

# MOVING ON WITH A STEADY PACE

ANNUAL REPORT  
2020

# 7 Prosperity REIT Portfolio

Total Gross  
Rentable Area  
of About

**1.28**  
*million sq. ft.*



The Metropolis Tower



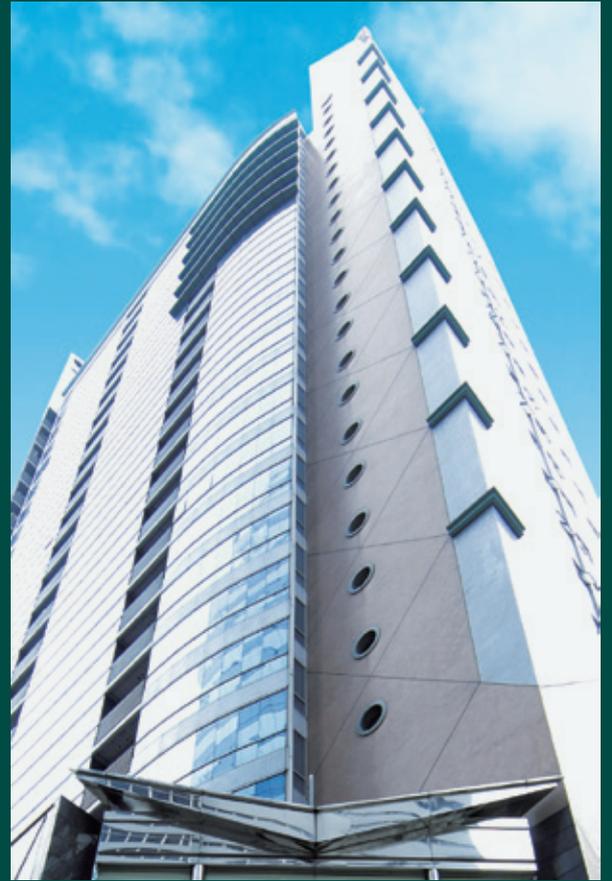
Prosperity Millennium Plaza



Prosperity Place



9 Chong Yip Street



Trendy Centre



Prosperity Center Property (Portion)



New Treasure Centre Property (Portion)

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Water: An element that can adapt itself to the surroundings no matter how the time and environment change, making it sustainable and long lasting. Similar to such characteristics, accepting and adopting smart and correct opinions and keeping up with the times are the core values of Prosperity REIT for many years, and pave the way for the stable development of its business.



## 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 premier global real estate fund manager driven by a vision to be the best-in-class real estate fund management company focused on the management of REITs, private real estate funds and infrastructure.

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.

## WE CARE FOR



ENVIRONMENT



STAFF



UNITHOLDERS



COMMUNITY



TENANTS

An aerial, sepia-toned photograph of a vast river delta. The landscape is characterized by intricate, winding patterns of water and land, creating a complex, maze-like appearance. In the lower right quadrant, two riders on horseback are crossing a shallow, wide channel of the river, splashing water as they move. The overall scene conveys a sense of natural beauty and human activity in a rural setting.

STRIVING  
*for*  
GROWTH



## CHAIRMAN'S STATEMENT

*Dear Unitholders,*

On behalf of the Board of Directors (the "Board") of ARA Asset Management (Prosperity) Limited, the manager of Prosperity Real Estate Investment Trust ("Prosperity REIT"), I would like to present the annual report of Prosperity REIT for the financial year ended 31 December 2020 (the "Reporting Year").

### RESULTS AND DISTRIBUTION:

Despite a slowdown in the global economy and uncertain market conditions, largely due to the global pandemic of COVID-19, the performance of Prosperity REIT remained resilient.

Amid challenging market conditions, Prosperity REIT registered a marginal drop in distributable income and distribution per unit ("DPU"). Property valuation broadly followed the market in adjusting downward, and dropped by 8.8% to HK\$10,147 million.

In light of these results, our Unitholders will receive a DPU of HK\$0.0892 per unit for the second half of the year representing a total DPU of HK\$0.1791 for the year ended 31 December 2020.

### MARKET REVIEW:

Hong Kong underwent a year of challenges in 2020 on the backdrop of the US-China trade tension and the COVID-19 pandemic. With the various business and employment stimulus measures implemented by the Government, the negative GDP growth had gradually narrowed towards the year-end, despite the closure order on respective businesses and social distancing restrictions that had impacted local economy. The unemployment rate of 6.6% in the last quarter of 2020 hit a 16-year high under the fourth wave of local epidemic prevalent from November.

In the US, the economic outlook under President Biden remains uncertain. Overshadowing concerns remain US-China relations, US economic recovery along with the progress of COVID-19 vaccines, while Fed rates stayed close to zero.



Although China experienced a slowdown in economic growth, it still registered positive growth overall, being the only nation with positive GDP growth in global economy. This is due to the stringent and effective measures adopted to contain the COVID-19 pandemic expediting the pace of economic recovery.

## OPERATION REVIEW:

With local business severely impacted by the tightened coronavirus restrictions, we have rendered support to our tenants. Multiple relief measures are offered on a case-by-case basis.

Amidst a volatile economy, our portfolio continues to leverage on the decentralization trend in Hong Kong office market. Shadowed by the uncertain economic outlook, corporate tenants would look for cost-saving strategies by space reconfiguration, office relocation to more affordable rent buildings due to a change of business model or operation consolidation. Our portfolio occupancy remained robust and stood at a stable level at 96.1% as at the end of the Reporting Year.

On property management side, the health and safety of our tenants and staff is of utmost importance. Since the outbreak of COVID-19 in early 2020, the property management team responded quickly in implementing various preventive measures in our properties.

## PROSPECTS:

In 2021, Hong Kong economy will continue to face headwinds from the intermittent resurgence of the pandemic, the uncertainties of the US-China relations, the post Brexit impact, coupled with geopolitical tensions. In the meantime, the low interest rate environment is unlikely to change until momentum in the economy gains more strength. The progress and effectiveness of COVID-19 vaccines remain key to rebuild confidence in investments.

Within our portfolio, Kowloon East has become a more mature commercial hub, thanks in part to being prioritised by corporates looking for quality office space and cost-saving measures. We will continue to seize the opportunities brought by the office decentralization trend and the forthcoming full opening of Shatin-to-Central Link.

Apart from deploying flexible leasing strategy, we will keep our persistent prudent and proactive management approach to prepare for the challenge in the coming year.

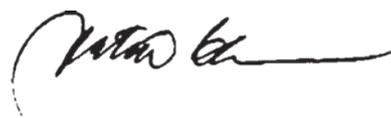
## ACHIEVEMENTS AND ACKNOWLEDGEMENTS:

To demonstrate our commitment to assimilate sustainability into our business culture and operations, we have formulated "Vision 2030" and corresponding action plans. Multiple ESG initiatives were implemented. Prosperity Millennia Plaza has achieved the rating "Excellent" under BEAM Plus (Energy Use).

I would like to extend my sincere thanks to our staff, tenants, service providers and business partners who have all played significant roles taking us forward, in often challenging times.

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

Last but not least, I would like to finish by acknowledging and thanking all our Unitholders. Your continuing support for 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, 4 March 2021

An aerial photograph of a wide river flowing through a dense, dark forest. A small boat is visible on the river's surface, leaving a wake. The overall scene is captured in a dark, teal-toned aesthetic with a fine halftone dot pattern.

# ROBUST ACHIEVEMENTS

## PERFORMANCE HIGHLIGHTS IN 2020

### INCOME AVAILABLE FOR DISTRIBUTION<sup>1</sup>

▼0.7%



### DISTRIBUTION PER UNIT<sup>1</sup> ("DPU")

▼2.0%



### REVENUE<sup>1</sup>

▼2.0%



### OCCUPANCY RATE (AS AT 31 DEC)

▼1.2<sup>2</sup>%



*Notes:*

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

<sup>2</sup> Absolute change

# TRUST REVIEW

## DIVERSIFIED PROPERTY PORTFOLIO

As at 31 December 2020, 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 2020, the appraised value of the portfolio was HK\$10,147 million. Grade A office buildings, commercial building, industrial/office buildings and industrial building accounted for 61.6%, 16.6%, 18.6% and 3.2% of the total appraised value respectively.

	Valuation HK\$ million as at 31 December 2020	Valuation HK\$ million as at 31 December 2019	Percentage change Increase/ (Decrease)
<b>Grade A Office</b>			
The Metropolis Tower	3,080	3,370	(8.6%)
Prosperity Millennia Plaza	2,139	2,300	(7.0%)
9 Chong Yip Street	1,032	1,150	(10.3%)
<b>Commercial</b>			
Prosperity Place	1,684	1,889	(10.9%)
<b>Industrial/Office</b>			
Trendy Centre	1,036	1,120	(7.5%)
Prosperity Center (portion)	848	936	(9.4%)
<b>Industrial</b>			
New Treasure Centre (portion)	328	361	(9.1%)
<b>Total</b>	<b>10,147</b>	<b>11,126</b>	<b>(8.8%)</b>

## EFFECTIVE LEASE MANAGEMENT

As a result of proactive tenant recruitment efforts by the REIT Manager, the portfolio's occupancy rate was maintained stable at 96.1% as at 31 December 2020. The portfolio's average effective unit rent decreased by 1.3% year-on-year ("YoY") to HK\$24.85 per sq.ft., with a rental reversion rate of -4.4% for the leases renewed in 2020.

As at 31 December 2020, leases expiring in 2021 accounted for 42.1% of the portfolio's gross rental income. Proactive leasing strategies will be continued in 2021 to deliver stable distribution to unitholders.

## LEASE EXPIRY PROFILE BY GROSS RENTAL INCOME (AS AT 31 DECEMBER 2020)

	31 December 2020 & 2021	2022	2023 and Beyond
The Metropolis Tower	55.4%	39.8%	4.8%
Prosperity Millennia Plaza	48.2%	24.0%	27.8%
9 Chong Yip Street	33.1%	37.6%	29.3%
Prosperity Place	39.3%	37.5%	23.2%
Trendy Centre	38.8%	47.0%	14.2%
Prosperity Center (portion)	40.3%	36.4%	23.3%
New Treasure Centre (portion)	53.1%	32.4%	14.5%
Portfolio	46.0%	36.2%	17.8%

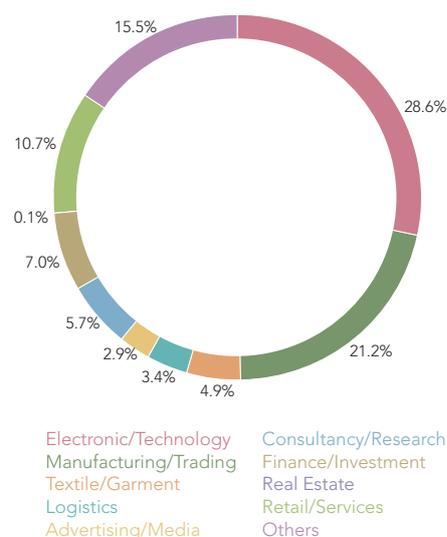
## WELL-BALANCED TENANT MIX

As at 31 December 2020, Prosperity REIT had a total of 630 tenancies. 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 2020)



## Size of Tenant Premises on Gross Rentable Area

(as at 31 December 2020)

	Percentage
Above 10,000 sq.ft.	11.2%
5,001 sq.ft.–10,000sq.ft.	17.1%
2,001 sq.ft.–5,000 sq.ft.	28.5%
1,001 sq.ft.–2,000 sq.ft.	29.0%
1,000 sq.ft. and below	14.2%
Total	100.0%

## CLOSE-TO-ZERO RENT DELINQUENCY RATE

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

### Asset Enhancement

It is an established strategy of the REIT Manager to provide premium rentable space in order to achieve sustainable rental growth. To this end, asset enhancement initiatives have been planned and executed on a continuous basis. During the Reporting Year, the G/F lobby area of Prosperity Millennia Plaza has been renovated in order to bring the building in line with the market standard and fully reflect the strategic location of the building.

Asset enhancement initiatives will continue in 2021 across the portfolio, with prudently planned payback periods. The notable project will be the facelifting of the ground floor lobby of The Metropolis Tower, with an aim to incorporate building technology and design to offer a sustainable green working environment for our tenants. The uplift building image will enhance our marketing edge on top of the capitalization of the upcoming final phase completion between Hung Hom and Admiralty of the Shatin-to-Central Link in 2022.

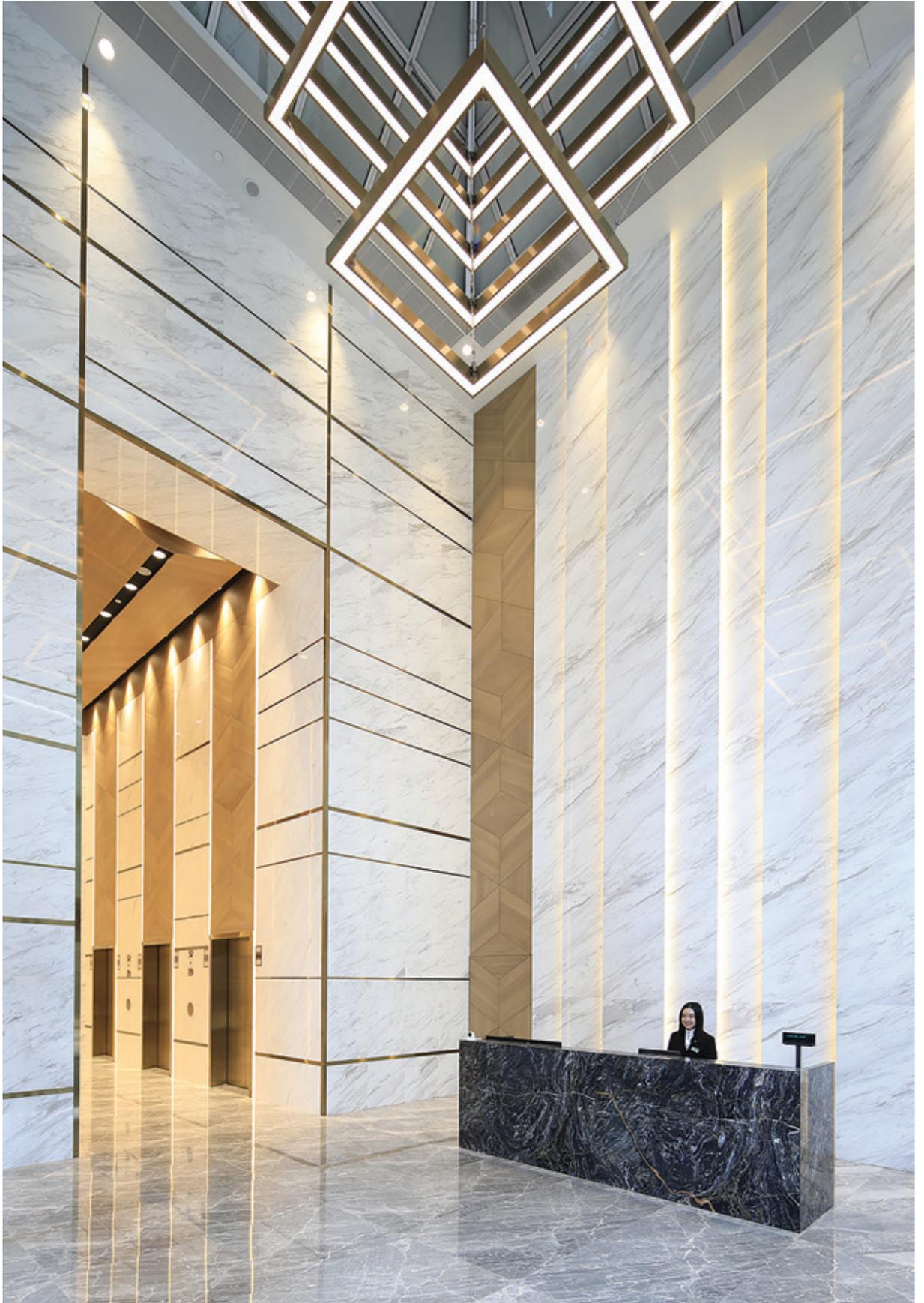
## OUTLOOK

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 2021 through our proven expertise in professional management.

