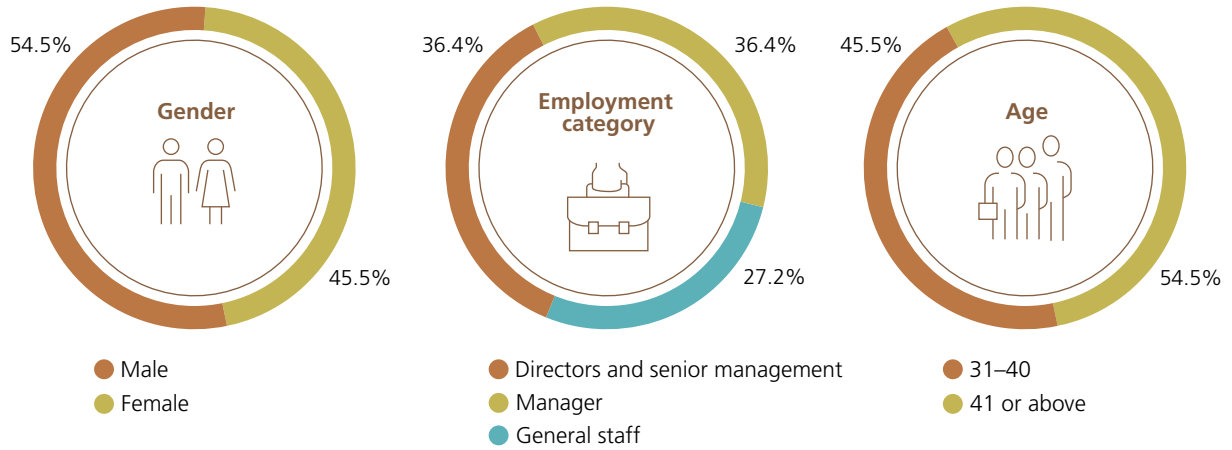
Induction programs are held to welcome all new joiners to the company and help them understand the company's operation and culture. Through the introduction to the company's history, business, values and missions, new joiners are able to learn more about their new roles and the company's expectations.

To create a positive work environment, the Group conducted Employee Benefits Survey in 2019 to gain some insights from our staff on enhancing employee's activities, benefits and wellbeing. In response to the survey results, we enlarged the digital and green open-space working environment, upgraded staff medical plan and offered different free health care checking, such as vision screening and eye care, body health check.



Environmental, Social and Governance (ESG)

TOTAL WORKFORCE BY CATEGORY



Staff Cohesion

We value teamwork and encourage employees to maintain a work-life balance. We motivate and engage our staff by organizing annual spring dinners, team-building activities and leisure interest workshops, such as the aromatherapy workshop. We also encourage our staff to attend workout training courses to build their physical fitness.



Our staff attended the DIY aromatherapy workshop to get to know different essential oils and how to use them safely and responsibly.



Environmental, Social and Governance (ESG)

Prosperity REIT Cohesion Day 2019

In 2019, we held a Prosperity REIT Cohesion Day event for our staff, which is a great opportunity to enhance teamwork and communication by providing opportunities to connect outside of the formal work environment.

To promote health and well-being of our employees, we offered the TRX training at the fitness centre that helped our staff to improve their metabolism, build lean muscle and release stress. In addition, we had enjoyed a hearty team dinner in a private kitchen and the quality time with colleagues after the training.



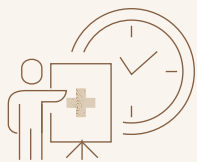
Our staff attending the workout training course.

Maintaining Workplace Safety and Health

To ensure the safety and health of our staff, we are committed to taking effective measures and adopting reasonable and practical control measures to eliminate hazards at the workplace. We abide by the Occupational Safety and Health Ordinance (Cap. 509) and other relevant legislations in all our business operations. The Sweat Free Code of Conduct is in place to prevent the exploitation of workers whereas the Drug-Free Workplace Policy has been adopted to provide employees a safer, healthier and productive working environment. Our properties have adopted the Health & Safety Policy and a safety and health management system accredited to ISO 45001. Safety audits are carried out to collect data for evaluating and certifying the effectiveness and reliability of the safety and health management system. In 2019, our Property Manager received the Good Housekeeping Merit Award presented by Occupational Safety & Health Council (OSHC) in appreciation of our efforts to improve workplace safety and health.

Besides, we also received the Hearing Conservation Best Practices Award at the Occupational Health Award organized by OSHC in recognition of our efforts in upholding hearing conservation at the workplace.

We appointed an independent safety consultant to conduct regular safety inspections and advise on the current safety and health management system. Potential hazards such as slips, trips and falls, stabs and cuts and struck by moving objects were identified during the inspections. The findings are disclosed in the monthly meetings to ensure all employees are aware of the safety and health issues.



**TOTAL TRAINING HOURS
ON HEALTH AND SAFETY
ISSUES**

88 hours

Our Health and Safety Management Committee is headed by the General Manager and comprises staff at different levels to facilitate the implementation of the safety and health management system. We are committed to achieving a zero-fatality working environment. The committee promotes occupational safety and health, as well as evaluates the properties' incident prevention strategy on a regular basis. To mitigate the hazards identified in the safety inspection mentioned above, trainings on safety principles and emergency procedures are organized to enhance awareness on safety and health, fire hazards and the safe use of chemical and electrical appliances. During the year, our property management staff participated in trainings on first-aid, safety inspector training and metal scaffolds installation and uninstallation, contributing to a total of 88 training hours. Besides, newsletters are issued quarterly to introduce our staff to the latest safety and health practices and industry trends.



Environmental, Social and Governance (ESG)

As a recognition of our continuous efforts to maintain a healthy and comfortable workplace, properties including The Metropolis Tower, Prosperity Millennia Plaza, Prosperity Place and Trendy Centre were awarded the “Good Class” certificate under the Indoor Air Quality Certification Scheme. We also emphasize on the safety and health practices of our supply chain. Our contractors are required to sign and follow our Contractor Safety Regulations as included in the tendering and quotation documents.

Enriching Career and Personal Experience

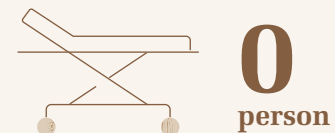
In the annual appraisals, our staff review their work performance along with their supervisors. The two-way communication helps employees understand what is expected of them and at the same time, allows supervisors to understand the difficulties encountered by the staff. Employees demonstrating outstanding performance are entitled to an annual increment and promotion subject to availability to enhance staff motivation and morale.

We value the professional and personal growth of our staff by providing learning and development opportunities. Apart from induction programs and safety trainings, our employees are encouraged to participate in both internal and external professional trainings to strengthen their skills and knowledge. During the year, professional trainings related to assurance, anti-money laundering, regulatory and compliance are offered to staff. To ensure the company’s management keeps pace with the market, our management is dedicated to participating in different executive programs and continuing professional development programs. We have adopted a goal-setting exercise to provide them a clear focus on their career aspiration.

LOST DAYS DUE TO WORK INJURY IN 2019



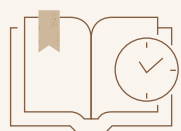
NUMBER OF PEOPLE INVOLVED IN FATALITY CASES IN 2019





Environmental, Social and Governance (ESG)

TOTAL TRAINING HOURS



192
hours

AVERAGE TRAINING HOURS



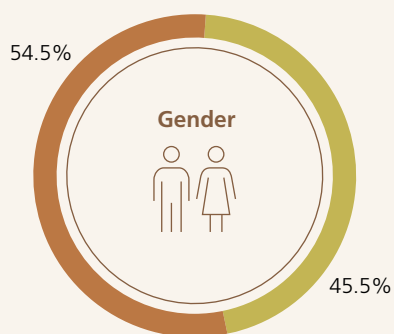
17.5
hours

PERCENTAGE OF EMPLOYEES TRAINED

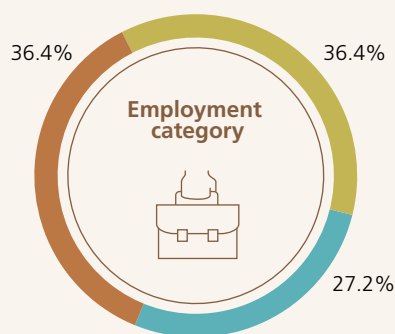


100%

PERCENTAGE OF EMPLOYEES TRAINED IN 2019 BY CATEGORY

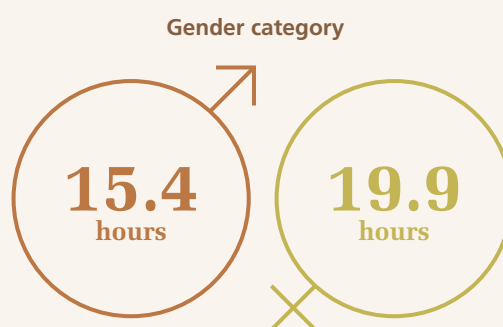
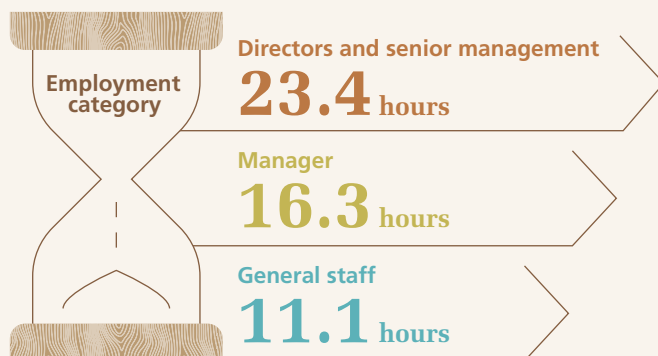


- Male
- Female



- Directors and senior management
- Manager
- General staff

AVERAGE TRAINING HOURS IN 2019 BY GENDER AND EMPLOYMENT CATEGORY





Environmental, Social and Governance (ESG)

FULFILLING OTHER DUTIES FOR SUSTAINABILITY

Supply Chain Management

We believe that extending our ESG commitments throughout our logistics network can maximize value creation. We thus oversee the ESG performance of our contracted parties to ensure every one of them abides by the requirements of human rights, labor practices and environmental performance under our procurement policy.

The Prosperity REIT Operation Manual is our internal guiding document that illustrates the procurement and supplier selection process. We conduct on-site inspections on a regular basis to assess the contracted parties' social responsibility against our standards. Apart from sustainability standards, we also take into consideration the selected suppliers' project delivery capability to guarantee our tenants service quality.

To achieve better ESG performance throughout our supply chain, we strengthen the coordination among different units by developing corporate-level ESG policies, including adopting a proactive approach to acquire related certifications, conducting regular on-site inspections as well as providing protective equipment and on-site safety briefing to contracted workers.

Anti-corruption

Our Corporate Code of Conduct is a set of policies that documents the employees' responsibilities and proper practices at the workplace. Complying with the Prevention of Bribery Ordinance (Cap. 201), we do not tolerate any misconduct including bribery, conflict of interest, anti-competition, money laundering, fraud and corruption. Thus, we have incorporated an anti-corruption policy into our Code of Conduct to provide employees practical guidance on how to handle gifts and hospitality without breaching the law. We require our staff to sign a declaration of compliance annually and found no legal cases regarding corrupt practices reported in 2019.

To foster a culture of good governance, we have developed a whistle-blowing policy to avoid any form of retaliation against whistleblowers who raise concerns over suspected wrongdoing within the organization. All allegations are independently investigated for appropriate follow-up action and the identity of the whistleblowers is kept confidential. This mechanism helps us conduct our business lawfully and ethically.