### Prosperity Millennia Plaza

The G/F lobby area have been renovated in order to bring the building in line with the market standard and fully reflect the strategic location of the building.







**GRADE A OFFICE**



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

**COMMERCIAL**



4 Prosperity Place

**INDUSTRIAL / OFFICE**



5 Trendy Centre    6 Prosperity Center Property (portion)

**INDUSTRIAL**



7 New Treasure Centre Property (portion)

# TOWERING PERFORMANCE





# 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)	: 3,080
NUMBER OF TENANCIES	: 103

## TOP 5 TENANTS<sup>1</sup>

Tenants	Trade	GRA* (sq.ft.)	% of GRA*	% of GRI**
Hutchison Whampoa (China) Limited	Others	18,161	6.9%	6.5%
NEC Hong Kong Limited	Electronic/Technology	18,161	6.9%	6.3%
Sumitomo Mitsui Banking Corporation	Finance/Investment	18,161	6.9%	6.2%
Hong Kong Taiyo Yuden Company Limited	Electronic/Technology	7,768	3.0%	3.0%
Omicron Electronics Asia Limited	Electronic/Technology	6,961	2.7%	2.9%

\* Gross rentable area

\*\* Gross rental income

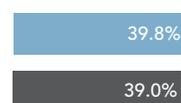
## LEASE EXPIRY PROFILE

(as at 31 December 2020)

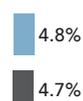
As at 31 December 2020 and 2021



2022



2023 and Beyond

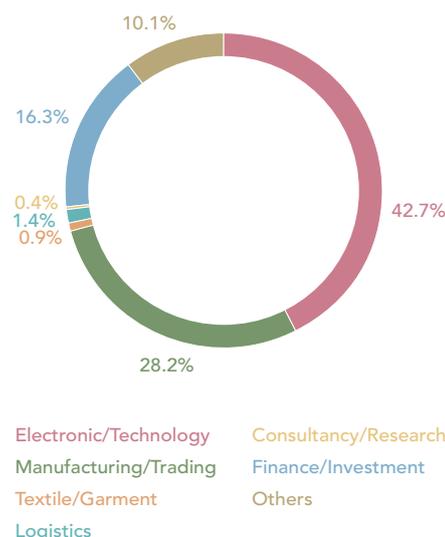


By Gross Rental Income

By Gross Rentable Area

## TRADE MIX BY GROSS RENTABLE AREA

(as at 31 December 2020)



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 would also gain competitive advantage upon the full opening of Shatin-Central-Link expected in 2022, which seamlessly connects Hung Hom to the CBDs of Hong Kong — Admiralty and Central.

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 2020, the occupancy rate of the property was 96.6%.

<sup>1</sup> Top 5 tenants are measured based on tenant's contribution to the rental income of the property in December 2020



## 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)	: 2,139
NUMBER OF TENANCIES	: 83

## TOP 5 TENANTS

Tenants	Trade	GRA (sq.ft.)	% of GRA	% of GRI
Lamex Trading Company Limited	Manufacturing/Trading	16,132	7.8%	7.7%
Excel Technology International (HK) Limited	Electronic/Technology	11,058	5.4%	5.2%
JDB Holdings Limited	Consultancy/Research	8,867	4.3%	4.9%
Uni-Asia Holdings Limited & Others	Logistics	8,314	4.0%	4.4%
The Hong Kong & China Gas Company Limited	Others	8,314	4.0%	4.4%

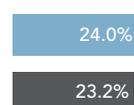
## LEASE EXPIRY PROFILE

(as at 31 December 2020)

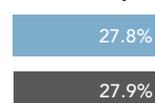
As at 31 December 2020 and 2021



2022



2023 and Beyond

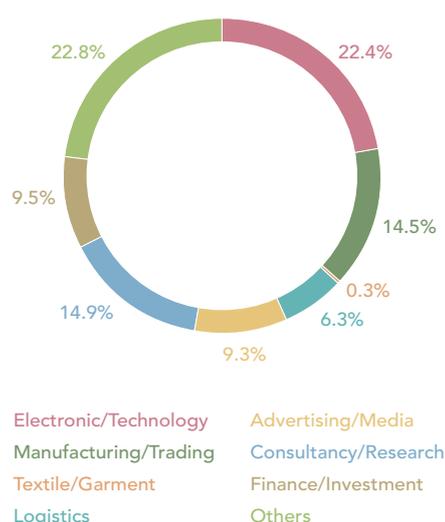


By Gross Rental Income

By Gross Rentable Area

## TRADE MIX BY GROSS RENTABLE AREA

(as at 31 December 2020)



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

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

As at 31 December 2020, the occupancy rate of the property was 94.7%.



## 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)	: 1,032
NUMBER OF TENANCIES	: 45

## TOP 5 TENANTS

Tenants	Trade	GRA (sq.ft.)	% of GRA	% of GRI
Fundpark Limited	Electronic/Technology	8,026	5.9%	5.8%
Tenant <sup>note</sup>	Others	6,580	4.9%	5.1%
Plan International Hong Kong Limited	Others	6,580	4.9%	5.1%
Televoice Technology Asia Limited	Electronic/Technology	6,580	4.9%	5.0%
Wing Shing Caisson and Foundation Limited	Electronic/Technology	6,580	4.9%	5.0%

Note: Tenant requested for anonymity

## LEASE EXPIRY PROFILE

(as at 31 December 2020)

As at 31 December 2020 and 2021



2022



2023 and Beyond

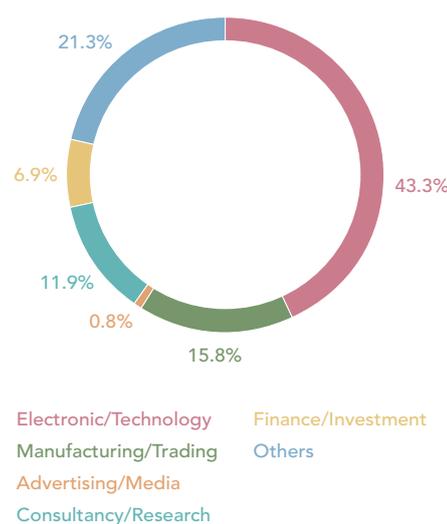


By Gross Rental Income

By Gross Rentable Area

## TRADE MIX BY GROSS RENTABLE AREA

(as at 31 December 2020)



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, Kwun Tong Town Centre Renewal Projects and transportation infrastructure including the Shatin-Central-Link connecting Shatin to Central via the Kai Tak Development being established in phases, 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 2020, the occupancy rate of the property was 98.9%.



## 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)	: 1,684
NUMBER OF TENANCIES	: 129

## TOP 5 TENANTS

Tenants	Trade	GRA (sq.ft.)	% of GRA	% of GRI
Evlite Electronics Company Limited	Electronic/Technology	11,819	4.5%	4.9%
Dickson Yoga Company Limited	Retail/Services	10,000	3.8%	4.1%
I Dance Enterprise Limited	Retail/Services	10,000	3.8%	3.8%
Bai Communications Limited	Electronic/Technology	8,157	3.1%	3.7%
Gain Long Group Limited	Retail/Services	5,402	2.1%	3.0%

## LEASE EXPIRY PROFILE

(as at 31 December 2020)

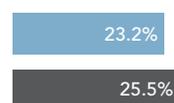
As at 31 December 2020 and 2021



2022



2023 and Beyond

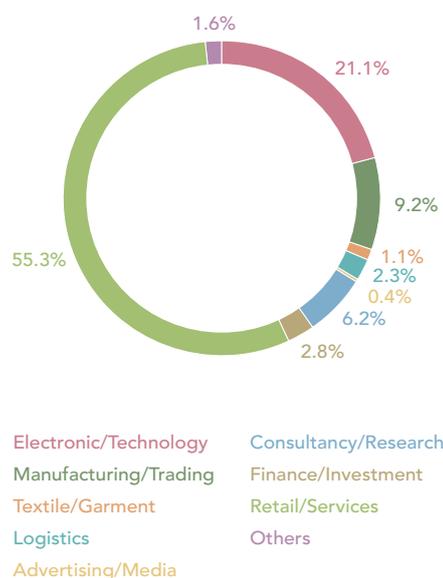


By Gross Rental Income

By Gross Rentable Area

## TRADE MIX BY GROSS RENTABLE AREA

(as at 31 December 2020)



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 network. 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 2020, the occupancy rate of the property was 98.4%.



# 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)	: 1,036
NUMBER OF TENANCIES	: 150

## TOP 5 TENANTS

Tenants	Trade	GRA (sq.ft.)	% of GRA	% of GRI
Tenant <sup>note</sup>	Others	8,761	5.3%	4.9%
Lush Asia Limited	Manufacturing/Trading	1,718	1.0%	4.3%
Madrid Group Limited & Others	Others	708	0.4%	2.7%
Amidas Hong Kong Limited	Electronic/Technology	3,268	2.0%	1.9%
Lisat Limited	Textile/Garment	3,118	1.9%	1.8%

Note: Tenant requested for anonymity

## LEASE EXPIRY PROFILE

(as at 31 December 2020)

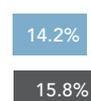
As at 31 December 2020 and 2021



2022



2023 and Beyond

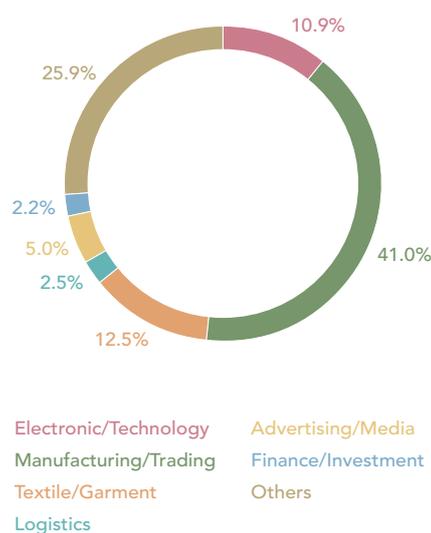


By Gross Rental Income

By Gross Rentable Area

## TRADE MIX BY GROSS RENTABLE AREA

(as at 31 December 2020)



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 2020, the occupancy rate of the property was 94.4%.



## 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)	: 848
NUMBER OF TENANCIES	: 68

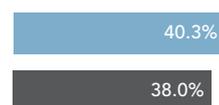
## TOP 5 TENANTS

Tenants	Trade	GRA (sq.ft.)	% of GRA	% of GRI
Senko Advanced Components (Hong Kong) Limited	Electronic/Technology	11,733	8.7%	9.1%
OpSec Delta (HK) Limited	Manufacturing/Trading	10,528	7.8%	7.7%
Edvance Technology (Hong Kong) Limited	Electronic/Technology	10,528	7.8%	6.7%
Barco Limited	Electronic/Technology	4,597	3.4%	3.8%
Taiseimusen (H.K.) Company Limited	Manufacturing/Trading	3,714	2.8%	2.9%

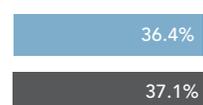
## LEASE EXPIRY PROFILE

(as at 31 December 2020)

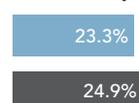
As at 31 December 2020 and 2021



2022



2023 and Beyond

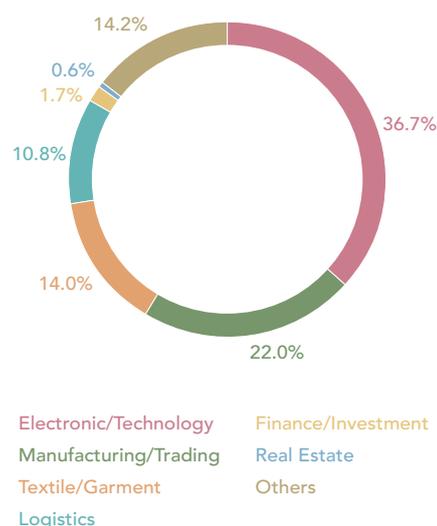


By Gross Rental Income

By Gross Rentable Area

## TRADE MIX BY GROSS RENTABLE AREA

(as at 31 December 2020)



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 2020, the occupancy rate of the property was 90.2%.



## 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)	: 328
NUMBER OF TENANCIES	: 52

## TOP 5 TENANTS

Tenants	Trade	GRA (sq.ft.)	% of GRA	% of GRI
Goodwell Property Management Limited*	Others	12,404	14.4%	13.2%
Reich Pharm Limited	Others	6,522	7.6%	7.3%
Macrotech Security & Management Services Limited & Others	Others	2,496	2.9%	3.1%
Menkin Industrial (China) Limited	Manufacturing/Trading	2,496	2.9%	3.0%
Property Care Management Services Limited	Consultancy/Research	2,496	2.9%	2.9%

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

## LEASE EXPIRY PROFILE

(as at 31 December 2020)

As at 31 December 2020 and 2021



2022



2023 and Beyond

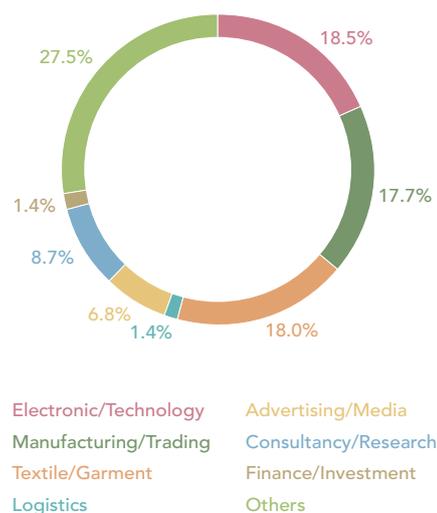


By Gross Rental Income

By Gross Rentable Area

## TRADE MIX BY GROSS RENTABLE AREA

(as at 31 December 2020)



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 2020, the occupancy rate of the property was 100%.

An aerial photograph of a fishing pond, likely in Southeast Asia, showing numerous circular fish traps (fish pens) arranged in a grid-like pattern across the water. A small boat with a person is visible in the lower center of the frame. The entire image has a monochromatic pinkish-red tint.

# 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 2020	Year ended 31 December 2019	Percentage change Increase/(Decrease)
Income available for distribution	HK\$272.9 million	HK\$274.7 million	(0.7%)
Distribution per unit	HK\$0.1791	HK\$0.1828	(2.0%)
	Year ended 31 December 2020	Year ended 31 December 2019	Percentage change Increase/(Decrease)
Operation data			
Revenue	HK\$452.9 million	HK\$462.3 million	(2.0%)
Net property income	HK\$358.0 million	HK\$365.9 million	(2.2%)
Occupancy rate (as at 31 December)	96.1%	97.3%	(1.2%) <sup>2</sup>
Cost-to-revenue ratio	20.9%	20.9%	0%
	As at 31 December 2020	As at 31 December 2019	Percentage change Increase/(Decrease)
Key financial figures			
Net asset value per unit	HK\$4.95	HK\$5.75	(13.9%)
Property valuation	HK\$10,147 million	HK\$11,126 million	(8.8%)
Gearing ratio <sup>1</sup>	22.3%	20.3%	2.0% <sup>2</sup>

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

<sup>2</sup> Absolute change.

## OPERATIONS REVIEW

As at 31 December 2020, 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 2020, 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 2020, was as follows:

	Location	Gross rentable area sq.ft.	No. of car park spaces	Valuation HK\$ million	Occupancy rate
<b>Grade A Office</b>					
The Metropolis Tower	Hung Hom	271,418	98	3,080	96.6%
Prosperity Millennia Plaza	North Point	217,955	43	2,139	94.7%
9 Chong Yip Street	Kwun Tong	136,595	68	1,032	98.9%
<b>Commercial</b>					
Prosperity Place	Kwun Tong	240,000	83	1,684	98.4%
<b>Industrial/Office</b>					
Trendy Centre	Lai Chi Kok	173,764	79	1,036	94.4%
Prosperity Center (portion)	Kwun Tong	149,253	105	848	90.2%
<b>Industrial</b>					
New Treasure Centre (portion)	San Po Kong	86,168	22	328	100.0%
<b>Total</b>		<b>1,275,153</b>	<b>498</b>	<b>10,147</b>	<b>96.1%</b>

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain a stable occupancy rate of 96.1% as at 31 December 2020, 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.

## FINANCIAL REVIEW

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

	Turnover HK\$'000	Rental related income HK\$'000	Revenue HK\$'000	Net property income HK\$'000
<b>Grade A Office</b>				
The Metropolis Tower	114,178	23,974	138,152	115,082
Prosperity Millennia Plaza	78,986	15,174	94,160	76,355
9 Chong Yip Street	34,929	4,619	39,548	30,785
<b>Commercial</b>				
Prosperity Place	68,115	4,652	72,767	56,224
<b>Industrial/Office</b>				
Trendy Centre	45,086	7,521	52,607	39,403
Prosperity Center (portion)	35,110	3,529	38,639	28,113
<b>Industrial</b>				
New Treasure Centre (portion)	14,814	2,207	17,021	12,076
<b>Total</b>	<b>391,218</b>	<b>61,676</b>	<b>452,894</b>	<b>358,038</b>

## Revenue

During the Reporting Year, revenue decreased to HK\$452.9 million, being HK\$9.4 million or 2.0% lower than that of 2019. The decrease was mainly due to the adverse market conditions and impacts from COVID-19 since the second quarter.

## Net Property Income

For the Reporting Year, the net property income was HK\$358.0 million, being HK\$7.9 million or 2.2% lower than that of 2019 mainly as a result of the decrease in revenue. 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\$272.9 million, representing a total DPU of HK\$0.1791. The distributable income for the Reporting Year is calculated by the REIT Manager as representing the consolidated profit or loss 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.

## 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 2020. 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 2020 to 31 December 2020 is HK\$136.4 million, equivalent to a DPU of HK\$0.0892. The interim DPU from 1 January 2020 to 30 June 2020 was HK\$0.0899. The total DPU for the Reporting Year is HK\$0.1791, which represents a distribution yield of 7.4%<sup>3</sup>. The DPU decreased by 2.0% YoY.

The distribution for the half year from 1 July 2020 to 31 December 2020 will be paid on 7 April 2021 (Wednesday).

<sup>3</sup> Based on Prosperity REIT's closing unit price of HK\$2.42 as at 31 December 2020.

## Liquidity and Financing

As at 31 December 2020, 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 2020.

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 to mitigate the impact of interest rate fluctuations. As at 31 December 2020, the interest costs for approximately 70% (31 December 2019: 70%) 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 22.3% as at 31 December 2020 (31 December 2019: 20.3%), whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 28.2% as at 31 December 2020 (31 December 2019: 25.2%).

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

## Investment Properties and Property Valuation

For the Reporting Year, Prosperity REIT's portfolio recorded an investment property revaluation loss of HK\$982.9 million, based on a professional valuation performed by an independent qualified external valuer, Jones Lang LaSalle Limited (2019: Colliers International (Hong Kong) Limited). The movements of fair values are tabulated below:

	31 December 2020 HK\$'000	31 December 2019 HK\$'000
Fair value at the beginning of the year	11,126,000	10,990,000
Additional expenditure	3,856	7,888
Change in fair value of investment properties	(982,856)	128,112
Fair value at the end of the year	10,147,000	11,126,000

## Charges on Assets

As at 31 December 2020, 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 23 March 2021 (Tuesday) to 24 March 2021 (Wednesday), both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 22 March 2021 (Monday). The payment date of the final distribution will be on 7 April 2021 (Wednesday).

## 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\$5,254,000. The commission paid to the top five real estate agents, summarized as follows, was HK\$3,125,000 and accounted for 59.5% of the total commission paid:

Real Estate Agents	Nature of Services	Commission Paid HK\$'000	Percentage of Total Commission Paid
Centaline Property Agency Limited	Leasing	909	17.3%
Jones Lang LaSalle Limited	Leasing	684	13.0%
Midland Realty	Leasing	677	12.9%
SAVVI Limited	Leasing	537	10.2%
Knight Frank Hong Kong Limited	Leasing	318	6.1%
		3,125	59.5%

### Top Five Contractors

The total value of service contracts of contractors engaged by Prosperity REIT during the Reporting Year was HK\$66,903,000. The value of contracts of the top five contractors, summarized as follows, was HK\$59,007,000 and accounted for 88.2% 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	39,939	59.7%
Goodwell-Prosperity Property Services Limited	Building management	10,977	16.4%
Citybase Property Management Limited	Building management	3,960	5.9%
E-Park Parking Management Limited	Carpark operation	3,012	4.5%
Winner Air Conditioning Limited	Repairs and maintenance	1,119	1.7%
		59,007	88.2%

An aerial photograph of a winding river flowing through a dense forest. The river is light-colored, contrasting with the dark green of the surrounding trees. The text 'SUSTAINABLE PHILOSOPHY' is overlaid in white, bold, sans-serif font in the upper half of the image.

# SUSTAINABLE PHILOSOPHY



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE ("ESG")

### OUR SUSTAINABILITY APPROACH

As a corporate citizen, Prosperity REIT firmly believes that integrating sustainability as part of our corporate culture and creating long-term values for our stakeholders and community is the cornerstone of long-term success. COVID-19 has caused unprecedented social and economic impacts globally. In order to alleviate the unprecedented challenges brought about by recent disruptive events including the pandemic, Prosperity REIT has taken expeditious actions to build and strengthen the long-term trust with its stakeholders.

Among the achievements made in the 2020 reporting year, we have not only demonstrated our commitment to advancing the Group's sustainability agenda through establishing the new Sustainability Steering Committee with dedicated taskforces, but also followed the direction of the United Nations Sustainable Development Goals (UNSDGs) in order to align our strategy with global best practices. The UNSDGs that are most relevant to our business were selected, and the underlying targets were examined to enable us to formulate our "Vision 2030". These targets are specific and quantifiable that we have committed to achieving by 2030.

In order to stay ahead of the ever-changing environment, we will continue to improve our internal policies and procedures regarding sustainability principles and ESG factors. Going forward, we will continue to optimize our environmental and wellness initiatives and expand our sustainability efforts.

## Reporting Scope

This section presents the ESG management and performance of Prosperity REIT in areas of sustainable development identified as material to the business. All seven assets under direct ownership and management of Prosperity REIT are in the scope of the section, reported according to the Environmental, Social and Governance Reporting Guide outlined in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong (**Listing Rules**). These assets include The Metropolis Tower, Prosperity Millennia Plaza, 9 Chong Yip Street, Prosperity Place, Trendy Centre, Prosperity Center Property and New Treasure Centre Property.

Unless otherwise stated, the report covered our ESG approach and performance from 1 January 2020 to 31 December 2020.

For information regarding our corporate governance, please refer to the Corporate Governance section on page 95.

## Key Highlights

### Corporate Governance

- Maintained zero legal cases related to corruption

### Sustainability Governance

- Incorporated environmental and social considerations into our Risk Profiles

### Policies and Guidelines

- Enhanced relevant ESG policies and guidelines at REIT Manager level

### Stakeholder Engagement

- Engaged 70+ stakeholders for feedback

### Building Certification

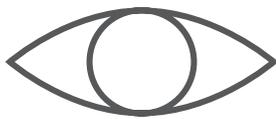
- BEAM Plus Existing Buildings Version 2.0 Selective Scheme (Excellent Grade in Energy Use) — Prosperity Millennia Plaza
- Indoor Air Quality Certificate (Good Class) by Environmental Protection Department — 5 wholly owned properties

### International Sustainability Benchmarks

- Global Real Estate Sustainability Benchmark — 2-star Rating
- Hang Seng Corporate Sustainability Benchmark Index — Constituent of the index

## Vision and Mission

Prosperity REIT was established based on ARA Asset Management Limited (ARA)'s core values of Respect, Excellence, Integrity and Teamwork, which lay the foundation of our sustainability vision and mission and guide our business objectives and strategies.



### Vision Statement

Commit to be a responsible corporate citizen by building a sustainable environment and enhancing the well-being of our stakeholders through our core values.

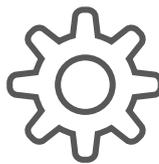


### Mission Statement

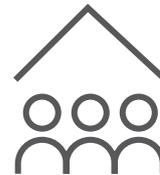
Prosperity REIT will spare no effort to embed environmental and social friendly measures in our day-to-day operations through:



Reducing our impact on the environment and society



Ensuring our business operates and grows responsibly and sustainably



Bringing value to the community

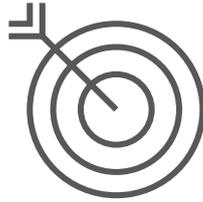
## Core Values

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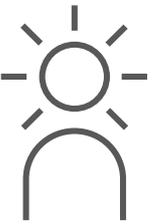
### Respect

- We treat our colleagues, business partners and the environment with **respect** and consideration at all times. We trust and value the contribution of each person and respect our environment.



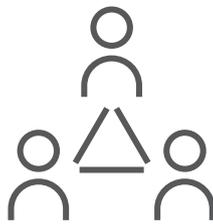
### Excellence

- We strive for **excellence** not just in financial performance but in every aspect. In particular, we deliver a portfolio of good quality buildings and adopt a holistic approach to manage our operations and value chain. We do not cut corners and we always take our stakeholders' interests into consideration.
- 



### Integrity

- We regard **integrity** as a commitment to honor the trust placed on us. It calls for us to be truthful at all times. We will abide by a strong code of ethics and uphold the highest standards of professional conduct.



### Teamwork

- We will constantly support one another and build an environment that values **teamwork** and synergy. We inspire our people to perform to their maximum potential. We also provide a supportive, inclusive and respectful workplace by promoting diversity and equal opportunities.

### Sustainability Strategy

We adopt a holistic approach to formulate our sustainability strategy and integrate it into the decision-making process of our business. To allow better ESG management, we have identified 4 key pillars — Nature, People, Building/Services and Community that are core to Prosperity REIT. With the enhanced structure of the framework, we are committed to fostering a strong sustainability culture in all business units.

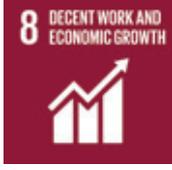


## Sustainability Vision 2030

Prosperity REIT's "Vision 2030" strives to align its sustainability roadmap with the United Nations Sustainable Development Goals (UNSDGs). We will closely monitor the implementation and progress of the targets in the following four areas, and report to our Sustainability Steering Committee on a regular basis.

UNSDG	Pillars	ESG Topics	Targets/KPIs (by 2030)	Action Plan
   	Nature	Green buildings	<ul style="list-style-type: none"> <li>Expand green building certification at the asset level</li> </ul>	<ul style="list-style-type: none"> <li>At least 80% of property portfolio's total GFA recognized with external green building certifications</li> </ul>
		GHG emissions	<ul style="list-style-type: none"> <li>Reduce 14% and 20% GHG emissions in our properties* by 2025 and 2030 respectively, using our 2017 performance data as the baseline</li> </ul>	<ul style="list-style-type: none"> <li>Upgrade Building Management System</li> <li>Continue to install or replace more energy-efficient building services equipment, e.g. chillers, lighting system</li> <li>Commit to explore the installation of solar panels</li> </ul>
		Energy efficiency	<ul style="list-style-type: none"> <li>Reduce 14% and 20% energy consumption in our properties* by 2025 and 2030 respectively, using our 2017 performance data as the baseline</li> </ul>	
		Water management	<ul style="list-style-type: none"> <li>Reduce 2% and 5% water consumption in our properties* by 2025 and 2030 respectively, using our 2017 performance data as the baseline</li> </ul>	<ul style="list-style-type: none"> <li>Continue to install or replace more water-saving device/equipment, e.g. automatic faucet</li> <li>Extend rainwater collection system</li> </ul>
		Waste management	<ul style="list-style-type: none"> <li>Identify effective waste reduction, separation and recycling opportunities by 2030</li> <li>Increase recycling rate</li> </ul>	<ul style="list-style-type: none"> <li>Quantify the type and amount of waste being generated, by weight or volume</li> <li>Participate in waste reduction program</li> <li>Set up recycling points and waste tracking system at all assets</li> </ul>

\* The scope of target covers the environmental impacts generated from Prosperity REIT's property management operations only and does not include tenant performance.

UNSDG	Pillars	ESG Topics	Targets/KPIs (by 2030)	Action Plan
   	People	Occupational health and safety	<ul style="list-style-type: none"> <li>Maintain zero work-related fatality and injury rated</li> <li>Enhance the health and safety practices in the operations</li> </ul>	<ul style="list-style-type: none"> <li>Review the occupational health and safety performance of our Property Manager to ensure their operations comply with labour policies and other applicable local laws and legislations</li> <li>Provide occupational health and safety trainings tailor to property manager</li> </ul>
		Employee wellbeing	<ul style="list-style-type: none"> <li>Encourage better employee health</li> <li>Promote work diversity and inclusiveness</li> </ul>	<ul style="list-style-type: none"> <li>Organize workshops and activities to strengthen the mental and physical health of our employee</li> <li>Organize diversity and inclusion activities to promote equal opportunities, for example, workshops to confront stereotypes, seminars on inclusive leadership, etc.</li> </ul>
		Employee engagement	<ul style="list-style-type: none"> <li>Provide more communication channels for our employees to encourage them to express their opinions and thoughts</li> </ul>	<ul style="list-style-type: none"> <li>Conduct employee satisfaction survey annually</li> </ul>
		Employee development/Staff training and education	<ul style="list-style-type: none"> <li>By 2025, increase employee training hours by 20%, using our 2020 performance data as the baseline</li> <li>Disclose qualitative performance on ESG related trainings</li> <li>Provide ESG-related trainings to the Board and all employees</li> </ul>	<ul style="list-style-type: none"> <li>Enrich the employee training curriculum by covering more ESG topics, for example, trainings on occupational health and safety, data security, impact investing, etc.</li> <li>Organize training to employees on the rights and procedures to be taken under policies such as Code of Ethics, Code of Business Conduct</li> </ul>

UNSDG	Pillars	ESG Topics	Targets/KPIs (by 2030)	Action Plan
  	Building/ Services	Supply chain management	<ul style="list-style-type: none"> <li>• Conduct supply chain risk assessment</li> <li>• Continue to strive for "zero" corruption case</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to require supplier to sign and follow Safety regulations as included in the tendering and quotation documents</li> <li>• Incorporate consideration of sustainable consumption and procurement in the business operation</li> <li>• Continued to educate Property Manager's employees to handle infringements</li> </ul>
		Tenant satisfaction	<ul style="list-style-type: none"> <li>• Enhance tenant satisfaction on a continuous basis</li> </ul>	<ul style="list-style-type: none"> <li>• Collect feedbacks from tenants via tenant surveys to explore the feasibility of their suggestions to enhance the content of tenant engagement activities</li> </ul>
		Tenant wellness	<ul style="list-style-type: none"> <li>• Raise awareness of tenant's health and safety</li> <li>• Maintain IAQ certificates for all wholly owned properties</li> </ul>	<ul style="list-style-type: none"> <li>• Provide training to frontline staff to raise the hygiene and first-aid awareness and protect the health of our tenants</li> <li>• On-going measures to maintain indoor air quality</li> </ul>
 	Community	Community Investment	<ul style="list-style-type: none"> <li>• By 2025, increase volunteer hours by 20%, using our 2020 performance data as the baseline</li> <li>• Extend partnership with different community sectors</li> <li>• Promote healthy lifestyle within the community</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluate and enrich the Hand-in-Hand CSR program content (business immersion program, urban farming program) and extend community works coverage in the society</li> <li>• Organize more activities to promote healthy lifestyle within the community, such as healthy diet and regular exercise</li> </ul>

## STAKEHOLDER ENGAGEMENT AND MATERIALITY

### Communication with Stakeholders

Prosperity REIT believes that stakeholders' opinions are catalysts to the continuous improvement of our business. As such, we have been engaging our stakeholders, including unitholders, tenants, vendors, service providers, suppliers, employees and the local community. Through a wide range of engagement activities, we maintain close relationships with our stakeholders to understand and respond to their needs and concerns. Their invaluable opinions and feedback are taken into consideration when developing our long-term sustainability strategy.