Environmental, Social and Governance (ESG)

APPENDIX — HKEX ESG GUIDE CONTENT INDEX

Indicators		Reference	Page	Remarks
<i>A. Environmental</i>				
Aspect A1: Emissions				
General disclosure		Caring for Environment — Managing Our Environmental Performance	51–53	
KPI A1.1	Type of emissions and respective emissions data	N/A		Air emission is not material to our operations
KPI A1.2	Greenhouse gas emissions in total	Caring for Environment — Reducing Energy Consumption and Greenhouse Gas Emissions	51	
KPI A1.3	Total hazardous waste produced	Caring for Environment — Limiting Waste Generation	52	
KPI A1.4	Total non-hazardous waste produced	Caring for Environment — Limiting Waste Generation	52	
KPI A1.5	Measures to mitigate emissions and results achieved	Caring for Environment — Reducing Energy Consumption and Greenhouse Gas Emissions	51	
KPI A1.6	How hazardous and non-hazardous waste is handled, the reduction initiatives and results achieved	Caring for Environment — Limiting Waste Generation	52	



Environmental, Social and Governance (ESG)

Indicators	Reference	Page	Remarks
Aspect A2: Use of resources			
General disclosure	Caring for Environment — Reducing Energy Consumption and Greenhouse Gas Emissions; Conserving Water Resources	51–52	
KPI A2.1	Direct and indirect energy consumption by type	Caring for Environment — Reducing Energy Consumption and Greenhouse Gas Emissions	51
KPI A2.2	Water consumption in total	Caring for Environment — Conserving Water Resources	52
KPI A2.3	Energy use efficiency initiatives and results achieved	Caring for Environment — Reducing Energy Consumption and Greenhouse Gas Emissions	51
KPI A2.4	Water efficiency initiatives and results achieved	Caring for Environment — Conserving Water Resources	52
KPI A2.5	Total packaging material used for finished products	N/A	Packaging material is not material to our operations
Aspect A3: The environment and natural resources			
General disclosure	Caring for Environment	51–53	
KPI A3.1	The significant impacts of activities on the environment and natural resources and the actions taken to manage them	Caring for Environment	51–53
<i>B. Social</i>			
Aspect B1: Employment and labor practices			
General disclosure	Caring for Staff — Safeguarding Employee's Rights	56	
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Caring for Staff — Safeguarding Employee's Rights	57 Hong Kong is the only location of operations covered in this report.
KPI B1.2	Employee turnover rate by gender, age group and geographical region	Caring for Staff — Safeguarding Employee's Rights	57
Aspect B2: Health and safety			
General disclosure	Caring for Staff — Maintaining Workplace Safety and Health	58	
KPI B2.1	Number and rate of work-related fatalities	Caring for Staff — Maintaining Workplace Safety and Health	59
KPI B2.2	Days lost due to work injury	Caring for Staff — Maintaining Workplace Safety and Health	59



Environmental, Social and Governance (ESG)

Indicators		Reference	Page	Remarks
KPI B2.3	Occupational health and safety measures	Caring for Staff — Maintaining Workplace Safety and Health	58–59	
Aspect B3: Development and training				
	General disclosure	Caring for Staff — Enriching Career and Personal Experience	59	
KPI B3.1	The percentage of employees trained by gender and employee category	Caring for Staff — Enriching Career and Personal Experience	60	
KPI B3.2	The average training hours completed per employee by gender and employee category	Caring for Staff — Enriching Career and Personal Experience	60	
Aspect B4: Labor standards				
	General disclosure	Caring for Staff — Safeguarding Employee’s Rights	56	
KPI B4.1	Measures to review employment practices to avoid child and forced labor	Caring for Staff — Safeguarding Employee’s Rights	56	
KPI B4.2	Steps taken to eliminate such practices when discovered	Caring for Staff — Safeguarding Employee’s Rights	56	
Aspect B5: Supply chain management				
	General disclosure	Fulfilling Other Duties for Sustainability — Supply Chain Management	61	
KPI B5.1	Number of suppliers by geographical region	Fulfilling Other Duties for Sustainability — Supply Chain Management	61	
KPI B5.2	Practices relating to engaging suppliers and number of suppliers	Fulfilling Other Duties for Sustainability — Supply Chain Management	61	
Aspect B6: Product responsibility				
	General disclosure	Caring for Tenant; Fulfilling Other Duties for Sustainability	54–55	
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	N/A		Not material to our business



Environmental, Social and Governance (ESG)

Indicators		Reference	Page	Remarks
KPI B6.2	Number of products and service-related complaints received and how they are dealt with	Caring for Tenant — Tenant Satisfaction	55	
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights	N/A		Not material to our business
KPI B6.4	Description of quality assurance process and recall procedures	Caring for Tenant — Handling Complaints	55	
KPI B6.5	Consumer data protection and privacy policies	Caring for Tenant — Protecting Data and Privacy	55	
Aspect B7: Anti-corruption				
General disclosure		Fulfilling Other Duties for Sustainability — Anti-corruption	61	
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	Fulfilling Other Duties for Sustainability — Anti-corruption	61	
KPI B7.2	Preventive measures and whistle-blowing procedures	Fulfilling Other Duties for Sustainability — Anti-corruption	61	
Aspect B8: Community investment				
General disclosure		Caring for Community — Giving Back to the Society	46	
KPI B8.1	Focus areas of contribution	Caring for Community — Giving Back to the Society	46–50	
KPI B8.2	Resources contributed to the focus area	Caring for Community — Giving Back to the Society	47	

Our Awards



Environmental Protection

- 1. BOCHK Corporate Environmental Leadership Awards • Certificate**
by Bank of China (Hong Kong)
- 2. Tree Conservation Scheme • Certificate**
by Hong Kong Environmental Protection Association
- 3. Computer & Communication Products Recycling Program • Certificate**
by Environmental Protection Department
- 4. Indoor Air Quality Certificate • Certificate (Good Class)**
by Environmental Protection Department
- 5. Charter on External Lighting • Platinum Award**
by Environment Bureau

Social and Community

- 6. Good Housekeeping Competition 2019 • Certificate**
by Occupational Safety & Health Council
- 7. Occupational Health Award — Hearing Conservation Best Practices Award • Certificate**
by Occupational Safety & Health Council
- 8. International Volunteer Day Recognition 2019 • Certificate**
by Agency for Volunteer Service
- 9. Caring Company • Caring Company 5 year + Logo**
by The Hong Kong Council of Social Services
- 10. The 10th Hong Kong Outstanding Corporate Citizenship Awards • Merit Award**
by Hong Kong Productivity Council



Our Awards

Governance and Services

11. **Excellence in Facility Management Award**
 - Excellence Award
 - Merit Award

by The Hong Kong Institute of Facility Management
12. **Kowloon West Best Security Services Awards**
 - Treble-Star Managed Property Award
 - Honorable Managed Property Award

by Kowloon West Regional Crime Prevention Office
13. **Hong Kong Island Best Security Services Awards • Outstanding Security Services — Industrial/Commercial Property**

by Hong Kong Island Regional Crime Prevention Office
14. **HKIRA 5th Investor Relation Awards 2019 • Certificate of Excellence**

by Hong Kong Investor Relations Association
15. **HSBC Living Business ESG Award 2019 • Certificate**

by Business Environment Council

Others

16. **Vision Awards — 2018/19 Annual Report Competition**
 - Platinum Award
 - Top 100 Reports Worldwide — (ranking 12th)

by League of American Communications Professionals LLC (LACP)



Directors and Senior Management Biographical Information

DIRECTORS

Chiu Kwok Hung, Justin

Chairman and Non-executive Director

Dr. CHIU Kwok Hung, Justin, aged 69, is the Chairman of ARA Asset Management (Prosperity) Limited (the “**REIT Manager**”). He is the Founding Chairman and Director 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 (currently listed in Hong Kong and previously listed in Singapore prior to 21 October 2019), 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, an Executive Committee Member and a member of the Nomination 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 40 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 is a Fellow of The Royal Institution of Chartered Surveyors, 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 member of the Singapore Management University International Advisory Council in China, a Senior Visiting Fellow of the Department of Land Economy at University of Cambridge, an Honorary Professor of School of Pharmaceutical Sciences of Sun Yat-Sen University and an Adjunct Professor in the School of Business of Hong Kong Baptist University. 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.

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 63, is a Non-executive Director of the REIT Manager. He is Co-Founder, Group Chief Executive Officer and Executive Director of ARA Asset Management Limited (ARA), the holding company of the REIT Manager. 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 (currently listed in Hong Kong and previously listed in Singapore prior to 21 October 2019), ARA Trust Management (Suntec) Limited as the manager of Suntec REIT (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

Mr. Lim is the Chairman of Suntec Singapore International Convention & Exhibition Services Pte. Ltd., the Asia Pacific Real Estate Association (APREA), the Consultative Committee to the Department of Real Estate, National University of Singapore, Straits Real Estate and Lim Hoon Foundation. He is a Patron of Jurong Spring Citizens' Consultative Committee and the Securities Investors Association of Singapore (SIAS). He is also a Council Member of Singapore Chinese Chamber of Commerce and Industry.

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, Ernst & Young Entrepreneur Of the Year Singapore 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

Ms. Wong Lai Hung, Mavis, aged 47, 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. Prior to her appointment as Acting Chief Executive Officer and subsequently Chief Executive Officer on 1 January 2013, 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. Ms. Wong has been a Responsible Officer of the REIT Manager since July 2007.



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

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 52, 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 (currently listed in Hong Kong and previously listed in Singapore prior to 21 October 2019) 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 an Executive Committee Member & General Manager, Corporate Business Development Department of CK Asset Holdings Limited (listed in Hong Kong).

Mr. Ma has over 30 years of management experience in different industries. 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.



Ma Lai Chee, Gerald
Non-executive Director

Lan Hong Tsung, David

Independent Non-executive Director

Dr. Lan Hong Tsung, David, aged 79, 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 and Hutchison Telecommunications Hong Kong Holdings Limited (both are listed in Hong Kong). Dr. Lan is currently the Chairman of David H T Lan Consultants Ltd., an Independent Non-executive Director of Cinda Financial Holdings Co., Limited, Supervisor of Nanyang Commercial Bank (China), Limited, and holds a directorship with Nanyang Commercial Bank Ltd. and International Pro Bono Legal Services Association Limited. Dr. Lan is also a Chartered Secretary and a Fellow Member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.

Dr. Lan was the Secretary for Home Affairs of the Government of the Hong Kong Special Administrative Region until his retirement in July 2000. He had served as civil servant in various capacities for 39 years and was awarded the Gold Bauhinia Star Medal (GBS) on 1 July 2000. He was appointed as the 10th and 11th National Committee Member of the Chinese People's Political Consultative Conference of the People's Republic of China. Dr. Lan previously held directorship with certain Hong Kong-listed companies, including Independent Non-executive Director of SJM Holdings Limited, ARA Asset Management (Fortune) Limited as the manager of Fortune REIT (previously also listed in Singapore prior to 21 October 2019) and China Oceanwide Holdings Limited, and also Non-executive Director and Co-Chairman of Aurum Pacific (China) Group Limited. He was a Senior Advisor of Mitsui & Company (Hong Kong) Limited for 19 years until 31 March 2019 and also the President of the International Institute of Management for 7 years until his retirement in June 2019.

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 a Fellow of 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.



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



Directors and Senior Management Biographical Information

Sng Sow-Mei (alias Poon Sow Mei)

Independent Non-executive Director

Mrs. Sng Sow-Mei (alias Poon Sow Mei), aged 78, 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 (currently listed in Hong Kong and previously listed in Singapore prior to 21 October 2019) 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).



**Sng Sow-Mei
(alias Poon Sow Mei)**
*Independent
Non-executive Director*

Wong Kwai Lam

Independent Non-executive Director

Mr. Wong Kwai Lam, aged 70, 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 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 The Chamber of Hong Kong Listed Companies, 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. He was an Independent Non-executive Director of China Merchants Bank Co., Ltd. (listed in Hong Kong and Shanghai) from 2011 to 2018.



Wong Kwai Lam
*Independent
Non-executive Director*

Directors and Senior Management Biographical Information

Mr. Wong has over 30 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.

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

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

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

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

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

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

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



Directors and Senior Management Biographical Information

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

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

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

Ms. AU Ka Yee, Irene is the 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 Surveyors and holds Bachelor of Business Administration degree from The Chinese University of Hong Kong.



Directors and Senior Management Biographical Information

Responsible Officers

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

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

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



Corporate Governance

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

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

AUTHORIZATION STRUCTURE

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

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

ROLES OF THE TRUSTEE AND THE REIT MANAGER

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

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

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

Corporate Governance

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 (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.



Corporate Governance

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

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

Apart from full Board meetings, the Chairman also held one meeting with the INEDs 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.

Corporate Governance

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, general regulatory updates were given to Directors. Besides, the external auditor of Prosperity REIT also gave briefings on updates of accounting standards and principles to the members of the Audit Committee.

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

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

Note:

Types of Training

A – Attending training sessions, including but not limited to, briefings, seminars, conferences and workshops

B – Reading relevant news alerts, newspapers, journals, magazines and relevant publications



Corporate Governance

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.

Corporate Governance

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 2018 final results, 2019 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 conflicts of interest;
- (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.