To connect with our stakeholders and better understand their concerns, the REIT Manager engages with key stakeholder groups on a regular basis to gather their valuable opinions.

### Communication with Unitholders

Continuous support from unitholders is integral to the success of an investment trust. We proactively communicate with our unitholders regularly and effectively on our financial and ESG performance to ensure transparent and fair corporate governance and to build trusty relationships.

Adjustments have been made to the communication channels to continue engaging with our unitholders amidst the COVID-19 pandemic. Meetings with investors were organized in small groups while analyst briefings were moved online in the form of video conference calls. At the annual general meeting, precautionary measures were thoroughly in place to safeguard the health and safety of the participating unitholders.

## UNITHOLDERS

- General meetings and seminars
- Results briefings
- Corporate website
- Investor conferences/meetings
- Property tours (suspended during COVID-19 pandemic)

## COMMUNITY

- Community work
- Sponsorship and learning program

## TENANTS

- Mingling events (e.g. sport fun day, seasonal promotion events)

## EMPLOYEES

- 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)

## VENDORS, SERVICE PROVIDERS, SUPPLIERS

- Meetings
- Site visits
- Presentations/seminars



Analysts briefing



Annual general meeting (AGM)

## Materiality Assessment

With the aim to shape our long-term sustainability strategy, materiality analysis was conducted to better understand the ESG issues that are critical to Prosperity REIT. We performed a four-step process in assessing the materiality of the issues, from identification of issues and prioritization, to validation and review. Based on the list of material issues held prior, modifications were made after thorough consideration through in-depth discussions with stakeholder representatives and benchmarking against industry peers' material issues. A final assessment was conducted to validate and refine the list of issues that would arrive at the Board for approval. The material issues are reviewed on a regular basis to ensure their relevance to both the business and our stakeholders.

In the Reporting Year, we engaged 70+ stakeholders for feedback. The following issues were identified and prioritized according to their relevance and significance to Prosperity REIT and its stakeholders:



### Environmental

- 1 Energy efficiency
- 2 Greenhouse gas (GHG) emissions reduction
- 3 Waste management
- 4 Water management
- 5 Climate change
- 6 Green building design and infrastructure



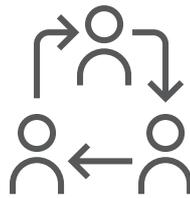
### Social — Employment and Labour

- 7 Equal opportunities, anti-discrimination and inclusivity at workplace
- 8 Employment relations and labour standards
- 9 Training and development
- 10 Occupational health and safety



### Social — Community

- 11 Community investment and engagement



### Governance — Operating Practices

- 12 Business ethics
- 13 Data privacy protection or tenants
- 14 Supply chain management
- 15 Tenant satisfaction
- 16 Tenant health and safety

Prosperity REIT's ESG Materiality Matrix 2020



## OUR ESG GOVERNANCE AND MANAGEMENT

### Sustainability Working Group

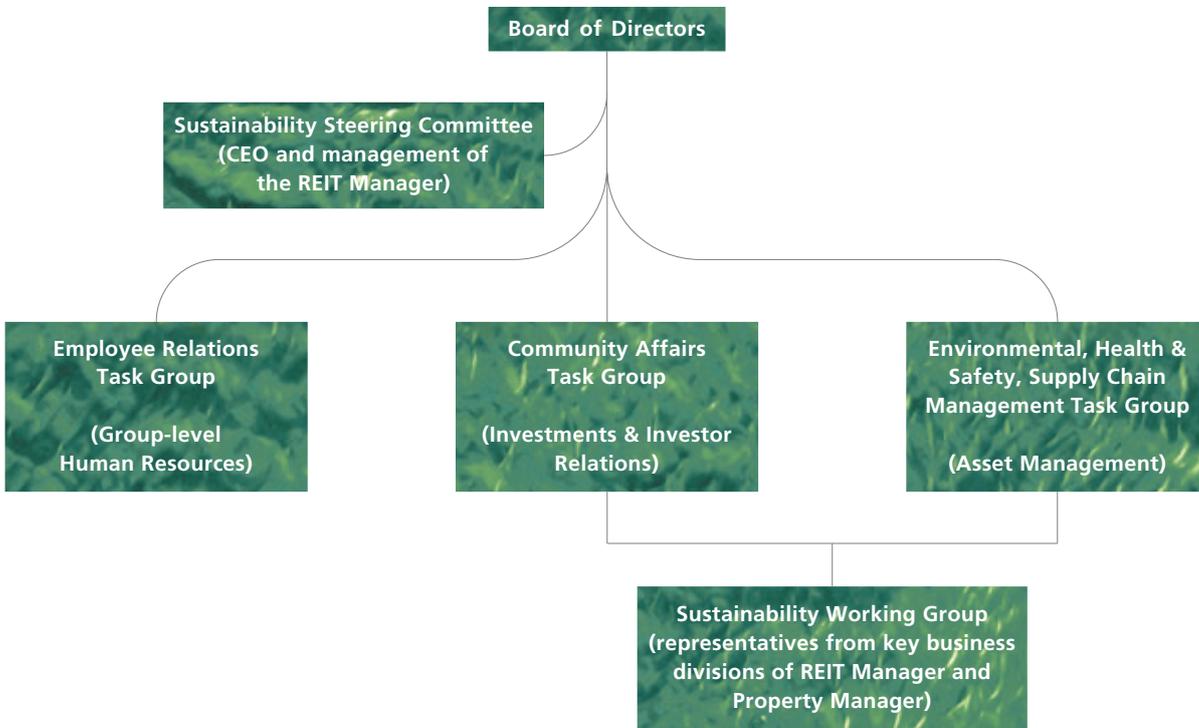
Pursuant to the property management agreement dated 29 November 2005 between the REIT Manager and Goodwell-Prosperity Property Services Limited (the "Property Manager"), as amended, supplemented and/or otherwise modified or extended from time to time, the REIT Manager has appointed the Property Manager 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. Representatives from key business divisions of REIT Manager and Property Manager form the Sustainability Working Group.



- |   |                         |                                           |
|---|-------------------------|-------------------------------------------|
| 1 | CHUNG Meng Him, Vicho   | Manager, Investments & Investor Relations |
| 2 | CHIN Wai Yan, Ally      | Manager, Internal Audit                   |
| 3 | CHEUNG Kin Wah, Samuel  | Finance Director                          |
| 4 | LAW Un Ying, Anita      | Chief Property Manager                    |
| 5 | WONG Lai Hung, Mavis    | Chief Executive Officer                   |
| 6 | WONG Sze Yu, Kitty      | Property Manager                          |
| 7 | YEUNG Yau Sing, Dickson | Senior Technical Manager                  |
| 8 | AU Ka Yee, Irene        | Director, Legal & Compliance              |
| 9 | NG Chi Wah, Kevin       | Assistant Director, Asset Management      |

### Sustainability Framework and Structure



At Prosperity REIT, we believe that corporate responsibility is as equally important as maximizing financial returns for our shareholders. Therefore, we have established a three-layer ESG governance structure to ensure effective ESG governance and management of Prosperity REIT.

At the top of our ESG governance structure, the Board of Directors is responsible for providing strategic guidance on the REIT’s overall ESG approach and overseeing the ESG’s risk identification process on an annual basis. Also, the Board approves the REIT’s ESG targets and monitor its achievement over time. In 2020, 22 targets under environmental, social and governance aspects are endorsed by the Board. To keep board members abreast of the latest market development in ESG issues, during the year we invited our professional consultant to provide board training on the latest ESG governance and regulations.

To better incorporate ESG considerations into our business decisions, Prosperity REIT has also established a Sustainability Steering Committee. From a governance perspective, the Committee defines the REIT's long-term targets and annual priorities on ESG achievement, which are reported to the Board of Directors regularly. The Committee is comprised of senior executives from different departments and has three dedicated taskforces focusing on employee relations, community affairs and environmental, health and safety and supply chain management respectively.

To ensure our ESG visions are embedded into our business operations, the key business division of the REIT Manager and our Property Manager joined hands to formulate a Sustainability Working Group. The Working Group is responsible for executing the ESG initiatives and oversees the REIT's ESG performance from its daily operations. They are required to report their performance on a quarterly basis to the Committee and collate relevant data and information for ESG information disclosure.

In line with the Group-level policies from ARA Asset Management Limited (ARA) in managing ESG matters, we set policies and requirements for Prosperity REIT's performance under different Environmental, Social and Governance aspects, which include the following:

#### Policies in a glance

Sustainability Policy	Prosperity REIT believes embracing social responsibility and putting it into practice is essential to a company's long-term success. We aim to bring advancement to the organization by fully adhering to various sustainability standards and to showcase our core values of sustainable development — Respect, Excellence, Integrity and Teamwork — to our community, environment, tenants, staff and unitholders. Premised on these core values, our focus is to ensure that our business grows responsibly and sustainably, and brings value to the community.
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#### Environment

Environmental Policy	Prosperity REIT strives to take effective and practical measures to minimize the environmental impacts of our business operations, including environmental management systems/GHG emission and management, energy consumption and management, water consumption, waste management, environmental compliance and indoor environmental quality, sustainable procurement & building materials sourcing and environmental management.
Environmental and Social Due Diligence Policy for Property Investment	As both environmental and social sustainability are becoming increasingly crucial to the long run success of businesses, Prosperity REIT takes the considerations of sustainable development into the future property investment of Prosperity REIT and the oversight of our Property Manager's operations. Prosperity REIT is committed to implementing effective due diligence process towards our prospective investment, so that we could minimize the environmental impacts and maximize the social-economic impacts of our business operations.

## Social

Stakeholder Engagement Policy	Prosperity REIT believes that communicate clearly, honestly and respectfully with our stakeholders allows us to better understand their concerns, and how we can better deliver our sustainability goals. To better respond to stakeholders' concerns, we are committed to identifying the objectives in engaging stakeholders and engaging in timely and meaningful dialogue with them.
Labour Policy	Prosperity REIT upholds its responsibility of ensuring respect for individuals in daily operations and embraces diversity in the workplace and the communities in which we operate. The Labour Policy is set with reference to the internationally recognized principles and guidance.
Diversity and Anti-Discrimination Policy	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.
Avoid Child and Forced Labour Policy	ARA prohibits the employment of anyone below the age of 13 years in any form of Labour. It does not tolerate any forced Labour of any kind, including slave Labour, prison Labour, indentured Labour, or bonded Labour, including forced overtime hours. Besides, the Labour Policy of Prosperity REIT upholds its responsibility of ensuring respect for individuals in daily operations and embraces diversity in the workplace and the communities in which we operate.
Health, Safety and Well-being Policy	ARA values the health and safety of its employees. It strives to provide a safe working environment by adopting Building Safety Policy to regulate safety inspections and prohibit any unlawful use of drug by introducing Drug-Free Workplace Policy. Prosperity REIT has a Health, Safety and Wellbeing Policy to demonstrate its commitment to taking effective and practical measures to minimize the adverse impacts on health and safety caused by business activities.
Performance Appraisal Policy	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.
Career Development Policy	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.
Remuneration, Compensation and Benefits Policy	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, overtime pay, employee retirement benefit, leave benefit, medical consultations, dental, health benefits and insurance benefits, etc.

## 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. All employees and major service providers are required to declare any potential conflict of interests before the commencement of any corporation. Moreover, Prosperity REIT's Audit Committee conducts prudent review on an ongoing basis for all related party transactions to ensure such transactions have gained approval before being initiated.
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 of utmost importance to mitigate business risks along the way to achieve our strategic goals. We have adopted a systematic and standardized method — Enterprise Risk Management (ERM) system, which consists of three main parts, including risk governance, risk infrastructure and supervision of risk ownership, to provide clear responsibility and accountability structures for risk management.

### Our Alignment with ARA Enterprise Risk Management system

Prosperity REIT's ERM Framework is approved by the Board and is administered by the Risk Management Committee (the "RMC") of the ARA Group, which identifies, evaluates and reports the risks to the Audit Committee. The RMC comprises the Group CEO, Senior Director of Group Finance, Legal & Compliance Director and Head of Group Risk Management & Internal Audit Department as an independent advisory role. It identifies the strategic, operational, financial and compliance risks faced by the various business units and set out the appropriate mitigating actions and monitoring mechanisms to respond to these risks and changes within the Group and the external business environment.

### Regular Risk Management Reporting and Controls at Prosperity REIT

Prosperity REIT's Risk Profiles are reported to the Audit Committee and the Board of the REIT Manager every half year, to highlight the changes in risk assessment, quantitative and qualitative factors affecting the inherent risk levels and effectiveness of mitigating controls supporting the residual risks, as within the risk appetite approved by the Board. Key ESG risks on asset level are identified, including but not limited to the following topics:

Topic in Prosperity REIT's Risk Profiles	Content
Building safety	To assess the likelihood and impacts of violating Chapter 123 Building ordinance and conduct mitigation measures e.g. the safety of occupants and building hygiene.
Compliance with regulatory requirements	To assess the likelihood and impacts of violating the Hong Kong Ordinance related to property operation and management.
Energy supply	To assess the likelihood and impacts of violating Chapter 406E Electricity (wiring) Ordinance and conduct mitigation measures e.g. 5-yearly maintenance plan and regular technical audit.
Flooding	To assess the likelihood and impacts of flooding in the assets, e.g. flooding in common areas which may result in slip and fall injury accidents and property loss and conduct frequent inspection and cleaning during rainy and typhoon.
Health and well-being	To assess the likelihood and impacts of violating Chapter 132 Public Health and Municipal Services Ordinance and conduct mitigation measures such as third parties' safety and public hygiene.
Natural hazards	To assess the likelihood and impacts caused by natural hazards e.g. collapsing of trees during rainstorm or typhoon etc. and conduct mitigation measures such as visual inspection of trees etc.
Socio-economic	To assess the likelihood and impacts of vulnerability to pandemics and epidemics and conduct mitigation measures e.g. cleaning and disinfection with diluted bleach at common area and facilities etc.
Water supply	To assess the likelihood and impacts of violating Chapter 102 Waterworks Ordinance and conduct mitigation measures e.g. the enhancement of water safety and water supply etc.

### Supply Chain Management

Our ESG commitments are not limited to our own business operations, but are extended throughout our supply chain. The Prosperity REIT Operation Manual serves as an internal guide in factoring social responsibility in the procurement and supplier selection process. Regular on-site inspections are conducted to assess the performance of contracted parties against our standards. To ensure quality services are provided to our customers, the project delivery capability of suppliers is also taken into account.

Prosperity REIT strictly follows the Supplier Code of Conduct Section of the ARA Sustainability Policy. The Supplier Code of Conduct set out different environmental, social and governance standards for Prosperity REIT when conducting business with our suppliers. To maximize value creation along the supply chain, different REIT-level policies are developed to put our commitment to achieving long-term business viability and sustainability into practice.

Our Environmental Policy is implemented to affirm our integration of environmental and social consideration into the selection criteria of suppliers. Sustainable building materials, such as those from recycled content and with low carbon sources, are recommended and regular evaluation on suppliers' environmental performance are carried out. Our Sustainability Policy also supports our active communication with our suppliers, contractors and business partners to ensure their acknowledgment of sustainability-related policies. The Sustainability Steering Committee, together with the Environmental, Health & Safety (EHS) and Supply Chain Management Task Group, oversee, monitor and evaluate the relevant ESG issues along the supply chain and review the policy regularly to align Prosperity REIT's practices with the latest trend.

At the property management level, the Green Purchasing Policy is adopted to stipulate environmental requirements and standards for contractors and consultants, thereby cultivating an environmentally conscious culture in Prosperity REIT portfolio. The Policy encourages green purchasing in daily operations by outlining a list of products that meet relevant specifications. The Asset Management Team of Prosperity REIT and managerial employees of our Property Manager are responsible for ensuring the employees' understanding and compliance with the Policy and offering support when necessary. Meanwhile, more environmentally-friendly purchasing options and opportunities are continuously explored alongside feasibility and economical consideration.

### Anti-corruption

In compliance with the Prevention of Bribery Ordinance (Cap. 201), any misconduct including bribery, anti-competition, money laundering, fraud and corruption, are strictly forbidden. Integrated into the Code of Conduct, our anti-corruption policy is a practical guide for employees in dealing with situations of handling gifts and hospitality in a law-abiding manner. It is mandatory for our employees to sign a declaration of compliance every year. Utilizing the online training materials from Hong Kong ICAC, we also provide training on anti-corruption and ethics to maintain employees' awareness of business ethics.

A whistle-blowing policy is in place to encourage employees to raise concerns over suspected misconduct by avoiding potential adverse consequences to the whistleblowers. Investigation on the cases are conducted independently with appropriate follow-up actions while the identity of whistleblowers remains confidential throughout the process.

During the Reporting Year, there are no legal cases in corrupted practices.

## CARING FOR COMMUNITY

### Our Response to COVID-19

The outbreak of COVID-19 has been causing severe impacts on the market and society. Nevertheless, Prosperity REIT made efforts in keeping our tenants safe and supporting the community to fight against the pandemic. To ensure a safe working environment for our tenants, we conducted regular disinfection works and installed air purifiers at our property buildings. To put our care into action, we reached out to the local community at Prosperity Place to distribute disinfectant materials, such as sanitizers and household bleach.



Photos of disinfection work being carried out and air purifier being installed at common area



Disinfectant materials were distributed to support the community in Prosperity Place amid COVID-19.

### Giving Back to Society

Alongside company development, we strive to create positive impacts on our involvement in the community services. In 2020, Prosperity REIT has for the first time been awarded the 10 Year Plus Caring Company Logo, an award scheme organized by the Hong Kong Council of Social Service in recognition of our outstanding performance in community service.



### Involving Our Staff

We motivate our staff to contribute to the good of society and to maintain a healthy work-life balance. During the reporting year, our employees participated in numerous community activities, such as the Grant-in-aid Brightens Children’s Live Service, and “Goodwell Loving Home Sharing Joy 2020” grab bag giveaway event contributing to a total of 392 volunteering hours.

### The AVS International Volunteer Recognition Day 2020

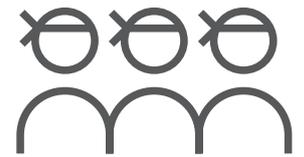
In recognition of our enthusiasm for volunteering, Prosperity REIT has been awarded the Certificate of Appreciation by the Agency for Volunteer Service (AVS). The Certificate of Appreciation continued to motivate us to devote ourselves to community services.



The Company has been awarded the Certificate of Appreciation at the International Volunteer Recognition Day 2020.

\* As the Agency for Volunteer Service (AVS) records organizations’ volunteering hours based on a designated period (from April to March each year), the total number of hours shown on the certificate is not the same as our total volunteering hours in 2020.

Total volunteering hours:



392 hours



### Staff Blood Donation Day — Group donation category

Every drop counts — We continued to motivate our staff for being a blood donor. On 30 October 2020, Prosperity REIT's team members visited the Kwun Tong Donation Center of the Hong Kong Red Cross to donate blood. We strive to help the people in need by organizing blood donation activity on a regular basis.



We encourage our staff to become regular blood donor by organizing visitation to blood donation centre.

### Building a Committed Voluntary Team

To strengthen the connection between the company and the community, Prosperity REIT's volunteer team partners with non-profit organizations to serve our community. A series of activities were organized to bring people together and build community spirit. Below are the highlights of events in 2020:

#### The Grant-in-aid Brightens Children's Live Service

Prosperity REIT has always been encouraging youth development and education. In 2020, we donated to "Grant-in-aid Brightens Children's Lives Service" organized by St. James' Settlement. Through partnership with various corporations, the project aims at improving the learning conditions of underprivileged children aged 3–15 and creating a brighter future for them. Donations were to sponsor the learning kits provided to underprivileged children with items such as ergonomic school bag, stationeries, arts and crafts tools, etc.

## Love Teeth Day

We recognize the importance of promoting public health within the community. To support the oral healthcare for the needy, we donated to the Love Teeth Day jointly organized by The Community Chest of Hong Kong, The Hong Kong Dental Association and the Oral Health Education Division of the Department of Health. The activity aims to enhance the "Oral Health Services for the Needy" programme provided by the Chest's social welfare member agencies.



### "Goodwell Loving Home Sharing Joy 2020" grab bag giveaway event

Prosperity REIT takes the initiative in promoting a caring community and good health. In December 2020, we sponsored the gift items such as soup packs, anti-epidemic items and dietary supplements, which were packed in the grab bags and were distributed to senior residents of Sceneway Garden in the giveaway event "Goodwell Loving Home Sharing Joy 2020" organized by our property management company.

## CARING FOR NATURE

### Managing Our Environmental Performance

Prosperity REIT is dedicated to maximizing unitholders' value through a livable ambience for work and leisure. Incorporating the concept of "respect for nature" into the founding pillars of our sustainability strategy, Prosperity REIT strives to promote green living at our workplace and to the wider community. To sustain our efforts in environmental management, this year we established performance targets under different environmental aspects. Following our visions, the REIT Manager has actively managed the REIT's environmental performance to decouple the environmental footprint of our existing assets.

To consolidate our management approach and commitment to environmental protection, the REIT Manager has established an environmental policy to provide overarching guidance on our business operations. Under the policy, our operations need to strictly adhere to the relevant environmental laws and regulations, including but not limited to Buildings 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. Besides, the policy sets up our targets on various environmental issues, such as greenhouse gases emission management, energy consumption, water consumption waste management, as well as indoor environmental quality controls.

The policy requires our Property Manager to retain ISO14001 certification for our EMS in all investment properties. Putting our green commitment into practice, our Property Manager has established an ISO 14001-accredited environmental management system (EMS). The system includes 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.

To ensure proper governance, the policy also states that Prosperity REIT's Sustainability Steering Committee should oversee and review the implementation process of this Policy, along with the assistance of the Environmental, Health & Safety (EHS) & Supply Chain Management taskforce. They are required to have meeting quarterly for monitoring and evaluating the environmental performance of Prosperity REIT.

### Improving Indoor Environmental Quality (IEQ)

In order to minimize toxic and harmful chemicals in indoor environment, the Green Cleaning Plan, is implemented. It is formulated according to the requirements of the Hong Kong Green Building Council, BEAM Plus for Existing Buildings (Version 2.0) and other environmental guidelines. Standards for cleaning equipment and product are explained while standard operating procedures are also provided for different types of cleaning activities. Our Property Manager is responsible for maintaining and reviewing the Plan.

All renovation, decoration and fitting out works would cause various levels of problems in terms of indoor air quality, noise, waste and wastewater. The Renovation Management Plan is adopted in each property under the Prosperity REIT Portfolio in order to reduce disturbance to workers, tenants and adjacent neighbors. In each aspect, mitigation and control measures are illustrated in detail. In order to ensure the quality of management planning and implementation, checklists are required before, during and after the completion of renovation work.

To protect the health of staff, visitors and the public from pest hazards, Integrated Pest Management Plan is in place for all properties under the Prosperity REIT portfolio. Implementing the plan ensures Prosperity REIT's compliance with Agriculture, Fisheries and Conservation Department's relevant policies and regulations. The Plan provides details of preparation work, treatment procedures and information of chemicals used on pest control. Our Property Manager is responsible for executing the Plan and coordinating communication between service providers and staff.

### Reducing Energy Consumption and Greenhouse Gas Emissions

To respond to global calls for climate action, limiting greenhouse gas emissions from business operations has become a paramount priority of every responsible corporate. Since energy use in buildings accounts for most of the greenhouse gas emissions in Hong Kong, Prosperity REIT is committed to reducing its energy consumption through different initiatives.

Over the past four years, Prosperity REIT continues to improve the energy efficiency of our property operations through different asset enhancement initiatives. During 2016–2018, we expanded the scope of LED lighting replacement in 9 Chong Yip Street, The Metropolis Tower and Prosperity Place. Besides, we replaced one chiller in Prosperity Place in 2018 and replaced a variable refrigerant volume (VRV) split type air conditioner system in 9 Chong Yip Street in 2019. We also renovated the G/F main lobby area in Prosperity Millennia Plaza to reduce overall environmental impacts. These on-going asset enhancement programs yield significant results in reducing our carbon footprint.

To keep track of our environmental achievements in numerical ways, the REIT Manager this year conducted a data trend analysis on our energy consumption and emissions performance. Since several major asset enhancement programs began in 2017, the emissions performance data in that year is set as the baseline. On that basis, two environmental targets are set — reducing 14% and 20% of GHG emissions generated from our property operations by 2025 and 2030 respectively.

Energy Reduction Targets in Our Property Operations



GHG Emissions Reduction Targets in Our Property Operations



To achieve these targets, more efforts are still needed to upgrade our building facilities and equipment. Looking forward, the REIT Manager has developed an action plan which seeks to further unlock our energy-saving potentials through various measures.

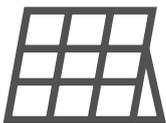
Prosperity REIT’s Asset Enhancement Action plan  
(Starting from 2020 and beyond)

Coverage



1. Installing check meter for electricity reading to enable efficient energy monitoring and management practices

- All properties



2. Installing solar panels at selected properties to step up our efforts on renewable energy adoption

- 9 Chong Yip Street
- Prosperity Place



3. Replacing a chiller and its pump sets to enhance our cooling efficiency

- Prosperity Millennia Plaza



4. Replacing remaining T8/T5 light fitting with energy-efficient LED lighting

- All properties

Apart from upgrading our properties hardware, the REIT Manager also adopted different environmental measures to achieve optimal energy efficiency and energy-saving results during our operations. For instance, the Property Manager will make use of smart building management systems and motion detectors to enable the power-down of non-essential lights, elevators and other facilities in our assets. By shutting down unused facilities during nighttime, we avoid energy wastage during non-operation hours.

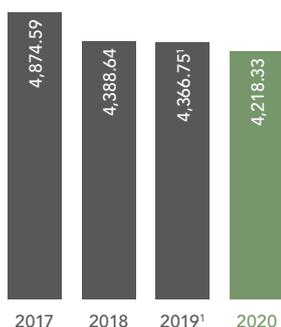
### ELECTRICITY CONSUMPTION (kWh)



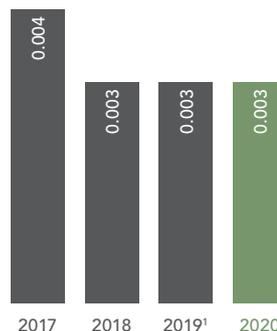
### ENERGY CONSUMPTION INTENSITY (kWh/sq.ft.)



### GHG EMISSIONS (tCO<sub>2</sub>e)



### GHG EMISSIONS INTENSITY (tCO<sub>2</sub>e/sq.ft.)



Remarks:

1. Energy consumption and GHG emissions data in 2019 are restated to reflect the full year consumption amount in that year.

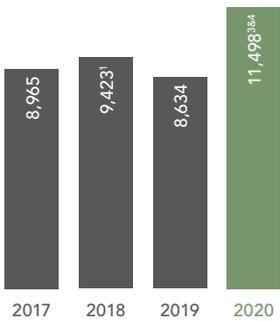
### Conserving Water Resources

Since water is the precious resource on planet earth, we have been meticulously finding ways to limit the water consumption of our property portfolio. To live up to our visions, our Prosperity REIT promises to reduce 2% and 5% water consumption in our properties by 2025 and 2030 respectively, using our consumption data in 2017 as our baseline.

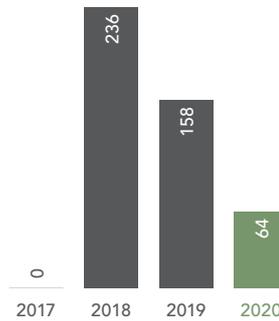
Over the years, we installed different water-efficient devices, such as automatic water tap, to minimize our water consumption in office toilets. We also installed two rainwater storage systems at the Metropolis Tower and Prosperity Place to promote the reuse of storm water for irrigation of plants and floor cleaning. In addition, we have adopted the use of a smart irrigation system in the green wall at Prosperity Place’s lobby area. We will keep evaluating the possibility of installing more water-saving devices/equipment like automatic faucets and expand the scope of our rainwater collection system.

Besides, our Property Manager conducts regular checks and examinations of our water supply systems regularly to prevent water leakage. To further achieve our goals, we have also installed a water leakage detection system at the washrooms of Prosperity Place for ensuring no water leakage during our operations.

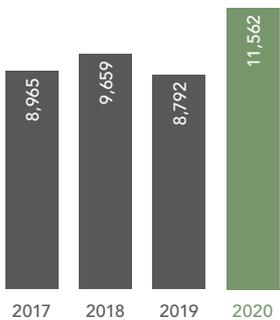
### WATER CONSUMPTION FROM MUNICIPAL WATER SUPPLY (m<sup>3</sup>)



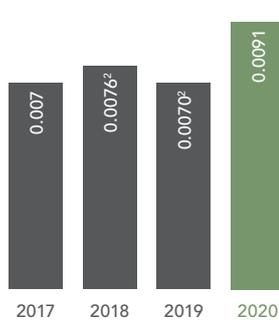
### ON-SITE RAINWATER CAPTURE AND REUSE (m<sup>3</sup>)



### TOTAL WATER CONSUMPTION (m<sup>3</sup>)



### WATER CONSUMPTION INTENSITY (m<sup>3</sup>/sq. ft.)



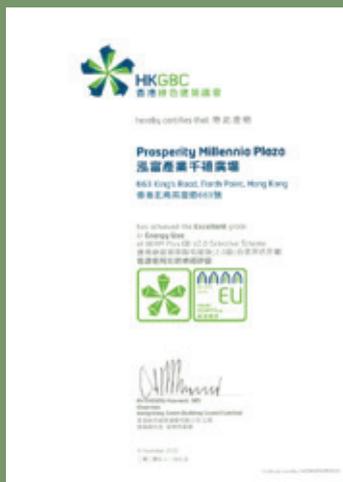
Remarks:

1. Water consumption from municipal water supply in 2018 has been restated to reflect the actual water consumption in that year.
2. Water consumption intensities during 2018 and 2019 have been restated since we have included the water consumption from on-site rainwater reuse into the reporting scope.
3. Routine work for meter reading of Water Supplies Department had been suspended during most of the months in 2020. Most of the water bills received in 2020 covering the period from 2019 to 2020.
4. It is believed that the increase of water consumption in 2020 is a result of tenants becoming more conscious about personal hygiene and washing their hands for extended duration under the COVID-19 situation.