Corporate Governance

The Disclosures Committee meets on a half yearly basis and otherwise on an as-needed basis. The Disclosures Committee held two meetings during the Reporting Year for considering and reviewing, among others, the 2018 final results announcement and 2019 interim results announcement, the 2018 annual report and 2019 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.

Corporate Governance

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 2019 Annual General Meeting ("**AGM**") was held on 17 May 2019 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 Mr. Ma Lai Chee, Gerald	0/1 0/1
<i>Independent Non-executive Directors</i> Dr. Lan Hong Tsung, David Mrs. Sng Sow-Mei (alias Poon Sow Mei) Mr. Wong Kwai Lam	1/1 1/1 1/1

The Chairman of the Board and chairmen of the respective board committees, as well as the external auditor, legal adviser and independent financial adviser 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.



Corporate Governance

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 2019. 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.

Corporate Governance

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.

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 of, more than 25% of the issued units of Prosperity REIT were held in public hands as of 31 December 2019.



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 2019 HK\$	Rental deposit received as at 31 December 2019 HK\$
E-Park Parking Management Limited	Subsidiary of a significant holder ¹	Tenancy of property of Prosperity REIT ²	282,235	175,464
Gama Aviation Hutchison (Hong Kong) Limited	Associated company of a significant holder ¹	Tenancy of property of Prosperity REIT ³	1,334,238	353,720
Goodwell Property Management Limited	Subsidiary of a significant holder ¹	Tenancy of property of Prosperity REIT ⁴	1,980,312	551,430
Hutchison Telephone Company Limited	Associated company of a significant holder ¹	Licence of property of Prosperity REIT ⁵	76,800	20,964
Hutchison Whampoa (China) Limited	Associated company of a significant holder ¹	Tenancy of property of Prosperity REIT ⁶	8,169,938	2,348,804
Total			11,843,523	3,450,382

Notes:

1. Significant holder being CK Asset Holdings Limited (“**CK Asset**”).
2. For Unit 2805, Prosperity Place.
3. For Units 1102–6, Prosperity Millennia Plaza.
4. For Whole of 2/F, Units 302–3 and 306–7, New Treasure Centre.
5. For installation of micro-transmission station equipment at Prosperity Place.
6. For Whole of 18/F, The Metropolis Tower.

CONNECTED PARTY TRANSACTIONS

CONNECTED PARTY TRANSACTIONS — BUILDING MANAGEMENT SERVICES

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

Name of Connected Person	Relationship with Prosperity REIT	Nature of the Connected Party Transaction	Payment received/receivable for the year ended 31 December 2019 HK\$
Goodwell Property Management Limited ¹	Subsidiary of a significant holder ³	Remuneration of DMC Manager	560,025
Goodwell Property Management Limited ²	Subsidiary of a significant holder ³	Remuneration of Carpark Manager	50,539
Citybase Property Management Limited ²	Subsidiary of a significant holder ³	Remuneration of Carpark Manager	37,981
Total			648,545

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

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 2019 HK\$
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder ³	Property management and lease management fee	11,287,650
Goodwell-Prosperity Property Services Limited	Subsidiary of a significant holder ³	Marketing service fee	11,889,363
E-Park Parking Management Limited	Subsidiary of a significant holder ³	Carpark lease agency fee	3,304,802
CK Asset Companies ¹	Subsidiary of a significant holder ³	Back-office support service fee	28,885
Colliers ²	Principal Valuer and its associated company	Leasing commission and consultancy service fee	831,692
Total			27,342,392

Notes:

1. CK Asset Companies include Harbour Plaza North Point Catering Limited, Harbour Plaza Metropolis Limited and Harbour Grand Hong Kong Limited.
2. Colliers include Colliers International (Hong Kong) Limited and Colliers International Agency Limited.
3. Significant holder being CK Asset.

CONNECTED PARTY TRANSACTION WITH HSBC GROUP* FOR BANK DEPOSITS

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

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

CONNECTED PARTY TRANSACTIONS

OTHER CONNECTED PARTY TRANSACTIONS

The following companies had provided carpark management services and property management services to Prosperity REIT during the Reporting Year and hence amounts due from Prosperity REIT as at 31 December 2019 were as follows:

Name of Connected Person	Amount payable HK\$
Goodwell-Prosperity Property Services Limited	3,032,819
Goodwell Property Management Limited	9,230,558
E-Park Parking Management Limited	240,801
Citybase Property Management Limited	638,101
Total	13,142,279

OTHER TRANSACTIONS

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 2019 HK\$
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee fee	3,318,514
ARA Asset Management (Prosperity) Limited	REIT Manager	Base fee and variable fees	55,313,766
Colliers International (Hong Kong) Limited	Principal Valuer	Valuation fees	181,500
Total			58,813,780

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.



CONNECTED PARTY TRANSACTIONS

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 85 to 89 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 21,005,140 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 2019		As at 31 December 2018 Number of Units
	Number of Units	Percentage of Unitholdings ⁶	
Total Win Group Limited ¹	176,328,129	11.73%	176,328,129
Wide Option Investments Limited ¹	98,883,559	6.58%	98,883,559
HKSCC Nominees Limited ²	1,103,656,031	73.45%	1,087,144,628
HSBC ³	132,250	0.009%	37,250
ARA Asset Management (Prosperity) Limited ⁴	8,479,639	0.56%	12,723,743
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 2019. 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 2019.

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 2019.

Therefore, CK Asset was deemed to hold 275,211,688 units as at 31 December 2019, of which 176,328,129 units were held by Total Win and 98,883,559 units were held by Wide Option.

CONNECTED PARTY TRANSACTIONS

2. HKSCC Nominees Limited was a connected person of Prosperity REIT as it was a significant holder (as defined under the REIT Code) of Prosperity REIT as at 31 December 2019. So far as the REIT Manager is aware of, HKSCC Nominees Limited held such units as a nominee.
3. HSBC Holdings plc. and other members of its group ("**HSBC**") were connected persons of Prosperity REIT as HSBC Institutional Trust Services (Asia) Limited, the Trustee, was an indirect subsidiary of HSBC Holdings plc. So far as the REIT Manager is aware of, the Trustee had no beneficial interest in any units as at 31 December 2019 and 31 December 2018. The Trustee's directors, senior executives, officers and their associates had no beneficial interest in any units as at 31 December 2019 and 31 December 2018. The controlling entity, holding company, subsidiary or associated company of the Trustee were beneficially interested in 132,250 units and 37,250 units as at 31 December 2019 and 31 December 2018 respectively.
4. ARA Asset Management (Prosperity) Limited was a connected person of Prosperity REIT as it was the management company (as defined under the REIT Code) of Prosperity REIT as at 31 December 2019.
5. Dr. Lan Hong Tsung, David was a connected person of Prosperity REIT as he was a director of the management company (as defined under the REIT Code) of Prosperity REIT as at 31 December 2019.
6. The total number of issued units as at 31 December 2019 was 1,502,622,001.

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 2019.

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

As at 31 December 2019, 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 ¹
ARA Asset Management (Prosperity) Limited	8,479,639	0.56%
Lan Hong Tsung, David	350,000	0.02%

Note:

1. The total number of issued units as at 31 December 2019 was 1,502,622,001.

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 2019.



Valuation Report

Our Ref: 19-14810
25 February 2020

ARA Asset Management (Prosperity) Limited
(As Manager of Prosperity Real Estate Investment Trust)
Unit 901, 9/F, Fortune Metropolis,
6 The Metropolis Drive, Hung Hom,
Kowloon, 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 2019. 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 2019 (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, 663 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 Report

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.

Income Approach — Term and Reversion Method estimates the value of properties or assets on a market basis by capitalising 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.

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.



Valuation Report

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 9 December 2019 and 10 December 2019.

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.



Valuation Report

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

Hannah Jeong

MSc (Real Estate) MRICS MHKIS RPS(GP)

Head of Valuation and Advisory Services



Valuation Report

VALUATION SUMMARY

Properties	Approx. Gross Area (sq ft)	No. of Carparking Space (lots)	Market Value as at 31 December 2019
1. The Metropolis Tower	271,418	98	HK\$3,370,000,000
2. Prosperity Millennia Plaza	217,955	43	HK\$2,300,000,000
3. 9 Chong Yip Street	136,595	68	HK\$1,150,000,000
4. Prosperity Place	240,000	83	HK\$1,889,000,000
5. Trendy Centre	173,764	79	HK\$1,120,000,000
6. Portion of Prosperity Center	149,253	105	HK\$936,000,000
7. Portion of New Treasure Centre	86,168	22	HK\$361,000,000
Total	1,275,153	498	HK\$11,126,000,000

Valuation Report

VALUATION CERTIFICATE

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2019
<p>1. The Metropolis Tower, 10 Metropolis Drive, Hung Hom, Kowloon, Hong Kong</p> <p>24,734/247,769th equal and undivided parts or shares of and in Kowloon Inland Lot No. 11077</p>	<p>The Metropolis Tower is a 15-storey office building comprising 11th to 28th Floors (13th, 14th and 24th floor numbers are omitted) built over a multi-storey retail/ carparking podium on a registered site area of approximately 50,058 sq m (538,824 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 2022, yielding a total monthly rental income of approximately HK\$9,575,000, exclusive of Government Rates, Government Rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 99.6%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$350,000 during the period from January 2019 to December 2019.</p>	<p>HK\$3,370,000,000 (HONG KONG DOLLARS THREE BILLION THREE HUNDRED AND SEVENTY MILLION)</p> <p>Estimated net property yield was approximately 3.5%.</p>



Valuation Report

Notes:

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

Floors	Registered Owner
11 th Floor and 6 carparking spaces	Wisdom Champion Limited
12 th Floor and 6 carparking spaces	Wisdom Champion (12) Limited
15 th Floor and 6 carparking spaces	Wisdom Champion (15) Limited
16 th Floor and 6 carparking spaces	Wisdom Champion (16) Limited
17 th Floor and 6 carparking spaces	Wisdom Champion (17) Limited
18 th Floor and 6 carparking spaces	Wisdom Champion (18) Limited
19 th Floor and 6 carparking spaces	Wisdom Champion (19) Limited
20 th Floor and 7 carparking spaces	Wisdom Champion (20) Limited
21 st Floor and 7 carparking spaces	Wisdom Champion (21) Limited
22 nd Floor and 7 carparking spaces	Wisdom Champion (22) Limited
23 rd Floor and 7 carparking spaces	Wisdom Champion (23) Limited
25 th Floor and 7 carparking spaces	Wisdom Champion (25) Limited
26 th Floor and 7 carparking spaces	Wisdom Champion (26) Limited
27 th Floor and 7 carparking spaces	Wisdom Champion (27) Limited
28 th 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 2019 and average net monthly car parking income for the period of January 2019 to December 2019.
- (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
2017 and before	23,012	8.5%	862,600	9.0%	15	14.0%
2018	143,427	53.0%	4,918,000	51.4%	47	43.9%
2019	103,972	38.5%	3,794,800	39.6%	45	42.1%
Total	270,411	100.0%	9,575,400	100.0%	107	100.0%

TENANCY EXPIRY PROFILE

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2019 and 2020	51,369	19.0%	1,865,500	19.5%	28	26.2%
2021	138,958	51.4%	4,787,100	50.0%	48	44.9%
2022 and beyond	80,084	29.6%	2,922,800	30.5%	31	28.9%
Total	270,411	100.0%	9,575,400	100.0%	107	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	37,223	13.8%	1,333,900	13.9%	19	17.8%
More than 2 years and up to 3 years	215,027	79.5%	7,678,500	80.2%	87	81.3%
More than 3 years	18,161	6.7%	563,000	5.9%	1	0.9%
Total	270,411	100.0%	9,575,400	100.0%	107	100.0%

Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2019
<p>2. Prosperity Millennium Plaza, 663 King's Road, North Point, Hong Kong</p> <p>3,741/10,000th equal and undivided parts or shares of and in Inland Lot No. 8885</p>	<p>Prosperity Millennium 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 December 2023, yielding a total monthly rental income of approximately HK\$6,801,000, exclusive of Government Rates, Government Rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 99.5%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$333,000 during the period from January 2019 to December 2019.</p>	<p>HK\$2,300,000,000 (HONG KONG DOLLARS TWO BILLION AND THREE HUNDRED MILLION)</p> <p>Estimated net property yield was approximately 3.7%.</p>



Valuation Report

Notes:

- (1) The registered owner of the property is Conestoga Limited.
- (2) The property is currently zoned for "Commercial" purposes under the 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 2019 and average net monthly car parking income for the period of January 2019 to December 2019.
- (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
2017 and before	60,886	28.1%	1,915,300	28.2%	26	30.6%
2018	89,661	41.3%	2,766,100	40.7%	24	28.2%
2019	66,306	30.6%	2,119,197	31.1%	35	41.2%
Total	216,853	100.0%	6,800,597	100.0%	85	100.0%

TENANCY EXPIRY PROFILE

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2019 and 2020	100,337	46.3%	3,155,667	46.4%	42	49.4%
2021	83,447	38.5%	2,555,910	37.6%	31	36.5%
2022 and beyond	33,069	15.2%	1,089,020	16.0%	12	14.1%
Total	216,853	100.0%	6,800,597	100.0%	85	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	48,980	22.6%	1,547,177	22.8%	27	31.8%
More than 2 years and up to 3 years	138,382	63.8%	4,334,620	63.7%	51	60.0%
More than 3 years	29,491	13.6%	918,800	13.5%	7	8.2%
Total	216,853	100.0%	6,800,597	100.0%	85	100.0%

Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2019
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 2022, yielding a total monthly rental income of approximately HK\$2,872,000, exclusive of Government Rates, Government Rent, management fees and utility charges.	HK\$1,150,000,000 (HONG KONG DOLLARS ONE BILLION ONE HUNDRED AND FIFTY 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 3.2%.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 97.9%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$173,000 during the period from January 2019 to December 2019.</p>	



Valuation Report

Notes:

- (1) The registered owner of the property is Clifton Properties Limited.
- (2) The property is currently zoned for "Other Specified Uses (Business)" purposes under the Approved Kwun Tong (South) Outline Zoning Plan No. S/K14S/22 gazetted on 9 November 2018.
- (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 2019 and average net monthly car parking income for the period of January 2019 to December 2019.
- (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
2017 and before	36,343	27.2%	778,600	27.1%	10	22.7%
2018	38,241	28.6%	850,700	29.6%	14	31.8%
2019	59,119	44.2%	1,242,717	43.3%	20	45.5%
Total	133,703	100.0%	2,872,017	100.0%	44	100.0%

TENANCY EXPIRY PROFILE

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2019 and 2020	54,052	40.4%	1,174,900	40.9%	16	36.4%
2021	38,866	29.1%	840,305	29.3%	17	38.6%
2022 and beyond	40,785	30.5%	856,812	29.8%	11	25.0%
Total	133,703	100.0%	2,872,017	100.0%	44	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	17,811	13.3%	398,505	13.9%	7	15.9%
More than 2 years and up to 3 years	115,892	86.7%	2,473,512	86.1%	37	84.1%
More than 3 years	0	0.0%	0	0.0%	0	0.0%
Total	133,703	100.0%	2,872,017	100.0%	44	100.0%

Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2019
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>Kun Tong Inland Lot No. 62 is held under a Government Lease for a term of 21 years and renewable for another 21 years commencing from 1 July 1955. The lease has been extended to expire on 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The commercial portion of the property was let under various tenancies for various terms with the latest expiry in November 2022, yielding a total monthly rental income of approximately HK\$4,959,000, exclusive of Government Rates, Government 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\$139,000.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 93.4%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$479,000 during the period from January 2019 to December 2019.</p>	<p>HK\$1,889,000,000 (HONG KONG DOLLARS ONE BILLION EIGHT HUNDRED AND EIGHTY-NINE MILLION)</p> <p>Estimated net property yield was approximately 3.5%.</p>



Valuation Report

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/22 gazetted on 9 November 2018.
- (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 2019 and average net monthly car parking income for the period of January 2019 to December 2019.
- (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
2017 and before	57,575	25.7%	1,217,515	24.5%	26	21.1%
2018	83,901	37.4%	1,848,872	37.3%	47	38.2%
2019	82,586	36.9%	1,892,781	38.2%	50	40.7%
Total	224,062	100.0%	4,959,168	100.0%	123	100.0%

TENANCY EXPIRY PROFILE

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2019 and 2020	106,627	47.6%	2,313,796	46.7%	61	49.6%
2021	73,539	32.8%	1,616,485	32.6%	45	36.6%
2022 and beyond	43,896	19.6%	1,028,887	20.7%	17	13.8%
Total	224,062	100.0%	4,959,168	100.0%	123	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	65,893	29.4%	1,506,549	30.4%	49	39.8%
More than 2 years and up to 3 years	152,767	68.2%	3,317,474	66.9%	73	59.4%
More than 3 years	5,402	2.4%	135,145	2.7%	1	0.8%
Total	224,062	100.0%	4,959,168	100.0%	123	100.0%

Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2019
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 October 2022, yielding a total monthly rental income of approximately HK\$3,394,000, exclusive of Government Rates, Government Rent, management fees and utility charges.	HK\$1,120,000,000 (HONG KONG DOLLARS ONE BILLION ONE HUNDRED AND TWENTY 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 95.1%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$415,000 during the period from January 2019 to December 2019.</p>	<p>Estimated net property yield was approximately 4.1%.</p>



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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 2019 and average net monthly car parking income for the period of January 2019 to December 2019.
- (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
2017 and before	34,253	20.7%	761,600	22.5%	30	19.7%
2018	45,614	27.6%	906,940	26.7%	46	30.3%
2019	85,322	51.7%	1,725,445	50.8%	76	50.0%
Total	165,189	100.0%	3,393,985	100.0%	152	100.0%

TENANCY EXPIRY PROFILE

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2019 and 2020	62,196	37.7%	1,308,550	38.6%	61	40.2%
2021	52,423	31.7%	1,021,755	30.1%	54	35.5%
2022 and beyond	50,570	30.6%	1,063,680	31.3%	37	24.3%
Total	165,189	100.0%	3,393,985	100.0%	152	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	32,371	19.6%	619,275	18.2%	34	22.4%
More than 2 years and up to 3 years	132,818	80.4%	2,774,710	81.8%	118	77.6%
More than 3 years	0	0.0%	0	0.0%	0	0.0%
Total	165,189	100.0%	3,393,985	100.0%	152	100.0%

Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2019
<p>6. Portion of Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong (see note(1))</p> <p>12,014/22,510th equal and undivided parts or shares of and in Kwun Tong Inland Lot No. 729</p>	<p>The property comprises various office/workshop units and retained areas within Prosperity Center, which is a 26-storey industrial/office building with ancillary parking and loading/unloading facilities. It is erected on a registered site area of approximately 1,889 sq m (20,333 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 September 2022, yielding a total monthly rental income of approximately HK\$2,771,000, exclusive of Government Rates, Government Rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the valuation date (excluding carparking spaces) was approximately 97.0%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$411,000 during the period from January 2019 to December 2019.</p>	<p>HK\$936,000,000 (HONG KONG DOLLARS NINE HUNDRED AND THIRTY-SIX MILLION)</p> <p>Estimated net property yield was approximately 4.1%.</p>



Valuation Report

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 Approved Kwun Tong (South) Outline Zoning Plan No. S/K14S/22 gazetted on 9 November 2018.

(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 2019 and average net monthly car parking income for the period of January 2019 to December 2019.

(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
2017 and before	46,734	32.3%	892,900	32.2%	16	22.5%
2018	52,916	36.5%	1,030,400	37.2%	27	38.0%
2019	45,124	31.2%	848,100	30.6%	28	39.5%
Total	144,774	100.0%	2,771,400	100.0%	71	100.0%

TENANCY EXPIRY PROFILE

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2019 and 2020	91,689	63.3%	1,765,800	63.7%	40	56.3%
2021	37,191	25.7%	711,800	25.7%	23	32.4%
2022 and beyond	15,894	11.0%	293,800	10.6%	8	11.3%
Total	144,774	100.0%	2,771,400	100.0%	71	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	46,877	32.4%	914,800	33.0%	25	35.2%
More than 2 years and up to 3 years	97,897	67.6%	1,856,600	67.0%	46	64.8%
More than 3 years	0	0.0%	0	0.0%	0	0.0%
Total	144,774	100.0%	2,771,400	100.0%	71	100.0%

Valuation Report

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2019
<p>7. Portion of New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon, Hong Kong (see note(1))</p> <p>11,163/26,198th equal and undivided parts or shares of and in New Kowloon Inland Lot No. 4864</p>	<p>The property comprises various factory units within New Treasure Centre, which is a 30-storey industrial building (including a Mezzanine Floor) with ancillary parking and loading/unloading facilities. It is erected on a registered site area of approximately 1,304 sq m (14,040 sq ft) and was built in 1995.</p> <p>Portion of the Ground Floor and Mezzanine of the building are for carparking and/or loading/unloading purposes whereas the remaining upper floors from the 1st to 31st Floors (4th, 14th and 24th floor numbers are omitted) are used for factory purposes.</p> <p>The property 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>The factory portion of the property was let under various tenancies for various terms with the latest expiry in October 2022, yielding a total monthly rental income of approximately HK\$1,129,000, exclusive of Government Rates, Government 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\$164,000 during the period from January 2019 to December 2019.</p>	<p>HK\$361,000,000 (HONG KONG DOLLARS THREE HUNDRED AND SIXTY-ONE MILLION)</p> <p>Estimated net property yield was approximately 4.3%.</p>



Valuation Report

Notes:

- (1) The property comprises Units 101 (and portion of Flat Roof adjacent thereto), 103 (and portion of Flat Roof adjacent thereto) and 107 on 1st Floor, 201-207 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 2019 and average net monthly car parking income for the period of January 2019 to December 2019.
- (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
2017 and before	16,300	18.9%	209,600	18.6%	9	17.0%
2018	42,717	49.6%	547,200	48.4%	24	45.3%
2019	27,151	31.5%	372,500	33.0%	20	37.7%
Total	86,168	100.0%	1,129,300	100.0%	53	100.0%

TENANCY EXPIRY PROFILE

Year	Gross Area (sq ft)	% of Total	Monthly Rental (HK\$)	% of Total	No. of Tenancy	% of Total
31 Dec 2019 and 2020	45,541	52.8%	603,800	53.5%	31	58.5%
2021	33,173	38.5%	429,200	38.0%	17	32.1%
2022 and beyond	7,454	8.7%	96,300	8.5%	5	9.4%
Total	86,168	100.0%	1,129,300	100.0%	53	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	38,918	45.2%	533,900	47.3%	30	56.6%
More than 2 years and up to 3 years	47,250	54.8%	595,400	52.7%	23	43.4%
More than 3 years	0	0.0%	0	0.0%	0	0.0%
Total	86,168	100.0%	1,129,300	100.0%	53	100.0%

Valuation Report

OFFICE MARKET OVERVIEW

1. Introduction

The Office Market in Hong Kong peaked in Q1 2019. Since then, most districts have experienced downward rental pressure. US China Trade War and the social unrest since Q2 2019 have made many office expansion plan on wait and see strategy. As such, overall office vacancy now sits at its highest level since the end of 2009.

2. Office Demand

Over the past four years, the market has seen significant demand from PRC companies which played a major role in the rental growth we saw, particularly in Central, where some buildings saw an almost 50% uplift in rental values between 2015 and the end of 2018. In 2019, there were a slowdown in demand from mainland companies and also reduced demand from multinationals due to the social unrest during the second half of 2019. The reduced demand has been felt the sharpest in Central and a process of decentralisation whereby companies are moving out from CBD areas to other districts especially Kowloon east and Island East seeking cheaper occupancy costs has accelerated, resulting in the vacancy rate at the end of Q4 2019 standing at 4.5% having started the year at 2.1%.

3. Office Rent

With the increase in the office vacancy rate and a more cautious outlook being taken by most occupiers, we have seen prolonged downward rental pressure for the first time since the Eurozone Crisis in 2011. Similar to vacancy, the biggest changes have been seen on Hong Kong Island, in particular in Central, Admiralty, Wanchai and Causeway Bay. These districts have witnessed significant rental growth since 2015 to become the most expensive office cluster in the world. As decentralisation has gathered pace and the vacancy rate has increased, landlords in these districts have lower rents and Q4 2019 saw an average drop of around 4.5% in Grade A rents. Among the five major office districts, only the Island East and Kowloon East office market exhibited a rental growth compared to the same quarter in the previous year. This was principally driven by multinational companies moving their head office to Island East and back office functions to Kowloon East as a way of reducing office occupancy costs. Island East saw rents increase by 2.9% over 2019, although this can be attributed largely to the opening of One Taikoo Place in late 2018, with rents in most other buildings remaining fairly stable, or even declining slightly away from Quarry Bay in neighbourhoods such as North Point and Fortress Hill.