## Greening Our Properties

Green building is the major trend of the property development and management industry. Prosperity REIT sets out its green building vision. By 2030, the REIT aims to get at least 80% of its property portfolio's total GFA recognized with green building or other external certifications.

In 2020, we completed an Energy Use assessment module of BEAM Plus Existing Buildings V2.0 Selective Scheme at Prosperity Millennia Plaza and received an "Excellent Grade" result. In the future, we will put efforts into achieving more accreditations and ensuring that environmentally-friendly features are added to our property design.



Certification of BEAM Plus Existing Buildings V2.0 Selective Scheme (Energy Use Module) accredited by Hong Kong Green Building Council.

Besides gaining external accreditation, we have also been focusing on improving the greenery on our premises, like the vertical green walls in the lobbies and roof gardens. The provision of urban greenery in our assets provide our tenants and visitors with eco-healthy features, an add-on to the workplace environment.

When considering future property acquisition or investment plans, Prosperity REIT strictly follows the assessment requirements in ARA Group-level Environmental, Social and Governance Due Diligence checklist. The checklist evaluates our prospective project buildings based on a wide range of ESG risks and performance criteria, including but not limited to climate-related risks, environmental management system, green building certificate, renewable energy generation, water and energy efficiency, health and safety management as well as the potential of community engagement.

## Limiting Waste Generation

With our commitment to reducing waste generation, a 3-R strategy (Reduce, Reuse and Recycle) is in place in our daily business operations. Every year at our properties, we recycle and reuse Christmas trees to prevent unnecessary purchases. In 2020, we successfully recycled 61 kilograms of glass bottles by engaging our tenants in recycling activities. Besides, we also participated in computer and peach blossom recycling programs organized by the Environmental Protection Department (EPD). Looking forward, we aim to identify more effective waste reduction and recycling opportunities and increase our recycling rate.

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

	2018	2019	2020
Non-hazardous waste			
Paper consumed (kilograms)	938	997.6	897.8
Toner cartridge waste used (pieces)	5	10	2
Paper recycled <sup>1</sup> (kilograms)	5,819	4,983	7,185
Toner cartridge waste recycled (pieces)	5	10	2
Glass bottles recycled <sup>1</sup> (kilograms)	N/A	N/A	61
Hazardous waste			
Fluorescent light tube replaced (pieces)	738	798	754
Fluorescent light tube recycled (pieces) <sup>1</sup>	295	392	320
Computer waste recycled (pieces) <sup>1</sup>	22	0	25

Remarks:

1. including tenant consumption/recycling figures

## Involving Tenants and External Parties

To maximize the impact of our environmental advocacy, we believe Prosperity REIT should take initiatives to engage external stakeholders in taking collective action. For years, Prosperity REIT has been actively partnering with a charitable organization ELCHK to organize activities for our tenants and neighbors. Through our events, we hope not only to encourage more people to cherish the beauty of nature but also foster good social cohesion in different community sectors.

### Urban farming program

We partnered with Sceneway Garden Estate Committee and ELCHK and organized a series of rooftop farming workshops for our staff and tenants. We invited senior farmers from Kwu Tung to help set up our rooftop farms at Prosperity Place and share the secrets behind good cultivation.

Besides teaching us their planting techniques, the elders led several urban farming workshops for our tenants and residents of Sceneway Garden Estate. They introduced different plant species and shared how they could make full use of different crops, such as making herbal tea, using them as cooking spices, and making skincare products.

By inviting seniors to become our community tutors, the program provided them with the chance to sustain their passion for farming, improve their self-esteem, keep in touch with society and increase knowledge for developing their new skill sets.



Participants turning crops into skincare products during workshop.



Participants learning how to use crops to make delicious cuisines.

To further promote the concept of urban greenery, we distributed plant samples to residents of Sceneway Garden Estate and let them grow plants at home. At a later stage, participants transplanted their plants to the Skyfarm at Prosperity Place.



Plants being packed individually at our booth before being distributing to the residents.



Photos taken during our Urban Farming event

### Farm Visit in the New Territories

A "Farm Visit" activity was hosted in the rural area in Kam Tin, New Territories. During the events, senior farmers from Kwu Tung introduced the organic farming process and their hand-made wooden musical instruments. They also prepared refreshments and herbal tea brewed from their crops and shared with us.

We invited families from the Sceneway Garden Estate to participate in this farm visit event. Not only had it brought their busy metro lives back to nature, but it also provided a chance for different family members to spend joyful time together on the weekend.



Photos taken during our Farm Visit event

Besides inviting our tenants to environmental awareness events, we instill the values of energy conservation and sustainable lifestyle through our daily business contacts. For instance, we share green, energy-saving and eco-friendly living tips with our tenants through our newsletters channel. To foster better partnership, we also listen to different tenants' and external parties' opinions on how Prosperity REIT can continuously enhance the green features of our property portfolios.

## CARING FOR TENANTS

### Our Response to COVID-19

To minimize the risk of COVID-19 spreading in the workplace, we work together with our tenants on social distancing and avoid unnecessary social activities. We used to host our tenant engagement event annually to provide a platform for our staff to interact proactively with our tenants and build strong business relationships. In the view of the COVID-19 pandemic, we cancelled the tenant engagement programmes this year. Besides, we installed touchless sensors at the lift lobbies of our properties, provided hand rub and conducted temperature checks for visitors to help reduce risk and exposure to COVID-19.

### Protecting Data and Privacy

Property management operations always involve the collection of visitors/tenants 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 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 process 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 2020, we received three substantiated complaints over the customer service experience encountered by our tenants. Following our standard complaint handling procedures, we investigated the cases in a thorough and efficient manner and provided follow-up responses within three working days to ensure the complaints were satisfactorily resolved. To improve our performance and prevent the recurrence of similar incidents in the future, we provided relevant staff of our Property Manager with additional customer service training.

## 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, we invited 780 tenants to assess the performance of our management service based on six dimensions including our cleaning service, the performance of our customer service center officers, the performance of securities, health and safety management, public facilities management and environmental management. The performance of our property management service was rated as satisfactory. In addition to the overall performance of our management service, we also carried out regular review and evaluation on ESG programs that promote health and well-being, including the collection of feedback from participating tenants, customers and communities, as well as monitoring the participation rate of each event. A working instruction has been developed to handle the collected feedback in a timely manner to help ensure tenants' satisfaction for our services and programmes.

## 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 whole block properties in our portfolio, were accredited the "Good" Class under the Indoor Air Quality Certificate Scheme. Meanwhile, we encourage our tenants to exercise regularly by making our gym facilities on the rooftop at The Metropolis Tower which available to them.



Gym facilities at the rooftop at The Metropolis Tower



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 assets so as to teach both tenants and staff how to handle emergency situations.

## CARING FOR STAFF

### Safeguarding Employee's Rights

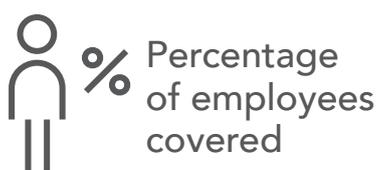
Employees are the backbone of the business, we endeavor to develop a supportive workplace to attract, retain and develop talents. To protect their rights, we strictly comply with the applicable employment laws and ordinances in Hong Kong, including the Employment Ordinance, Employees' Compensation Ordinance and Anti-discrimination Ordinances. Labour Policy is in place to ensure individuals are respected in our daily operations and to embrace diversity in the workplace and the communities in which we operate. The Labour Policy is set with reference to the internationally recognized principles and guidance. Besides, our Employee Handbook has been compiled to clarify and explain the rights and responsibilities of our employees. The Employee Handbook covers details such as compensation, recruitment, promotion, working hours, rest periods, equal opportunity and anti-discrimination. 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 Labour and forced Labour. During the year, no non-compliance cases were reported in the operation.

To ensure a fair and open recruitment process, we adopted a set of measure to oversee the employment practices. We aim to develop a work environment for employees that fosters fairness, equity, and respect for social and cultural diversity, and that is free from discrimination. We strive to 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 high ethical standards of business conduct. Employees are expected to follow the Code of Conduct and avoid any unethical behavior at the workplace. We provided our staff with trainings on human rights, workshops on diversity and inclusion were held to raise the awareness of our staff in constructing an inclusive workplace. Each year, our KPIs and goals include ESG performances. The progress is reviewed on a regular basis to ensure the alignment of goals.

To welcome new joiners to the company and help them to adapt to new environment, "Buddy Program" was organized to let new joiners learn about the company's operation and culture. With the introduction of the company's history, business, values and missions, new joiners could understand their new roles and the company's expectations.

To create a positive work environment, Prosperity REIT conducts the Employee Engagement and Satisfaction Survey on an annual basis to understand the expectation of our employees, and to take appropriate actions to response to their need. The survey was conducted anonymously and with focuses on the employee wellbeing in areas such as staff satisfaction with the employer, pays and benefits, corporate culture and communications, work environment, relationship with supervisor, training and development, as well as their overall employment experience. In 2020, the employee engagement and satisfaction survey has covered all of our employees with 100% response rate and had a Net Promote Score (NPS) of 83.

## RESULTS OF THE EMPLOYEE ENGAGEMENT AND SATISFACTION SURVEY



100%



Survey response rate

100%



Net Promote Score (NPS)

83

## TOTAL WORKFORCE BY CATEGORY



### Gender



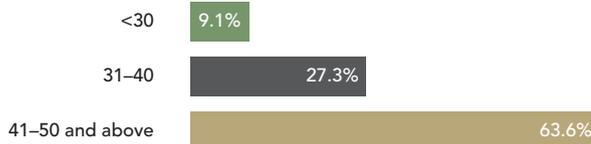
### Employment type



### Employment category



### Age group



### Total workforce by geographical region



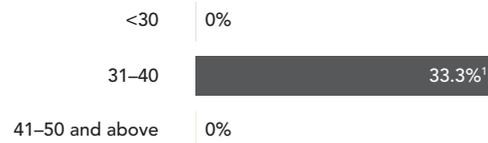
## EMPLOYEE TURNOVER BY CATEGORY



### Gender



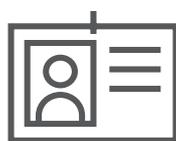
### Age group



### Turnover rate



### New Hire



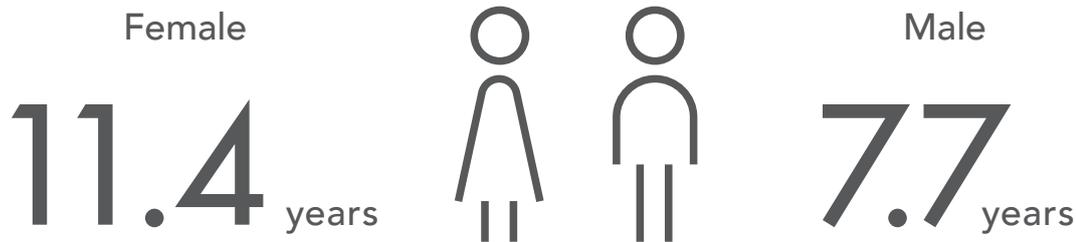
Total number of newly hired employees:

1

Remarks:

1. In 2020, the REIT Manager recorded one male employee leaving the company. In the above data table, the number is expressed as the percentage of employees in a specified category (i.e. total number of male employees and employees aged 31-40)

## AVERAGE YEARS EMPLOYED



### Staff Cohesion and Wellbeing

Team spirit is critical to business success and development. To strengthen the team bonding and to encourage a better work-life balance for employees, we regularly organize activities such as townhall, annual spring dinners, team-building activities and leisure interest workshops for all employees.

Recognizing the importance of employee wellbeing, we provide various non-salary benefits to satisfy different needs of all our employees and their family members. Besides statutory leaves like annual, paternity, and maternity leaves, our employees are entitled to marriage and compassionate leaves. For employees serving for more than one year, they would be granted prolong illness leave if they are certified by a registered practitioner as being unfit for work due to their medical conditions. We offer health check program for eligible staff and voluntary medical plan for all staff and their immediate family members. To encourage our employees in becoming more health-conscious, we also provide financial subsidies to employees for signing up with annual commercial fitness center membership.

Despite the outbreak of COVID-19, series of online lunch talks with topics focus on healthy eating, physical activity and mental health were organized.

### Results of the Employee Benefit Survey

Employee coverage of health-related wellbeing surveys:

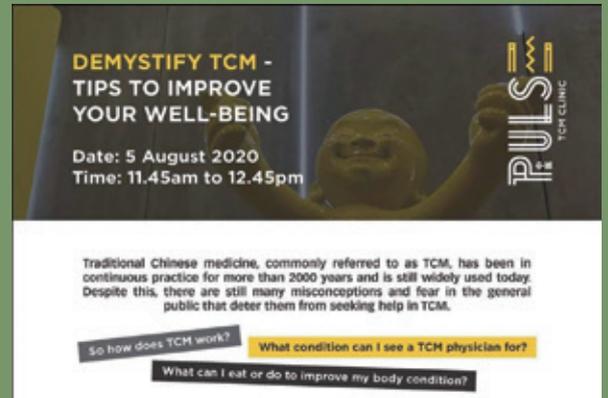


100%



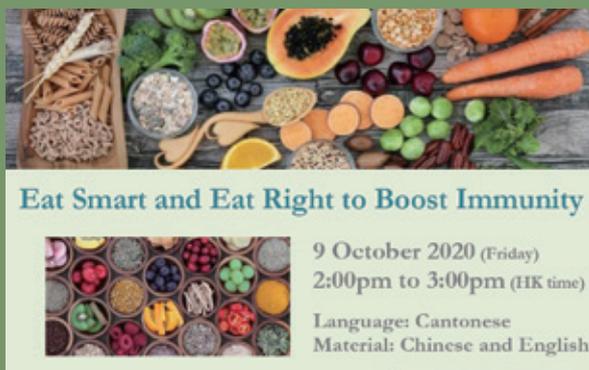
**Lunch Talk: Mental well-being — Rising above stress**

The coronavirus has presented new challenges and uncertainties to our daily life. The disruption caused by the pandemic may lead to anxiety and stress. We organized an online workshop for staff to learn about the practical tools for managing stress. We invited a registered psychologist to share the tips on striking a balance between work and life while working from home during the pandemic.



**Demystify TCM — Tips to improve your wellbeing**

We organized an online talk to introduce the concepts of Traditional Chinese Medicine (TCM) to our staff. We invited physicians to clarify the misconception and myths in the general public about TCM. Health tips were also provided during the talk to promote TCM development and to improve general health from TCM perspective.



**Online Talk: Eat Smart and Eat Right to Boost Immunity**

We realize the importance of staying healthy amid COVID-19. As such, we partnered with MSL Nutritional Diet Centre in organizing an online talk to introduce the selections and functions of healthy food so as to boost the immunity of our employees by developing healthy eating habits during the pandemic.



**TCM — Insomnia and Eye Fatigue**

Life of urbanite is busy and stressed, the hustle and bustle may lead to insomnia or sleep disorders. After introducing the basic concepts of TCM, we organized an online talk on improving sleep quality and reducing eye fatigue via TCM treatments such as acupoint massages and food therapy.