In Kowloon East, the monthly net effective rent increased from HKD36.5/sq ft in Q4 2018 to HKD37.1/sq ft in Q4 2019. A modest increase, but certainly a more positive picture than in many of the other districts. Most of the rental growth in Kowloon East has been concentrated in Kwun Tong, which is emerging as a popular office option and new openings such as The Quayside, NEO Hong Kong and International Trade Tower (ITT) are driving higher levels of rental growth.

With more multinationals, banks and PRC firms downsizing or relocating out of the Central and the CBD districts, we expect rents here to fall by 13.1% in 2020. In Kowloon East, the picture will be slightly better, but with a significant amount of new stock entering the market in 2019 and the Hong Kong economy in technical recession, we would still expect to see some downward pressure on rents.



Valuation Report

4. Investment Market

The continuing social unrest affected investors' appetites in the office sector in Q4 2019, and only one en-bloc transaction was recorded at a price HKD448 million. Overall, investment volume dropped 77.4% QOQ to HKD1.5 billion and Grade A office prices declined 1% QOQ in the face of uncertainty as investors took a 'wait and see' approach or looked at foreign investment opportunities instead.

With regards to the strata-title office market, the transaction volume fell by 81.7% QOQ to HKD1 billion. This indicates a 43.1% QOQ drop in the total number of transactions, indicating a very quiet market.

We do however expect to see an increase in these figures in 2020 as uncertainty increases in other international markets as well and investors are expected to revise their risk appetite.

5. Forecast

The Central CBD is home to the largest number of multinational companies in Hong Kong, making up approximately 40% of the occupiers. Starting from 2018, there has been a trend of decentralisation with occupiers in the CBD looking for rental savings by relocating to cheaper districts such as Island East and Kowloon East. With a business outlook expected to persist into 2020, we anticipate that this trend will continue.

Although new office supply is limited in 2020, we still expect Grade A office and the overall office market rent will be under pressure. Flexible workspace occupiers, multinationals and PRC firms will continue to consolidate their operations, maintaining a cautious outlook for business expansion. We expect overall office leasing market will start recovering in late 2020 and more investment activities and transactions will be taken place from 2021 onwards.



Valuation Report

INDUSTRIAL MARKET OVERVIEW

1. Introduction

Overall the industrial market in Hong Kong remained subdued in 2019 with leasing activities largely centred on relocation and based on the warehousing demand from third-parties logistics (3PLs). During Q4 2019, we saw industrial rents fall by 0.5% from Q3 after 12 consecutive quarters of growth. Meanwhile the capital values have also witnessed correction amid a quiet investment market.

2. Industrial Demand

As trade tensions between the US and China will likely continue to weigh on the trade performance, we expect to see the logistics demand from 3PLs and trading companies remain relatively slow in 2020, creating downward rental pressure. However, the vast growth of technology has supported the fundamental demand for data centres and this coupled with the Industrial Building Revitalisation Scheme 2.0 should help boosting investment demand for industrial properties, particularly older buildings with redevelopment potential in areas especially in Kowloon East.

3. Industrial Rent

A number of relocation activities happened over the quarter. Yusen Logistics relocated from Goodman Interlink in Kwai Chung, while DB Schenker downsized one of their occupied floors at China Merchants Logistics Centre in Tsing Yi. Meanwhile, there are a few cases of tenants surrendering their space during the quarter, totaling approx. 100,000 sq ft. Due to the economy downturn and social unrest, retailers and traders are facing difficult market conditions and adversely affected the performance of the logistics and industrial market. As such, we have seen a rising vacancy rate and for the first time since past 12 quarters the industrial rent levels have fallen. Given the current conditions, Landlords are more flexible in rent negotiation in order to maintain their existing tenants and attract new occupiers to keep stable occupancy rates.

4. Investment Market

The investment market remains quiet with only one notable en-bloc transaction recorded in 2019 Q4. GDS, a mainland Chinese data centre developer and operator, reportedly purchased Milo's Industrial Building in Kwai Chung. Given the building age of 47 years, we expect it may become a redevelopment project for data centre usage.

5. Forecast

The ongoing trade tensions will likely trigger some consolidation and downsizing from 3PLs and trading companies in 2020. Meanwhile, amid strong data centre demand, investors are expected to explore redevelopment opportunities of repositioning industrial buildings for data centre use.



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, the fifth supplemental deed dated 29 December 2011 and the sixth supplemental deed dated 11 May 2018, for the financial year ended 31 December 2019.

HSBC Institutional Trust Services (Asia) Limited

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

5 March 2020

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 119 to 158, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, 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.



Independent Auditor's Report

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 2019 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\$11,126.0 million as at 31 December 2019 and their change in fair value included in the profit for the year was HK\$128.1 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 approach-term and reversion method cross-checked with the market approach. The valuation involves the making of certain assumptions and the use of estimates in respect of the capitalisation rates.</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.

Independent Auditor's Report

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



Independent Auditor's Report

As part of an audit in accordance with 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.



Independent Auditor's Report

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

5 March 2020



Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2019

	Notes	2019 HK\$000	2018 HK\$000
Revenue	5	462,314	446,814
Property management fees		(11,288)	(10,994)
Property operating expenses	6	(85,160)	(85,009)
Total property operating expenses		(96,448)	(96,003)
Net property income		365,866	350,811
Interest income		5,773	4,790
Manager's fee		(55,314)	(53,610)
Trust and other expenses	7	(8,716)	(8,603)
Change in fair value of investment properties		128,112	487,882
Finance costs	8	(60,681)	(55,750)
Profit before taxation and transactions with unitholders		375,040	725,520
Taxation	9	(41,935)	(37,940)
Profit for the year, before transactions with unitholders		333,105	687,580
Distribution to unitholders		(274,651)	(268,899)
Profit for the year, after transactions with unitholders		58,454	418,681
Total comprehensive income for the year, after transactions with unitholders		58,454	418,681
Income available for distribution to unitholders		274,651	268,899
Basic earnings per unit (HK\$)	10	0.22	0.46

Distribution Statement

For the year ended 31 December 2019

	2019 HK\$000	2018 HK\$000
Profit for the year, before transactions with unitholders	333,105	687,580
Adjustments:		
Manager's fee	54,127	52,441
Change in fair value of investment properties	(128,112)	(487,882)
Change in fair value of derivative financial instruments	(5,017)	(1,941)
Finance costs	7,991	7,991
Deferred tax	12,557	10,710
Income available for distribution (note (i))	274,651	268,899
Distributions to unitholders:		
HK\$0.0933 (2018: HK\$0.0920) per unit for the six months ended 30 June (note (ii))	139,770	136,263
HK\$0.0895 (2018: HK\$0.0890) per unit for the six months ended 31 December (note (iii))	134,881	132,636
	274,651	268,899
Total distribution per unit (HK\$)	0.1828	0.1810

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\$54,127,000 (2018: HK\$52,441,000) out of the total manager's fee of HK\$55,314,000 (2018: HK\$53,610,000) (the differences of HK\$1,187,000 (2018: HK\$1,169,000) are paid in cash);
- (b) change in fair value of investment properties of HK\$128,112,000 (2018: HK\$487,882,000);
- (c) adjustment in respect of the accounting finance costs of HK\$60,681,000 (2018: HK\$55,750,000), by adding back gain on fair value change of derivative financial instruments of HK\$5,017,000 (2018: HK\$1,941,000) and less cash finance costs of HK\$57,707,000 (2018: HK\$49,700,000); and
- (d) deferred tax provision of HK\$12,557,000 (2018: HK\$10,710,000).
- (ii) The distribution per unit of HK\$0.0933 for the six months ended 30 June 2019 (six months ended 30 June 2018: HK\$0.0920) is calculated based on Prosperity REIT's income available for distribution of HK\$139,770,000 (six months ended 30 June 2018: HK\$136,263,000) over 1,498,090,958 units (30 June 2018: 1,481,179,523 units), representing units in issue as at 30 June 2019 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 the relevant distribution period. The distribution was paid to unitholders on 29 August 2019.
- (iii) The distribution per unit of HK\$0.0895 for the six months ended 31 December 2019 (six months ended 31 December 2018: HK\$0.0890) is calculated based on Prosperity REIT's income available for distribution of HK\$134,881,000 (six months ended 31 December 2018: HK\$132,636,000) over 1,507,153,680 units (31 December 2018: 1,490,179,376 units), representing units in issue as at 31 December 2019 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 2019

	Notes	2019 HK\$000	2018 HK\$000
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties	11	11,126,000	10,990,000
Derivative financial instruments	12	27,288	21,065
		11,153,288	11,011,065
Current assets			
Derivative financial instruments	12	–	1,206
Trade and other receivables	13	11,858	15,016
Bank balances and cash	14	387,084	358,736
Total current assets		398,942	374,958
Total assets		11,552,230	11,386,023
Non-current liabilities, excluding net assets attributable to unitholders			
Term loans	15	2,319,927	2,311,936
Deferred tax liabilities	16	209,936	197,379
Total non-current liabilities, excluding net assets attributable to unitholders		2,529,863	2,509,315
Current liabilities			
Trade and other payables	17	191,377	192,941
Amounts due to related companies	18	13,142	11,460
Provision for taxation		32,265	1,550
Manager's fee payable		13,948	13,710
Distribution payable		134,881	132,636
Total current liabilities		385,613	352,297
Total liabilities, excluding net assets attributable to unitholders		2,915,476	2,861,612
Net assets attributable to unitholders		8,636,754	8,524,411
Units in issue ('000)	19	1,502,622	1,485,861
Net asset value per unit (HK\$) attributable to unitholders	20	5.75	5.74

The consolidated financial statements on pages 119 to 158 were approved and authorised for issue by ARA Asset Management (Prosperity) Limited on 5 March 2020 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 2019

	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 2019	3,194,530	(91,278)	5,421,159	8,524,411
OPERATIONS				
Profit for the year, before transactions with unitholders	–	–	333,105	333,105
Distribution paid and payable	–	–	(274,651)	(274,651)
Total comprehensive income for the year, after transaction with unitholders	–	–	58,454	58,454
UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS				
Units issued to REIT Manager (note 19)	53,889	–	–	53,889
Net assets attributable to unitholders as at 31 December 2019	3,248,419	(91,278)	5,479,613	8,636,754



Consolidated Statement of Changes in Net Assets Attributable to Unitholders

For the year ended 31 December 2018

	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 2018	3,142,543	(91,278)	5,002,478	8,053,743
OPERATIONS				
Profit for the year, before transactions with unitholders	–	–	687,580	687,580
Distribution paid and payable	–	–	(268,899)	(268,899)
Total comprehensive income for the year, after transaction with unitholders	–	–	418,681	418,681
UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS				
Units issued to REIT Manager (note 19)	51,987	–	–	51,987
Net assets attributable to unitholders as at 31 December 2018	3,194,530	(91,278)	5,421,159	8,524,411

Consolidated Statement of Cash Flows

For the year ended 31 December 2019

	2019 HK\$000	2018 HK\$000
Operating activities		
Profit before taxation and transactions with unitholders	375,040	725,520
Adjustments for:		
Allowance/(reversal of allowance) for impairment	197	(75)
Manager's fees paid/payable in units	54,127	52,441
Change in fair value of investment properties	(128,112)	(487,882)
Change in fair value of derivative financial instruments	(5,017)	(1,941)
Interest income	(5,773)	(4,790)
Finance costs	65,698	57,691
Operating cashflow before working capital changes	356,160	340,964
Increase in amounts due to related companies	1,682	1,979
Decrease/(increase) in trade and other receivables	3,667	(5,520)
(Decrease)/increase in trade and other payables	(1,564)	7,166
Increase in Manager's fee payable	-	10
Cash generated from operations	359,945	344,599
Income tax refunded/(paid)	1,337	(27,832)
Net cash from operating activities	361,282	316,767
Investing activities		
Interest received	5,067	4,036
Additional expenditure to investment properties	(7,888)	(12,118)
Net cash used in investing activities	(2,821)	(8,082)
Financing activities		
Interest payment of term loans and revolving loan	(57,707)	(49,700)
Distribution to unitholders	(272,406)	(263,700)
Cash used in financing activities	(330,113)	(313,400)
Net increase (decrease) in cash and cash equivalents	28,348	(4,715)
Cash and cash equivalents at beginning of the year	358,736	363,451
Cash and cash equivalents at end of year	387,084	358,736



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 (the “**Group**”) 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 is Unit 901, Level 9, Fortune Metropolis, 6 The Metropolis Drive, Hungghom, Kowloon, Hong Kong.

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

For the year ended 31 December 2019

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")

New and amendments to HKFRSs that are mandatorily effective for the current year

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

HKFRS 16	<i>Leases</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2015–2017 Cycle</i>

Except as described below, the application of the amendments to HKFRSs and the interpretation 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.

In the current year, the Group has applied, for the first time, HKFRS 16 *Leases* ("HKFRS 16") issued by the HKICPA which is pertinent to the Group and is mandatorily effective for annual period beginning on or after 1 January 2019 for the preparation of the Group's consolidated financial statements. The application of HKFRS 16 results in changes to accounting policies, amounts reported and/or disclosures is described below.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 *Leases* (“**HKAS 17**”), and the related interpretations.

Definition of a lease

The Group has elected the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases under the application of HKAS 17 and HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease* and not apply this standard to contracts that were not previously identified as containing a lease. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

As a lessor

In accordance with the transitional provisions in HKFRS 16, the Group is not required to make any adjustment on transition for leases in which the Group is a lessor but account for these leases in accordance with HKFRS 16 from the date of initial application and comparative information has not been restated.

- (a) Upon application of HKFRS 16, new lease contracts entered into but commence after the date of initial application relating to the same underlying assets under existing lease contracts are accounted as if the existing leases are modified as at 1 January 2019. The application has had no impact on the Group’s consolidated statement of financial position as at 1 January 2019. However, effective from 1 January 2019, lease payments relating to the revised lease term after modification are recognised as income on straight-line basis over the extended lease term.
- (b) Before application of HKFRS 16, refundable rental deposits received were considered as rights and obligations under leases to which HKAS 17 applied under trade and other payables. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right-of-use assets and were adjusted to reflect the discounting effect at transition.
- (c) Effective from 1 January 2019, the Group has applied HKFRS 15 *Revenue from Contracts with Customers* (“**HKFRS 15**”) to allocate consideration in the contract to each lease and non-lease components. The change in allocation basis has had no material impact on the consolidated financial statements of the Group for the current year.

The impact of applying HKFRS 16 as a lessor on the Group’s consolidated statement of financial position as at 31 December 2019 and its consolidated statement of profit or loss and other comprehensive income and consolidated statements of cash flows for the year ended 31 December 2019 is insignificant when compared with amounts accounted for under HKAS 17.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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

New and amendments to HKFRSs that have been issued but not yet effective

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

HKFRS 17	<i>Insurance Contracts</i> ¹
Amendments to HKFRS 3	<i>Definition of a Business</i> ²
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ³
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ⁴
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i> ⁴

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

² Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

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 2020

In addition to the above new and amendments to HKFRSs, a revised Conceptual Framework for Financial Reporting was issued in 2018. Its consequential amendments, the Amendments to References to the Conceptual Framework in HKFRS Standards, will be effective for annual periods beginning on or after 1 January 2020.

Conceptual Framework for Financial Reporting 2018 (the “New Framework”) and the Amendments to References to the Conceptual Framework in HKFRS Standards

The New Framework:

- reintroduces the terms stewardship and prudence;
- introduces a new asset definition that focuses on rights and a new liability definition that is likely to be broader than the definition it replaces, but does not change the distinction between a liability and an equity instrument;
- discusses historical cost and current value measures, and provides additional guidance on how to select a measurement basis for a particular asset or liability;
- states that the primary measure of financial performance is profit or loss, and that only in exceptional circumstances other comprehensive income will be used and only for income or expenses that arise from a change in the current value of an asset or liability; and
- discusses uncertainty, derecognition, unit of account, reporting entity and combined financial statements.

Consequential amendments have been made so that references in certain HKFRSs have been updated to the New Framework, whilst some HKFRSs still refer to the previous versions of the framework. These amendments are effective for annual periods beginning on or after 1 January 2020, with earlier application permitted. Other than specific standards which still refer to the previous versions of the framework, the Group will rely on the New Framework on its effective date in determining the accounting policies especially for transactions, events or conditions that are not otherwise dealt with under the accounting standards.

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



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 fair values at the end of each reporting period, 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 16 (since 1 January 2019) or HKAS 17 (before application of HKFRS 16), 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.

For financial instruments and investment properties which are transacted at fair value and a valuation technique that unobservable inputs are 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.

The principle accounting policies are set out below.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(b) Basis of consolidation

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

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

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

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

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.

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

(c) Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values, adjusted to exclude any prepaid or accrued operating lease income.

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. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Financial instruments (continued)

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15. 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 (“FVTPL”)) 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 FVTPL are recognised immediately in profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and payments (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) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Financial assets

Classification and measurement of financial assets

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income (“FVTOCI”) or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets

The Group performs impairment assessment under expected credit loss (“ECL”) model on financial assets (including trade and other receivables and bank balances) which are subject to impairment under HKFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL (“12m ECL”) represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment are done based on the Group’s historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument’s external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor’s ability to meet its debt obligations;
- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor’s ability to meet its debt obligations.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

(i) Significant increase in credit risk *(continued)*

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

For internal credit risk management, the Group considers an event of default to have occurred when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective to the above, the Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- (a) significant financial difficulty of the issuer or the debtor;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the debtor will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Financial instruments *(continued)*

Financial assets *(continued)*

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition. For a lease receivable, the cash flows used for determining the ECL is consistent with the cash flows used in measuring the lease receivable in accordance with HKFRS 16 (since 1 January 2019) or HKAS 17 (prior to 1 January 2019).

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gain or loss for all financial instruments by adjusting their carrying amount with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Derecognition of financial assets

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.

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the group entity after deducting all of its liabilities.

Unit issue costs are the transactions costs relating to issue of units in Prosperity REIT which are accounted for as a deduction from the proceeds raised to the extent they are incremental costs directly attributable to the transactions that otherwise would have been avoided. Other transaction costs are recognised as an expense.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Financial instruments *(continued)*

Financial liabilities and equity *(continued)*

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method.

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 HKFRS 9. 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.

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

Derecognition/substantial modification of financial liabilities

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.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Financial instruments *(continued)*

Derecognition/substantial modification of financial liabilities *(continued)*

Non-substantial modifications of financial liabilities

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Derivative financial instruments

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.

(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) Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 2)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date or acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as lessor

Classification and measurement of leases

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in profit or loss 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 such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured under fair value model.

Rental income which deriving from the Group's ordinary course of business are presented as revenue.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Leases *(continued)*

The Group as a lessor (upon application of HKFRS 16 in accordance with transitions in note 2)

Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 to allocate consideration in a contract to lease and non-lease components. Non-lease components are separated from lease component on the basis of their relative stand-alone selling prices.

Refundable rental deposits

Refundable rental deposits received are accounted for under HKFRS 9 and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments from lessees.

Lease modification

The Group accounts for a modification to an operating lease as a new lease from the effective date of the modification, considering any prepaid or accrued lease payments relating to the original lease as part of the lease payments for the new lease.

(g) Revenue from contracts with customers

The Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when “control” of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group’s performance as the Group performs;
- the Group’s performance creates or enhances an asset that the customer controls as the Group performs;
or
- the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract liability represents the Group’s obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Revenue from contracts with customers *(continued)*

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation for rental related income is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the services transferred to the customer to date relative to the remaining services promised under the contract, that best depict the Group's performance in transferring control of services.

As a practical expedient, if the Group has a right to consideration in an amount that corresponds directly with the value of the Group's performance completed to date, the Group recognises revenue in the amount to which the Group has the right to invoice.

(h) 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 or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

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

(i) Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax 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 deferred tax 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Taxation *(continued)*

Deferred tax assets and liabilities are 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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied to the same taxable entity by the same taxation authority.

Current and deferred tax is recognised in profit or loss.

In assessing any uncertainty over income tax treatments, the Group considers whether it is probable that the relevant tax authority will accept the uncertain tax treatment used, or proposed to be used by individual group entities in their income tax filings. If it is probable, the current and deferred taxes are determined consistently with the tax treatment in the income tax filings. If it is not probable that the relevant taxation authority will accept an uncertain tax treatment, the effect of each uncertainty is reflected by using either the most likely amount or the expected value.

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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

5 REVENUE

	2019 HK\$'000	2018 HK\$'000
Rental income	374,588	365,154
Car park income	30,015	30,234
	404,603	395,388
Rental related income	57,711	51,426
	462,314	446,814

Note: Car park income and rental related income (which mainly consists of management fee income and air conditioning income which are payable by the tenants) are recognised over time as income as time elapsed when the services and facilities are provided. The Group applied the practical expedient in HKFRS 15 by recognising revenue in the amount to which the Group has right to invoice an amount that corresponds directly with the value to customer of the entity's performance completed to date on a time basis. As permitted under HKFRS 15, the aggregate amount of the transaction price allocated to the unsatisfied contracts is not disclosed.

6 PROPERTY OPERATING EXPENSES

	2019 HK\$'000	2018 HK\$'000
Audit fee	1,285	1,261
Building management fees	38,593	37,832
Car park operating expenses	8,265	8,032
Government rent and rates	671	885
Lease commission	5,106	6,158
Legal cost and stamp duty	1,303	1,632
Marketing service fee	11,889	12,367
Others	1,329	940
Repairs and maintenance	9,933	9,341
Secretarial fee	727	801
Tax fees	186	181
Utilities	5,692	5,380
Valuation fees (paid to principal valuers)	181	199
	85,160	85,009

7 TRUST AND OTHER EXPENSES

	2019 HK\$'000	2018 HK\$'000
Audit fee	243	239
Back-office support service fee	29	35
Bank charges	1,392	1,382
Legal and professional fees	991	802
Public relations-related expenses	236	203
Registrar fee	600	600
Trust administrative expenses	1,906	2,136
Trustee's fee	3,319	3,206
	8,716	8,603



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

8 FINANCE COSTS

	2019 HK\$'000	2018 HK\$'000
Interest expense on:		
Unsecured term loans	72,816	60,739
Interest rate swaps income realised	(7,118)	(3,048)
	65,698	57,691
Change in fair value of derivative financial instruments	(5,017)	(1,941)
	60,681	55,750

9 TAXATION

	2019 HK\$'000	2018 HK\$'000
Current tax	30,484	27,796
Over-provision in prior year	(1,106)	(566)
Deferred tax (note 16)	12,557	10,710
	41,935	37,940

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:

	2019 HK\$'000	2018 HK\$'000
Income tax expense at statutory rate of 16.5%	61,882	119,711
Over-provision in prior year	(1,106)	(566)
Tax effect of non-taxable income	(22,919)	(81,290)
Tax effect of non-deductible expenses	4,930	4,137
Tax effect of tax loss not recognised	5	–
Tax effect of utilisation of tax losses previously not recognised	(325)	(2,044)
Tax effect of utilisation of deductible temporary differences not recognised	(1,849)	(2,340)
Others	1,317	332
Taxation for the year	41,935	37,940

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\$333,105,000 (2018: HK\$687,580,000) by the weighted average of 1,498,382,842 (2018: 1,481,458,516) units in issue during the year, taking into account the units issuable as manager's fee for its service in the last quarter of the relevant distribution year.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

11 INVESTMENT PROPERTIES

	2019 HK\$'000	2018 HK\$'000
FAIR VALUE		
At beginning of the year	10,990,000	10,490,000
Additional expenditure	7,888	12,118
Change in fair value of investment properties	128,112	487,882
At end of the year	11,126,000	10,990,000

All of the Group's property interests in office buildings, commercial buildings, industrial/office buildings and industrial buildings 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.

The Group leases out various offices, retail stores and carparks under operating leases with rentals payable monthly. The leases typically run for an initial period of 1 to 4 years. All leases are denominated in the respective functional currencies of group entities. The lease contracts do not contain lessee's option to purchase the property at the end of lease term.

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 2019 and 31 December 2018, an independent valuation on the investment properties was undertaken by Colliers International (Hong Kong) Limited. The firm is an 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 approach – term and reversion method cross-checked to the market approach. Income approach – term and reversion 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. The estimated net property yield is based on the monthly net rental income for December 2019 and average net monthly car parking income for the period for January 2019 to December 2019. The market approach 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% (2018: 3.6% to 4.2%) for capitalisation of the current passing rental income over the existing lease term and 3.6% to 4.2% (2018: 3.6% to 4.2%) for potential future reversionary rental income. The capitalisation rates is the key parameter in the income approach — term and reversion method and they involve professional judgment in relation to the adjustments made by the independent qualified external valuer. A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa.