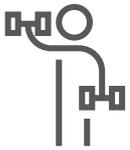
## Maintaining Workplace Safety and Health

Total training hours on health and safety issues:



1,360  
hours

Percentage % of Property Manager's staff participated in health and safety training:



100%

Prosperity REIT recognizes the importance of safeguarding the health and safety of all stakeholders. We are committed to taking effective and practical measures to minimize the adverse impacts on health and safety caused by business activities. We abide by the Occupational Safety and Health Ordinance and other relevant legislations in all our business operations. The company formulated the Health, Safety and Wellbeing Policy, which reflects our commitment and expectations towards a safe and healthy workplace. The Sweat Free Code of Conduct is also in place to prevent the over exploitation of workers whereas the Drug-Free Workplace Policy has been adopted to avoid any unlawful manufacture, distribution, dispensation, possession, or use of controlled substances in the workplace. The Health & Safety Policy and the safety and health management system of our properties are accredited to ISO 45001. Safety audits are carried out in our properties to evaluate and certify the effectiveness and reliability of the safety and health management system.

In 2020, we appointed an independent safety consultant to conduct safety inspections and advise on the current safety and health management system on a regular basis. Potential hazards such as damaged electrical wires, insufficient MSDS, inadequate storage facilities for chemicals 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.

Our property manager has a Health and Safety Management Committee, which is led 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 upholding a safety culture in the workplace and striving towards zero-fatality working environment. The committee oversees and promotes occupational safety and health, as well as evaluates the properties' incident prevention strategy regularly.

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## Lost days due to work injury in 2020 Day



To mitigate the hazards identified during the safety inspection, we organize trainings regularly, covering topics such as safety principles and emergency procedures, fire hazards and the safe use of chemical and electrical appliances. During the year, we organized an online training on hand injuries from desk bound work for employees to understand the types of hand injuries, as well as the self-help exercise to manage and prevent hand pain. For on-site working environment, our property managers participated in job-specific trainings such as tool box talks (e.g. working at height, fire safety, occupational health, etc.) and metal scaffolds installation and uninstallation. Besides, newsletters are issued quarterly to communicate the latest safety and health practices and industry practices to our employees.

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## Number of people involved in fatality cases in 2020 Person



In 2020, all our whole block properties, namely The Metropolis Tower, Prosperity Millennia Plaza, Prosperity Place, 9 Chong Yip Street, and Trendy Centre, were awarded the "Good Class" certificate under the Indoor Air Quality Certification. We also care about the safety and health practices of our supply chain. Our Property Manager requires contractors to sign and follow the Contractor Safety Regulations as included in the tendering and quotation documents.

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Percentage of employees who received ESG-specific during the reporting year:



81.8%

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Total training hours:



315.6  
hours

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Average training hours:



28.7  
hours

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Percentage of employees trained:



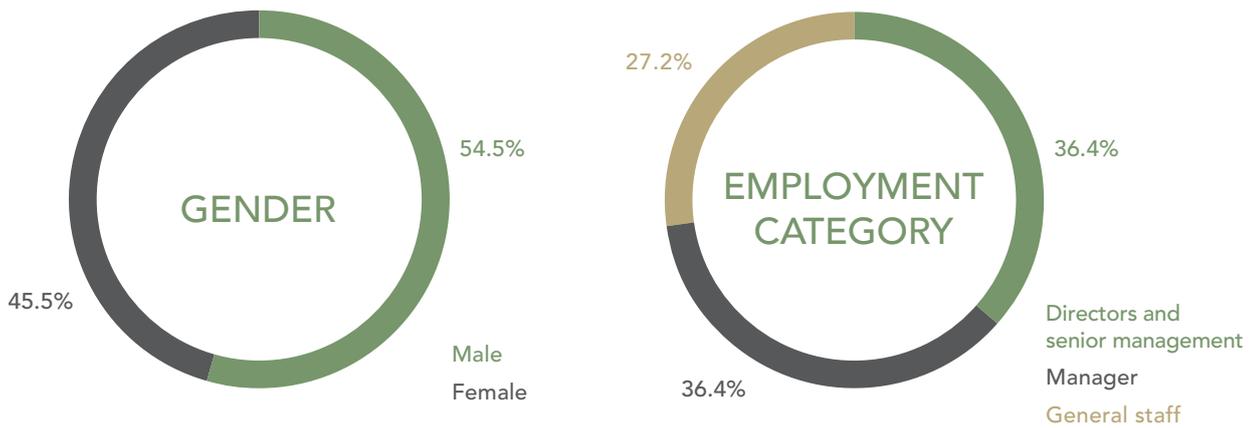
100%

### Enriching Career and Personal Experience

Prosperity REIT strives to develop a productive workplace while upholding staff's career development. We conduct performance appraisals annually, with our standardized appraisal system and performance assessment criteria. Supervisors will have regular face-to-face discussions with their subordinates on their work performance, career development plan as well as their own strength and weakness. It ensures that our employees get the chance to provide feedback and analyze all favorable or unfavorable factors that could affect their performance. We have also adopted a goal-setting exercise to provide them a clear focus on their career aspiration. The provision of two-way communication channels allows employees to understand company's expectation and allows supervisors to understand the difficulties encountered by the staff. Employees with outstanding working performances are entitled to an annual increment and promotion subject to availability to enhance staff motivation and morale.

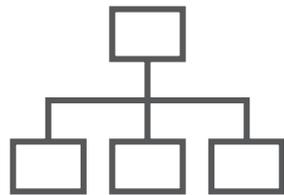
We take the initiative to assist the professional and personal growth of our staff by providing learning and development opportunities. Apart from induction programs and safety trainings, our employees are encouraged to participate in both internal and external professional trainings to enhance their competitiveness. During the year, various trainings related to digital innovation, effective persuasive communication, as well as anti-corruption and ethics were provided to improve their knowledge and skills. To ensure the company's management has the necessary industry knowledge and keep up with the market trend, our management is dedicated to participating in different executive programs and continuing professional development programs.

## PERCENTAGE OF EMPLOYEES TRAINED IN 2020 BY CATEGORY



## AVERAGE TRAINING HOURS IN 2020 BY GENDER AND EMPLOYMENT CATEGORY

### EMPLOYMENT CATEGORY



Directors and senior management

29.3 hours

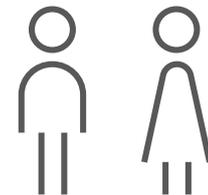
Manager

33.1 hours

General staff

22 hours

### GENDER CATEGORY



Male

27.3 hours

Female

30.3 hours

## APPENDIX — HKEX ESG GUIDE CONTENT INDEX

Indicators	Reference	Page	Remarks
<i>A. Environmental</i>			
<b>Aspect A1: Emissions</b>			
General disclosure	Caring for Nature — Managing Our Environmental Performance	60	
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 Nature — Reducing Energy Consumption and Greenhouse Gas Emissions	61–63 Amount of GHG emissions from standby generators is negligible
KPI A1.3	Total hazardous waste produced	Caring for Nature — Limiting Waste Generation	66
KPI A1.4	Total non-hazardous waste produced	Caring for Nature — Limiting Waste Generation	66
KPI A1.5	Measures to mitigate emissions and results achieved	Caring for Nature — Reducing Energy Consumption and Greenhouse Gas Emissions ; Greening Our Properties	61–63, 65
KPI A1.6	How hazardous and non- hazardous waste is handled, the reduction initiatives and results achieved	Caring for Environment — Limiting Waste Generation	66
<b>Aspect A2: Use of resources</b>			
General disclosure	Caring for Nature -Improving Indoor Environmental Quality (IEQ); Reducing Energy Consumption and Greenhouse Gas Emissions; Conserving Water Resources	61–64	
KPI A2.1	Direct and indirect energy consumption by type	Caring for Nature — Reducing Energy Consumption and Greenhouse Gas Emissions	61–63 Amount of direct energy consumption from standby generators is negligible
KPI A2.2	Water consumption in total	Caring for Nature — Conserving Water Resources	64
KPI A2.3	Energy use efficiency initiatives and results achieved	Caring for Nature — Reducing Energy Consumption and Greenhouse Gas Emissions	61–63
KPI A2.4	Water efficiency initiatives and results achieved	Caring for Nature — Conserving Water Resources	64
KPI A2.5	Total packaging material used for finished products	N/A	Packaging material is not material to our operations

Indicators	Reference	Page	Remarks
<b>Aspect A3: The environment and natural resources</b>			
General disclosure	Caring for Nature	60–68	
KPI A3.1	The significant impacts of activities on the environment and natural resources and the actions taken to manage them	Caring for Nature	60–68
<b>B. Social</b>			
<b>Aspect B1: Employment and labour practices</b>			
General disclosure	Caring for Staff — Safeguarding Employee's Rights	71	
KPI B1.1	Total workforce by gender, employment type, age group and geographical region	Caring for Staff — Safeguarding Employee's Rights	72 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	73
<b>Aspect B2: Health and safety</b>			
General disclosure	Caring for Staff — Maintaining Workplace Safety and Health; Staff Cohesion and Wellbeing	74–79	
KPI B2.1	Number and rate of work-related fatalities	Caring for Staff — Maintaining Workplace Safety and Health	77
KPI B2.2	Days lost due to work injury	Caring for Staff — Maintaining Workplace Safety and Health	77
KPI B2.3	Occupational health and safety measures	Caring for Staff — Maintaining Workplace Safety and Health; Caring for Nature — Improving Indoor Environmental Quality (IEQ)	61, 76–77
<b>Aspect B3: Development and training</b>			
General disclosure	Caring for Staff — Enriching Career and Personal Experience	78	
KPI B3.1	The percentage of employees trained by gender and employee category	Caring for Staff — Enriching Career and Personal Experience	79
KPI B3.2	The average training hours completed per employee by gender and employee category	Caring for Staff — Enriching Career and Personal Experience	79

Indicators		Reference	Page	Remarks
<b>Aspect B4: Labour standards</b>				
General disclosure		Caring for Staff — Safeguarding Employee's Rights	71	
KPI B4.1	Measures to review employment practices to avoid child and forced labour	Caring for Staff — Safeguarding Employee's Rights	71	
KPI B4.2	Steps taken to eliminate such practices when discovered	Caring for Staff — Safeguarding Employee's Rights	71	
<b>Aspect B5: Supply chain management</b>				
General disclosure		Our ESG Governance and Management — Supply Chain Management	54–55	
KPI B5.1	Number of suppliers by geographical region	Our ESG Governance and Management — Supply Chain Management	54–55	We only engage one property management company as our supplier.
KPI B5.2	Practices relating to engaging suppliers and number of suppliers	Our ESG Governance and Management — Supply Chain Management	54–55	
<b>Aspect B6: Product responsibility</b>				
General disclosure		Caring for Tenant	69–70	
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
KPI B6.2	Number of products and service-related complaints received and how they are dealt with	Caring for Tenant — Tenant Satisfaction	70	
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	69	
KPI B6.5	Consumer data protection and privacy policies	Caring for Tenant — Protecting Data and Privacy	69	

Indicators	Reference	Page	Remarks
<b>Aspect B7: Anti-corruption</b>			
General disclosure	Our ESG Governance and Management — Anti-corruption	55	
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	Our ESG Governance and Management — Anti-corruption	55
KPI B7.2	Preventive measures and whistle-blowing procedures	Our ESG Governance and Management — Anti-corruption	55
<b>Aspect B8: Community investment</b>			
General disclosure	Our ESG Governance and Management — Giving Back to the Society; Involving Our Staff	56–59	
KPI B8.1	Focus areas of contribution	Our ESG Governance and Management — Giving Back to the Society; Involving Our Staff	56–59
KPI B8.2	Resources contributed to the focus area	Our ESG Governance and Management — Giving Back to the Society; Involving Our Staff	56–59

# OUR AWARDS



## A. ENVIRONMENTAL AWARD(S)

- 1 **BEAM Plus EB V2.0 Selective Scheme (Energy Use) — Excellent**
  - Prosperity Millennia Plaza*by Hong Kong Green Building Council Limited*
- 2 **BOCHK Corporate Environmental Leadership Awards — Eco-Partner, 3 years+ Eco Pioneer**
  - The Metropolis Tower
  - Prosperity Place*by Bank of China (Hong Kong)*
- 3 **Charter on External Lighting — Platinum Award**
  - The Metropolis Tower
  - Prosperity Place*by Environment Bureau*
- 4 **Clean Air Charter**
  - 9 Chong Yip Street
  - Prosperity Place*by Hong Kong General Chamber of Commerce*
- 5 **Indoor Air Quality Certificate — Certificate (Good Class)**
  - The Metropolis Tower
  - Prosperity Millennia Plaza
  - 9 Chong Yip Street
  - Prosperity Place
  - Trendy Centre*by Environmental Protection Department*



- 6 **Natural Christmas Trees Recycling Program — Certificate**
  - 9 Chong Yip Street
  - The Metropolis Tower

by Environmental Protection Department
- 7 **Peach Blossom Trees Recycling Program — Certificate**
  - 9 Chong Yip Street
  - The Metropolis Tower
  - Prosperity Millennia Plaza
  - Trendy Centre

by Environmental Protection Department
- 8 **Tree Conservation Scheme — Certificate**
  - The Metropolis Tower
  - Prosperity Millennia Plaza
  - Trendy Centre
  - New Treasure Centre Property

by Hong Kong Environmental Protection Association

## B. SOCIAL AWARD(S)

- 9 **Caring Company — Certificate of Caring Company 10 year + Logo**
  - ARA Asset Management (Prosperity) Limited

by The Hong Kong Council of Social Services
- 10 **Hong Kong Smoke-Free Leading Company Awards — Certificate (Merit)**
  - The Metropolis Tower
  - 9 Chong Yip Street
  - Prosperity Place

by Hong Kong Smoke-Free Leading Company Awards



- 11 **International Volunteer Day Recognition 2020 — Certificate**  
 · ARA Asset Management (Prosperity) Limited  
*by Agency for Volunteer Service*

### C. GOVERNANCE AWARD(S)

- 12 **Excellence in Facility Management Award — Merit Award**  
 · Prosperity Millennia Plaza  
*by The Hong Kong Institute of Facility Management*
- 13 **HKIRA 6th Investor Relation Awards 2020 — Certificate of Excellence**  
 · ARA Asset Management (Prosperity) Limited  
*by Hong Kong Investor Relations Association*
- 14 **Hong Kong Island Best Security Services Awards — Outstanding Security Services — Industrial/Commercial Property**  
 · Prosperity Millennia Plaza  
*by Hong Kong Island Regional Crime Prevention Office*
- 15 **Kowloon West Best Security Services Awards**  
 · The Metropolis Tower (Four-Star Managed Property)  
 · Trendy Centre (Honorable Managed Property Award)  
*by Kowloon West Regional Crime Prevention Office*



## D. GENERAL

- 16 **Global Real Estate Sustainability Benchmark (GRESB)** — 2-star Rating  
· Prosperity REIT  
by GRESB
- 17 **Hang Seng Corporate Sustainability Benchmark Index** — (A+) Rating  
· Prosperity REIT  
by Hang Seng Indexes
- 18 **Galaxy Awards 2020** — Certificate (Bronze Winner)  
· Prosperity REIT (Annual Report 2019)  
by International Academy of Communications Arts and Sciences/MerComm, Inc.
- 19 **Vision Awards** — 2019/20 Annual Report Competition  
· Prosperity REIT (Annual Report 2019)  
– Silver Award  
– Top 50 Chinese Report of 2019  
– Technical Achievement Award  
by League of American Communications Professionals LLC (LACP)
- 20 **ESG Awards 2020**  
· Prosperity REIT  
by Yazhou Zhoukan Limited

# DIRECTORS AND SENIOR MANAGEMENT BIOGRAPHICAL INFORMATION

## DIRECTORS

### Chiu Kwok Hung, Justin

Chairman  
and Non-executive  
Director



Dr. CHIU Kwok Hung, Justin, aged 70, 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 and an Executive Committee Member of CK Asset Holdings Limited (listed in Hong Kong), heading the real estate sales, marketing and property management teams.