None of the Group's investment properties as at 31 December 2019 and 31 December 2018 was pledged to secure banking facilities granted to the Group.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

12 DERIVATIVE FINANCIAL INSTRUMENTS

	2019 HK\$'000	2018 HK\$'000
Reflected on consolidated statement of financial position based on remaining contractual maturity as:		
Non-current assets	27,288	21,065
Current assets	–	1,206
	27,288	22,271

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

Derivatives:

Contracts with total notional amount of HK\$1,640,000,000 (31 December 2018: HK\$1,170,000,000) will mature from September 2022 to September 2026 (31 December 2018: June 2019 to September 2022). These contracts have fixed interest payments at rates ranging from 1.254% to 1.918% (31 December 2018: 0.455% to 1.254%) per annum and have floating interest receipts at three months Hong Kong Interbank Offered Rate (“HIBOR”) 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 gain of HK\$5,017,000 is recognised to profit or loss during the year ended 31 December 2019 (2018: HK\$1,941,000).

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

	2019 HK\$'000	2018 HK\$'000
Trade receivables	3,162	1,283
Less: allowance for impairment	(251)	(54)
	2,911	1,229
Deposit and prepayments and other receivables	8,947	13,787
	11,858	15,016

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

13 TRADE AND OTHER RECEIVABLES (continued)

Ageing analysis of the Group's trade receivables presented based on the invoice date, net of allowance for impairment, at the end of the Reporting Year is as follows:

	2019 HK\$'000	2018 HK\$'000
Current-1 month	77	86
2-3 months	2,834	1,143
	2,911	1,229

As at 31 December 2019, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$3,162,000 (2018: HK\$1,283,000) which are past due as at the reporting date. Out of the past due balances, amount of HK\$251,000 (2018: HK\$54,000) has been past due 90 days or more and considered as in default.

Details of impairment assessment of trade and other receivables are set out in note 22(b)(ii).

14 BANK BALANCES AND CASH

	2019 HK\$'000	2018 HK\$'000
Cash at bank	387,084	358,736

Cash at bank carries at the market interest rate, of which aggregate value of HK\$87,084,000 (2018: HK\$88,736,000) are placed with The Hongkong and Shanghai Banking Corporation Limited, a related company of the Trustee.

15 BORROWINGS

	2019 HK\$'000	2018 HK\$'000
Unsecured term loans	2,340,000	2,340,000
Bank facility origination fees	(20,073)	(28,064)
	2,319,927	2,311,936
Carrying amount repayable:		
Within a period of more than one year but not exceeding five years	2,319,927	2,311,936
	2,319,927	2,311,936

Details of the terms and conditions of the Group's facilities (including the unutilized facilities as stipulated in note (ii) below) as at 31 December 2019 and 31 December 2018 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

15 BORROWINGS (continued)

Prosperity REIT has provided guarantees for all the facilities.

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

	2019 HK\$'000	2018 HK\$'000
Balance at beginning of the year	28,064	36,055
Amortised during the year	(7,991)	(7,991)
Balance at the end of the year	20,073	28,064

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 2018	194,493	(7,824)	186,669
Charge to profit or loss	11,099	(389)	10,710
As at 31 December 2018	205,592	(8,213)	197,379
Charge to profit or loss	12,557	–	12,557
As at 31 December 2019	218,149	(8,213)	209,936

At the end of the reporting period, tax loss amounting to approximately HK\$18,335,000 (31 December 2018: HK\$20,273,000) 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\$20,079,000 (2018: HK\$24,129,000) in respect of the investment properties measured at fair value. The carrying amount of such properties are presumed to be recovered entirely through sale. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not expected to be reversed upon disposal of the properties.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

17 TRADE AND OTHER PAYABLES

	2019 HK\$'000	2018 HK\$'000
Trade payables	2,098	3,425
Tenants' deposits		
— Outside parties	141,383	140,870
— Related parties (note 27)	3,450	3,181
Rental received in advance		
— Outside parties	4,972	5,086
Other payables	39,474	40,379
	191,377	192,941

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

	2019 HK\$'000	2018 HK\$'000
Current—1 month	823	763
2–3 months	887	2,049
Over 3 months	388	613
	2,098	3,425

Tenants' deposits represent the deposits refundable to tenants upon termination or cancellation of operating lease arrangements. 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 Year based on the lease terms amounted to HK\$93,753,000 (2018: HK\$95,343,000)

18 AMOUNTS DUE TO RELATED COMPANIES

The amounts 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 amounts are unsecured, interest-free and repayable on demand.

19 UNITS IN ISSUE

	Number of units	HK\$'000
Balance as at 1 January 2018	1,469,395,447	3,142,543
Payment of manager's base fee and variable fee through issuance of new units during the year	16,465,518	51,987
Balance as at 31 December 2018	1,485,860,965	3,194,530
Payment of manager's base fee and variable fee through issuance of new units during the year	16,761,036	53,889
Balance as at 31 December 2019	1,502,622,001	3,248,419

Subsequent to the end of the reporting period, 4,531,679 units (2018: 4,318,411 units) at HK\$3.0129 (2018: HK\$3.1067) 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 2019 was HK\$3.05 (31 December 2018: HK\$3.00).



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 1,502,622,001 units in issue as at 31 December 2019 (1,485,860,965 units in issue as at 31 December 2018).

21 MAJOR NON-CASH TRANSACTION

During the year, the REIT Manager earned manager's fee of HK\$ 55,314,000 (2018: manager's fee of HK\$53,610,000) of which HK\$54,127,000 (2018: HK\$52,441,000) was paid or payable through the issuance of units to the REIT Manager. An amount of HK\$40,473,000 (2018: HK\$39,025,000) had been settled through the issuance of units to the REIT Manager while the balance of HK\$13,654,000 (2018: HK\$13,416,000) were paid in units subsequent to the year end.

22 FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2019 HK\$'000	2018 HK\$'000
Financial assets		
Trade and other receivables	3,190	1,983
Bank balances and cash	387,084	358,736
At amortised cost	390,274	360,719
Derivative instruments		
Interest rate swaps, net	27,288	22,271
Financial liabilities		
Trade payables	(2,098)	(3,425)
Tenants' deposits	(144,833)	(144,051)
Amounts due to related companies	(13,142)	(11,460)
Term loans	(2,319,927)	(2,311,936)
Manager's fee payable	(13,948)	(13,710)
Distribution payable	(134,881)	(132,636)
At amortised cost	(2,628,829)	(2,617,218)
Unitholders' funds	8,636,754	8,524,411

Details of the financial instruments are disclosed in respective notes.

(b) Financial risks management objectives and policies

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

22 FINANCIAL INSTRUMENTS *(continued)*

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

(i) Interest rate risk

The Group is primarily exposed to cash flow interest rate risk from the fluctuation of HIBOR in relation to variable-rate 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 pre-tax profit for the year would increase (decrease) as follows.

	Term loans HK\$'000	Derivative financial instruments HK\$'000
2019		
Profit for the year	(11,700)	32,508
2018		
Profit for the year	(11,700)	10,312

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.

(ii) Credit risk and impairment assessment

Credit risk refers to the risk that the Group's counterparties default on their contractual obligations resulting in financial losses to the Group. The Group's credit risk exposures are primarily attributable to trade and other receivables, bank balances and derivative financial instruments. Except for trade receivables, the Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets.

The Group performed impairment assessment for financial assets under ECL model. Information about the Group's credit risk management, maximum credit risk exposures and the related impairment assessment are summarised as below:



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

22 FINANCIAL INSTRUMENTS (continued)

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

(ii) Credit risk and impairment assessment (continued)

Trade receivables

Trade receivable consists of rental revenue and rental related income receivables from tenants. The Manager monitors their balances on an ongoing basis. Credit evaluations are performed by the property manager on behalf of the Manager before lease agreements are entered into with tenants. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

Credit risk from debtors is the potential financial loss resulting from the failure of a tenant or counterparty to settle its financial and contractual obligations to the property companies, as and when they fall due. The Group has adopted a policy of obtaining deposit to mitigate the risk of financial loss from tenant's default.

To mitigate the risk of financial loss from default, most 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 in case of default. There is no credit period given to the tenants for the rental of properties. Rental is payable in advance and late payment interest is chargeable on overdue receivables. 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 Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade receivables individually.

Movement in the loss allowance for trade receivables under lifetime ECL:

	HK\$'000
As at 1 January 2018	129
Reversal of allowance	(75)
As at 31 December 2018	54
Allowance for impairment	197
As at 31 December 2019	251

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

22 FINANCIAL INSTRUMENTS *(continued)*

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

(ii) Credit risk and impairment assessment *(continued)*

Other receivables, bank balances and derivative financial instruments

The Group measures the loss allowance on other receivables, mainly represents interest receivables from fixed deposits and bank balances equal to 12m ECL. The credit risk on interest receivables, bank balances are limited because the counterparties are placed with reputable banks with external credit rating of at least A1 assigned by an international credit-rating agency. Based on the ECL assessment, the credit exposures for other receivables and bank balances are considered as low risk because the counterparties have a low risk of default and no loss allowance is provided.

The credit risk on derivative financial instruments are limited because the counterparties are placed with reputable banks with external credit rating of at least A1 assigned by an international credit-rating agency.

Besides concentration of credit risk on bank balances which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

(iii) Liquidity risk

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 2019, the Group has three bank loan facilities of HK\$2,770,000,000 (2018:HK\$2,770,000,000), comprising two term loans with total of HK\$2,340,000,000 (2018:HK\$2,340,000,000) and a revolving credit facility of HK\$430,000,000 (2018:HK\$430,000,000). None (2018: nil) of the revolving credit facility was drawn as at 31 December 2019. Details of the borrowing are set out in note 15.

As at 31 December 2019 and 31 December 2018, all bank loan facilities are unsecured. Prosperity REIT has provided guarantees for these bank loan Facilities and none of the Group's investment properties was pledged to secure the banking credit facilities granted to the Group.

The Group, with a cash balance of HK\$387,084,000 (2018: HK\$358,736,000) and available unutilised revolving credit facility of approximately HK\$430,000,000 (2018: HK\$430,000,000) as at 31 December 2019, has sufficient financial resources and facilities to satisfy its commitments and working capital requirements.

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. 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.



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

22 FINANCIAL INSTRUMENTS (continued)

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

(iii) Liquidity risk (continued)

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash (inflows) and outflows on derivative instruments that settle 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	1 to 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31/12/2019 HK\$'000
2019							
Non-derivative							
Trade payables	-	388	887	823	-	2,098	2,098
Tenants' deposits	-	7,321	4,759	39,000	93,753	144,833	144,833
Amounts due to related companies	-	13,142	-	-	-	13,142	13,142
Term loans	3.39%	6,901	13,357	61,220	2,455,799	2,537,277	2,319,927
Manager's fee payable	-	13,948	-	-	-	13,948	13,948
Distribution payable	-	-	-	134,881	-	134,881	134,881
Cash outflow		41,700	19,003	235,924	2,549,552	2,846,179	2,628,829
Derivatives — net receipt							
Interest rate swaps		-	(3,241)	(7,366)	(19,067)	(29,674)	(27,288)

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

22 FINANCIAL INSTRUMENTS (continued)

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

(iii) Liquidity risk (continued)

	Weighted average interest rate %	Less than 1 month or on demand HK\$'000	1–3 months HK\$'000	3 months to 1 year HK\$'000	1 to 5 years HK\$'000	Total undiscounted cash flow HK\$'000	Carrying amount at 31/12/2018 HK\$'000
2018							
Non-derivative							
Trade payables	–	613	2,049	763	–	3,425	3,425
Tenants' deposits	–	6,889	4,166	37,653	95,343	144,051	144,051
Amounts due to related companies	–	11,460	–	–	–	11,460	11,460
Term loans	3.10%	6,169	11,741	50,768	2,520,141	2,588,819	2,311,936
Manager's fee payable	–	13,710	–	–	–	13,710	13,710
Distribution payable	–	–	–	132,636	–	132,636	132,636
Cash outflow		38,841	17,956	221,820	2,615,484	2,894,101	2,617,218
Derivatives — net receipt							
Interest rate swaps		–	(2,382)	(5,250)	(18,051)	(25,683)	(22,271)

(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\$13,329,000 (2018: net current assets of HK\$22,661,000). 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\$ 11,166,617,000 (2018: HK\$11,033,726,000).



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

25 SEGMENTAL REPORTING

During the year, Prosperity REIT invested in seven (2018: seven) office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennia Plaza, 9 Chong Yip Street, 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 2019

	The Metropolis Tower HK\$'000	Prosperity Millennia Plaza HK\$'000	9 Chong Yip street HK\$'000	Prosperity Place HK\$'000	Trendy Centre HK\$'000	Prosperity Center (portion) HK\$'000	New Treasure Centre (portion) HK\$'000	Consolidated HK\$'000
Rental income	115,293	81,990	35,498	74,169	44,281	38,111	15,261	404,603
Rental related income	24,297	15,591	4,422	1,035	6,683	3,504	2,179	57,711
Segment revenue in Hong Kong	139,590	97,581	39,920	75,204	50,964	41,615	17,440	462,314
Segment profit	113,744	80,426	30,035	58,749	37,498	32,365	13,049	365,866
Interest income								5,773
Manager's fee								(55,314)
Trust and other expenses								(8,716)
Change in fair value of investment properties								128,112
Finance costs								(60,681)
Profit before taxation and transactions with unitholders								375,040

For the year ended 31 December 2018

	The Metropolis Tower HK\$'000	Prosperity Millennia Plaza HK\$'000	9 Chong Yip street HK\$'000	Prosperity Place HK\$'000	Trendy Centre HK\$'000	Prosperity Center (portion) HK\$'000	New Treasure Centre (portion) HK\$'000	Consolidated HK\$'000
Rental income	106,140	80,333	36,355	75,425	45,331	37,268	14,536	395,388
Rental related income	20,184	14,321	4,117	267	7,068	3,412	2,057	51,426
Segment revenue in Hong Kong	126,324	94,654	40,472	75,692	52,399	40,680	16,593	446,814
Segment profit	97,986	77,641	30,727	60,804	40,679	30,714	12,260	350,811
Interest income								4,790
Manager's fee								(53,610)
Trust and other expenses								(8,603)
Change in fair value of investment properties								487,882
Finance costs								(55,750)
Profit before taxation and transactions with unitholders								725,520

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

25 SEGMENTAL REPORTING (continued)

Segment assets

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

	2019 HK\$'000	2018 HK\$'000
The Metropolis Tower	3,370,000	3,330,000
Prosperity Millennia Plaza	2,300,000	2,250,000
9 Chong Yip Street	1,150,000	1,150,000
Prosperity Place	1,889,000	1,860,000
Trendy Centre	1,120,000	1,110,000
Portion of Prosperity Center	936,000	930,000
Portion of New Treasure Centre	361,000	360,000
Total segment assets	11,126,000	10,990,000
Other assets	426,230	396,023
Consolidated assets	11,552,230	11,386,023

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

26 OPERATING LEASE ARRANGEMENTS

The Group rents out its investment properties in Hong Kong. Leases are negotiated for term ranging from one to four years with monthly fixed rental.

	2019 HK\$'000
Minimum lease payments receivable on leases are as follows:	
Within one year	305,534
In the second year	171,340
In the third year	41,779
In the fourth year	3,348
Total	522,001

	2018 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	313,979
In the second to fifth year inclusive	254,680
Total	568,659



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

27 CONNECTED AND RELATED PARTY TRANSACTIONS

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

	Notes	2019 HK\$'000	2018 HK\$'000
Rent and rental related income from			
E-Park Parking Management Limited	(a)	282	–
Goodwell Property Management Limited	(a)	1,981	1,897
Gama Aviation Hutchison (Hong Kong) Limited	(b)	1,334	345
Hutchison Telephone Company Limited	(b)	77	77
Hutchison Hain Organic (Hong Kong) Limited	(b)	–	790
Hutchison Whampoa (China) Limited	(b)	8,170	3,748
Carpark lease agency fee for the operations of the Group's carpark			
E-Park Parking Management Limited	(a)	3,305	3,330
Property management fee			
Goodwell-Prosperity Property Services Limited	(a)	11,288	10,994
Marketing service fee			
Goodwell-Prosperity Property Services Limited	(a)	11,889	12,367
Back-office support service fee			
CK Asset Companies	(a)	29	35
Lease commission and consultancy service fee			
Colliers	(c)	832	268
Valuation Fee			
Colliers International (Hong Kong) Limited	(c)	182	199
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited	(d)	3,319	3,206
Manager's fee			
ARA Asset Management (Prosperity) Limited	(e)	55,314	53,610
Building manager's remuneration			
Goodwell Property Management Limited	(a)	560	387
Citybase Property Management Limited	(a)	–	157
Carpark manager's remuneration			
Goodwell Property Management Limited	(a)	51	29
Citybase Property Management Limited	(a)	38	57

Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

27 CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

	Notes	2019 HK\$'000	2018 HK\$'000
Balances as at year end with connected and related parties are as follows:			
Amount due to			
Citybase Property Management Limited	(a)	638	938
E-Park Parking Management Limited	(a)	241	561
Goodwell-Prosperity Property Services Limited	(a)	3,033	4,909
Goodwell Property Management Limited	(a)	9,230	5,052
Deposits placed with the Group for the lease of the Group's properties			
E-Park Parking Management Limited	(a)	175	–
Goodwell Property Management Limited	(a)	551	500
Gama Aviation Hutchison (Hong Kong) Limited	(b)	354	350
Hutchison Telephone Company Limited	(b)	21	20
Hutchison Whampoa (China) Limited	(b)	2,349	2,311

Notes:

- (a) These companies were the subsidiaries of CK Asset Holdings Limited ("CK Asset"), a significant unitholder (defined in the REIT Code as a holder of 10% or more of the outstanding units) of Prosperity REIT.
- (b) These companies were associated companies (as defined in the REIT Code) of CK Asset.
- (c) Colliers include Colliers International (Hong Kong) Limited and Colliers International Agency Limited. Colliers International (Hong Kong) Limited is the principal valuer of investment properties.
- (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\$649,000 (2018: HK\$630,000).



Notes to the Consolidated Financial Statements

For the year ended 31 December 2019

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 (Note 15) HK\$'000	Distribution payable HK\$'000	Total HK\$'000
At 1 January 2018	2,303,945	127,437	2,431,382
Financing cash flows	(49,700)	(263,700)	(313,400)
Finance costs	57,691	–	57,691
Distribution to unitholders	–	268,899	268,899
At 1 January 2019	2,311,936	132,636	2,444,572
Financing cash flows	(57,707)	(272,406)	(330,113)
Finance costs	65,698	–	65,698
Distribution to unitholders	–	274,651	274,651
At 31 December 2019	2,319,927	134,881	2,454,808

29 COMPARATIVE FIGURES

Certain comparative figures have been reclassified in these consolidated financial statements, which have no material effect on previously reported profit, to conform with the current year's presentation. For the year ended 31 December 2019 and 31 December 2018, change in fair value of derivative financial instruments has been grouped under finance costs as per Note 8 instead of being presented as a line item in the consolidated statement of profit or loss and other comprehensive income.

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 2019		As at 31 December 2018			
		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
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
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

	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
Gross rental from investment properties	404,603	395,388	393,905	396,468	382,691
Net property income	365,866	350,811	353,600	357,847	345,479
Profit for the year, before transactions with unitholders	333,105	687,580	748,425	565,244	692,591
Distribution to unitholders	274,651	268,899	261,533	258,362	254,083
Earnings per unit (HK\$)	0.22	0.46	0.51	0.39	0.48
Distribution per unit (HK\$)	0.1828	0.1810	0.1780	0.1777	0.1768

MAJOR ASSETS AND LIABILITIES OF PROSPERITY REIT AS AT 31 DECEMBER

	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
Investment properties	11,126,000	10,990,000	10,490,000	10,777,000 ⁽³⁾	10,419,000
Borrowings, excluding bank facility origination fees	(2,340,000)	(2,340,000)	(2,340,000)	(2,890,000)	(2,854,000)
Net asset value	8,636,754	8,524,411	8,053,743	7,515,721	7,155,735
Net asset value per unit (HK\$) ⁽¹⁾	5.75	5.74	5.48	5.17	4.98
Other Information					
The highest traded price during the year (HK\$)	3.65	3.50	3.46	3.61	3.05
The discount of the highest traded price to net asset value	(36.5%)	(39.0%)	(36.9%)	(30.2%)	(38.8%)
The lowest traded price during the year (HK\$)	2.75	2.76	3.06	2.61	2.59
The discount of the lowest traded price to net asset value	(52.2%)	(51.9%)	(44.2%)	(49.5%)	(48.0%)
The net yield per unit based on market price at the end of year	6.0% ⁽²⁾	6.0%	5.3%	5.8%	6.3%

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\$0.1828 for the year ended 31 December 2019 and the closing market price of HK\$3.05 as at 31 December 2019.

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

As at 31 December 2019

Property	Type	Lease term	Lease expiry date	Location	Valuation 2019 HK\$ Million
The Metropolis Tower	O	Medium-term lease	30 June 2047	10 Metropolis Drive Hung Hom Kowloon Hong Kong	3,370
Prosperity Millennia Plaza	O	Medium-term lease	30 June 2047	663 King's Road North Point Hong Kong	2,300
9 Chong Yip Street	O	Medium-term lease	30 June 2047	9 Chong Yip Street Kwun Tong Kowloon Hong Kong	1,150
Prosperity Place	C	Medium-term lease	30 June 2047	6 Shing Yip Street Kwun Tong Kowloon Hong Kong	1,889
Trendy Centre	I/O	Medium-term lease	30 June 2047	682 Castle Peak Road Lai Chi Kok Kowloon Hong Kong	1,120
Prosperity Center (portion)	I/O	Medium-term lease	30 June 2047	25 Chong Yip Street Kwun Tong Kowloon Hong Kong	936
New Treasure Centre (portion)	I	Medium-term lease	30 June 2047	10 Ng Fong Street San Po Kong Kowloon Hong Kong	361
Total					11,126

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 2019:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Year ended 31 Dec 2019 HK\$'000	Year ended 31 Dec 2018 HK\$'000	Year ended 31 Dec 2017 HK\$'000	Year ended 31 Dec 2016 HK\$'000	Year ended 31 Dec 2015 HK\$'000
Revenue	462,314	446,814	446,242	452,926	438,723
Profit before taxation and transactions with unitholders	375,040	725,520	788,162	603,101	728,766
Taxation	(41,935)	(37,940)	(39,737)	(37,857)	(36,175)
Profit for the years, before transactions with unitholders	333,105	687,580	748,425	565,244	692,591
Distribution to unitholders	274,651	268,899	261,533	258,362	254,083
Distribution per unit (HK\$)	0.1828	0.1810	0.1780	0.1777	0.1768

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
Non-current assets	11,153,288	11,011,065	10,510,341	10,221,436	10,419,000
Current assets	398,942	374,958	373,646	707,336	73,714
Current liabilities	385,613	352,297	338,091	404,198	344,074
Net assets attributable to unitholders	8,636,754	8,524,411	8,053,743	7,515,721	7,155,735

Corporate Information

BOARD OF DIRECTORS OF THE REIT MANAGER

CHIU Kwok Hung, Justin

Chairman and Non-executive Director

LIM Hwee Chiang

Non-executive Director

WONG Lai Hung, Mavis

Executive Director and Chief Executive Officer

MA Lai Chee, Gerald

Non-executive Director

LAN Hong Tsung, David

Independent Non-executive Director

SNG Sow-Mei (alias POON Sow Mei)

Independent Non-executive Director

WONG Kwai Lam

Independent Non-executive Director

COMPANY SECRETARY OF THE REIT MANAGER

Tricor Corporate Secretary Limited

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

Unit 901, Level 9, Fortune Metropolis
6 The Metropolis Drive, Hung Hom, Kowloon
Hong Kong

UNIT REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

The Stock Exchange of Hong Kong Limited: 808

INVESTOR RELATIONS

Tel: +852 2169 0928

Fax: +852 2169 0968

Email: prosperityenquiry@ara-group.com

WEBSITE

www.prosperityreit.com

KEY DATES

Annual Results Announcement	5 March 2020
Closure of Register of Unitholders for Final Distribution	27 March to 30 March 2020 (both days inclusive)
Payment of Final Distribution	7 April 2020
Closure of Register of Unitholders for Annual General Meeting	12 May to 15 May 2020 (both days inclusive)
Annual General Meeting	15 May 2020

This annual report 2019 (“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.



www.prosperityreit.com



Stock Code: 808

Manager



ARA Asset Management (Prosperity) Limited

Prosperity REIT is managed by

ARA Asset Management (Prosperity) Limited