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, 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 previously a Senior Visiting Fellow of the Department of Land Economy at University of Cambridge. He was also 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 64, is a Non-executive Director of the REIT Manager. He is Co-Founder and Deputy Chairman 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), and ARA Trust Management (Suntec) Limited as the manager of Suntec REIT (listed in Singapore),. Mr. Lim is also Chairman and Non-Executive Director of Suntec Singapore International Convention & Exhibition Services Pte. Ltd. and LOGOS Group.

Mr. Lim is Chairman of 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 was previously an Independent Director of Teckwah Industrial Corporation Limited (listed in Singapore prior to 24 November

2020), and formerly a Non-executive Director of ARA Trust Management (Cache) Limited (the manager of Cache Logistics Trust, renamed ARA LOGOS Logistics Trust in April 2020, which is listed in Singapore).

Prior to his role as Deputy Chairman of ARA, Mr. Lim was Group CEO for 18 years, since co-founding it. Mr. Lim has 40 years of experience in the real estate industry, and has received many notable corporate awards. These include the PERE Global Awards 2020 and 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.

**Ms. WONG Lai Hung, Mavis**, aged 48, 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.

Ms. Wong has over 25 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.

### Wong Lai Hung, Mavis

*Executive Director and  
Chief Executive Officer*



### Ma Lai Chee, Gerald

*Non-executive Director*



Mr. MA Lai Chee, Gerald, aged 53, 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). He was the Vice Chairman and Non-executive Director of Goldin Financial Holdings Limited (listed in Hong Kong) from 23 July 2020 to 9 October 2020.

Mr. Ma has over 31 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.

### Lan Hong Tsung, David

*Independent Non-executive Director*



Dr. LAN Hong Tsung, David, aged 80, 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 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 Chartered Governance Institute (formerly 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 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.

Mrs. SNG Sow-Mei (alias Poon Sow Mei), aged 79, 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 71, 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 CK Hutchison Holdings Limited (listed in Hong Kong), 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 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 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.

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 Joynn Holdings Limited ("Joynn") (subsequently named as Chinasing Investment Holdings Limited), a company previously listed on the Main Board of SGX-ST (delisted from 5 December 2016). He was in charge of the accounting and finance functions of the group. He also performed company secretarial duties to ensure compliance with all legal and

listing requirements and helped to ensure proper corporate governance. Mr. Cheung also helped to manage Joinn's initial public offering in Singapore and was responsible for helping with the spinning-off of one associate company on SEHK's Growth Enterprise Market.

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

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

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

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

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

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

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

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

**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.

## RESPONSIBLE OFFICERS

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

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

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

# CORPORATE GOVERNANCE

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

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

During the Reporting Year, the Compliance Manual was amended to clarify the escalation protocols of inside information.

## 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. For the purpose of enhancing board effectiveness and corporate governance, a number of factors to achieve board diversity, including but not limited to gender, age, cultural and educational background and professional experience, will be considered in designing Board composition.

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.

Five 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	5/5
<i>CEO and Executive Director</i>	
Ms. Wong Lai Hung, Mavis	5/5
<i>Non-executive Directors</i>	
Mr. Lim Hwee Chiang	5/5
Mr. Ma Lai Chee, Gerald	5/5
<i>Independent Non-executive Directors</i>	
Dr. Lan Hong Tsung, David	5/5
Mrs. Sng Sow-Mei (alias Poon Sow Mei)	5/5
Mr. Wong Kwai Lam	5/5

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 take into consideration a number of matters in assessing whether such persons are fit and proper to be a Director, with due regard to the policy of Board composition and diversity set out in the Compliance Manual.

## 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

## CORPORATE GOVERNANCE

Manager is required to provide timely reports regarding the business operations and performance of Prosperity REIT, market research analysis and the relevant latest government policies to the Board. Directors are also encouraged to participate in appropriate continuous professional development programmes or the relevant training courses organized by professional institutions or conducted by qualified professionals or legal counsels to develop and refresh their knowledge and skills. In addition, they also enriched and updated their knowledge by reading materials relevant to directors' duties and responsibilities. All Directors have provided the REIT Manager with their records of continuous professional development programmes during the Reporting Year.

During the Reporting Year, in-house briefings/reports were given to Directors on the amendments to Environmental, Social and Governance ("ESG") Reporting Guide and Related Listing Rules and the proposed amendments of the REIT Code. A directors' training has been arranged with external consultant on the impacts of the amended ESG disclosure requirement on the role of the 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 <sup>Note</sup>
<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

## RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

## AUDIT COMMITTEE

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

The Audit Committee's responsibilities also include:

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

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

The Audit Committee meets on a half yearly basis and otherwise on an as-needed basis. The Audit Committee held two meetings during the Reporting Year for considering and reviewing, among others, the 2019 final results, 2020 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.

## CORPORATE GOVERNANCE

## 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.

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 2019 final results announcement and 2020 interim results announcement, the 2019 annual report and 2020 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.

## REMUNERATION MATTERS

The remuneration of Directors and staff of the REIT Manager is paid by the REIT Manager, and not by Prosperity REIT. The REIT Manager adopts the remuneration policies and practices of its holding company, ARA Group. Since Prosperity REIT does not bear the remuneration of the REIT Manager's Board and staff, the REIT Manager does not consider it applicable to include the information about the remuneration of its Directors and its key executives in this report.

## 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 2020 Annual General Meeting ("AGM") was held on 15 May 2020 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:

## CORPORATE GOVERNANCE

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

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

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

## REPORTING AND TRANSPARENCY

Prosperity REIT prepares its accounts in accordance with the generally accepted accounting principles in Hong Kong with a financial year-end of 31 December and a financial half-year of 30 June. In accordance with the REIT Code effective at the material times, the 2019 annual report and 2020 interim report of Prosperity REIT are published and sent to unitholders within four months of the end of the financial year and within two months of the end of the 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 2020. 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 SUBSTANTIAL UNITHOLDERS

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

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

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

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

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

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

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

## CORPORATE GOVERNANCE

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

## MATTERS TO BE DECIDED BY UNITHOLDERS BY SPECIAL RESOLUTION

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

## CHANGES OF DIRECTORS' INFORMATION

Subsequent to publication of the 2020 Interim Report of Prosperity REIT, the REIT Manager received notifications regarding the following changes of Directors' information:

- (1) The appointment of Dr. Chiu Kwok Hung, Justin as a Senior Visiting Fellow of the Department of Land Economy at University of Cambridge has expired.
- (2) Mr. Lim Hwee Chiang ceased to be the Group Chief Executive Officer of ARA Asset Management Limited (the holding company of the REIT Manager), and assumed the role as Deputy Chairman with effect from 1 February 2021. He also ceased to be an Independent Director of Teckwah Industrial Corporation Limited, which was delisted from Singapore Exchange on 24 November 2020. Besides, he has been appointed as Chairman and Non-executive Director of LOGOS Group.
- (3) Mr. Ma Lai Chee, Gerald ceased to be the Vice Chairman and a Non-executive Director of Goldin Financial Holdings Limited, a company listed in Hong Kong, with effect from 9 October 2020.
- (4) Mr. Wong Kwai Lam ceased to be a member of Hospital Governing Committee of the Prince of Wales Hospital with effect from 1 April 2021.

## 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 2020.

# 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 2020 HK\$	Rental deposit received as at 31 December 2020 HK\$
E-Park Parking Management Limited	Subsidiary of a substantial holder <sup>2</sup>	Tenancy of property of Prosperity REIT <sup>3</sup>	663,456	175,464
Gama Aviation (HK) Limited (formerly known as Gama Aviation Hutchison (Hong Kong) Limited) <sup>1</sup>	Associated company of a substantial holder <sup>2</sup>	Tenancy of property of Prosperity REIT <sup>4</sup>	1,233,811 <sup>8</sup>	353,720
Goodwell Property Management Limited	Subsidiary of a substantial holder <sup>2</sup>	Tenancy of property of Prosperity REIT <sup>5</sup>	2,055,892	551,430
Hutchison Telephone Company Limited	Associate of a substantial holder <sup>2</sup>	Licence of property of Prosperity REIT <sup>6</sup>	350,910	166,900
Hutchison Whampoa (China) Limited	Associate of a substantial holder <sup>2</sup>	Tenancy of property of Prosperity REIT <sup>7</sup>	8,169,938	2,348,804
<b>Total</b>			<b>12,474,007</b>	<b>3,596,318</b>

*Notes:*

1. Associated company of a substantial holder is no longer a connected person subsequent to the amendment of the REIT Code with effect from 4 December 2020. Thus, Gama Aviation (HK) Limited (formerly known as Gama Aviation Hutchison (Hong Kong) Limited) ceased to be a connected person of Prosperity REIT with effect from 4 December 2020.
2. Substantial holder being CK Asset Holdings Limited ("CK Asset").
3. For Unit 2805, Prosperity Place.
4. For Units 1102-6, Prosperity Millennia Plaza.
5. For Whole of 2/F, Units 302-3 and 306-7, New Treasure Centre.
6. For installation of micro-transmission station equipment at Prosperity Place, radio base station equipment at Prosperity Place, 9 Chong Yip Street and Trendy Centre.
7. For Whole of 18/F, The Metropolis Tower.
8. Rental and charge out collection for the period from 1 January 2020 to 3 December 2020.

## 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 2020 HK\$
Goodwell Property Management Limited <sup>1</sup>	Subsidiary of a substantial holder <sup>3</sup>	Remuneration of DMC Manager	582,702
Goodwell Property Management Limited <sup>2</sup>	Subsidiary of a substantial holder <sup>3</sup>	Remuneration of Carpark Manager	52,510
Citybase Property Management Limited <sup>2</sup>	Subsidiary of a substantial holder <sup>3</sup>	Remuneration of Carpark Manager	39,536
<b>Total</b>			<b>674,748</b>

*Notes:*

1. It is the manager 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. Substantial 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 2020 HK\$
Goodwell-Prosperity Property Services Limited	Subsidiary of a substantial holder <sup>2</sup>	Property management and lease management fee	10,976,968
Goodwell-Prosperity Property Services Limited	Subsidiary of a substantial holder <sup>2</sup>	Marketing service fee	10,565,733
E-Park Parking Management Limited	Subsidiary of a substantial holder <sup>2</sup>	Carpark lease agency fee	3,011,618
Colliers <sup>1</sup>	Principal Valuer and its associated company	Leasing commission and consultancy service fee	215,152
<b>Total</b>			<b>24,769,471</b>

Notes:

- Colliers include Colliers International (Hong Kong) Limited (Prosperity REIT's Principal Valuer up to 30 November 2020) and Colliers International Agency Limited. Principal Valuer is no longer a connected person subsequent to the amendment of the REIT Code with effect from 4 December 2020.
- Substantial 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 2020 were as follows:

Name of Connected Person	Amount payable HK\$
Goodwell-Prosperity Property Services Limited	2,624,312
Goodwell Property Management Limited	3,611,385
E-Park Parking Management Limited	258,524
Citybase Property Management Limited	485,998
<b>Total</b>	<b>6,980,219</b>

## 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 2020 HK\$
HSBC Institutional Trust Services (Asia) Limited	Trustee	Trustee fee	3,238,521
ARA Asset Management (Prosperity) Limited	REIT Manager	Base fee and variable fees	53,266,985
Colliers International (Hong Kong) Limited	Principal Valuer <sup>1</sup>	Valuation fees	64,500
<b>Total</b>			<b>56,570,006</b>

Note:

- Colliers International (Hong Kong) Limited was the Principal Valuer of Prosperity REIT up to 30 November 2020. Subsequent to the amendment of REIT Code with effective from 4 December 2020, particulars of services provided by the Principal Valuer as contemplated under the Trust Deed are no longer required to be disclosed.

## CONNECTED PARTY TRANSACTIONS

**CONFIRMATION BY THE INEDS**

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

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

**CONFIRMATION BY THE AUDITOR OF PROSPERITY REIT**

Messrs. Deloitte Touche Tohmatsu, auditor of Prosperity REIT, was engaged to report on Prosperity REIT and its subsidiaries' continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions on leasing/licensing transactions, property management arrangements, third party services and other operational transactions and transactions involving ordinary banking and financial services disclosed by Prosperity REIT and its subsidiaries from pages 105 to 109 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 10,824,000 units of Prosperity REIT by the REIT Manager which the REIT Manager had received as payment of its management fee, there was no repurchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or its subsidiaries.

## CONNECTED PARTY TRANSACTIONS

## 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 2020		As at 31 December 2019
	Number of Units	Percentage of Unitholdings <sup>6</sup>	Number of Units
Total Win Group Limited <sup>1</sup>	176,328,129	11.57%	176,328,129
Wide Option Investments Limited <sup>1</sup>	98,883,559	6.49%	98,883,559
HKSCC Nominees Limited <sup>2</sup>	1,126,556,369	73.92%	1,103,656,031
HSBC <sup>3</sup>	94,250	0.006%	132,250
ARA Asset Management (Prosperity) Limited <sup>4</sup>	19,101,672	1.25%	8,479,639
Lan Hong Tsung, David <sup>5</sup>	350,000	0.02%	350,000

## Notes:

1. Total Win Group Limited ("Total Win") was a connected person of Prosperity REIT as it was a substantial holder (as defined under the REIT Code) of Prosperity REIT as at 31 December 2020. 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 2020.

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 2020.

Therefore, CK Asset was deemed to hold 275,211,688 units as at 31 December 2020, of which 176,328,129 units were held by Total Win and 98,883,559 units were held by Wide Option.

2. HKSCC Nominees Limited was a connected person of Prosperity REIT as it was a substantial holder (as defined under the REIT Code) of Prosperity REIT as at 31 December 2020. 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 2020 and 31 December 2019. The Trustee's directors, chief executives and their associates had no beneficial interest in any units as at 31 December 2020 and 31 December 2019. The Trustee's associates (as defined in the REIT Code) were beneficially interested in 94,250 units and 132,250 units as at 31 December 2020 and 31 December 2019 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 2020.
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 2020.
6. The total number of issued units as at 31 December 2020 was 1,524,068,034.

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 2020.

## CONNECTED PARTY TRANSACTIONS

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

As at 31 December 2020, the interests of the REIT Manager, Directors and chief executive of the REIT Manager in the units of Prosperity REIT as recorded in the Register of Interests maintained by the REIT Manager under clause 30.3 of the Trust Deed were as follows:

Name	Number of Units	Percentage of Unitholdings <sup>1</sup>
ARA Asset Management (Prosperity) Limited	19,101,672	1.25%
Lan Hong Tsung, David	350,000	0.02%

*Note:*

- The total number of issued units as at 31 December 2020 was 1,524,068,034.

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 2020.

## VALUATION SUMMARY

A summary of the market value of each property, subject to the existing tenancies, as at 31 December 2020, is as follows:

No.	Property Name	Approximate Gross Area (sq.ft.)	No. of CPS (lots)	Market Value as at 31 December 2020 (HK\$)
1	The Metropolis Tower	271,418	98	3,080,000,000
2	Prosperity Millennia Plaza	217,955	43	2,139,000,000
3	9 Chong Yip Street	136,595	68	1,032,000,000
4	Prosperity Place	240,000	83	1,684,000,000
5	Trendy Centre	173,764	79	1,036,000,000
6	Prosperity Center Property	149,253	105	848,000,000
7	New Treasure Centre Property	86,168	22	328,000,000
	<b>Total</b>	<b>1,275,153</b>	<b>498</b>	<b>10,147,000,000</b>

The market value of the unencumbered leasehold interest of the Portfolio, subject to the existing tenancies, as at 31 December 2020, was in the sum of HK\$10,147,000,000 (HONG KONG DOLLARS TEN BILLION ONE HUNDRED AND FORTY SEVEN MILLION).

*The full valuation report is available for inspection at the registered office of the REIT Manager upon prior appointment.*

## VALUATION SUMMARY

## VALUATION

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2020
1. The Metropolis Tower, 10 Metropolis Drive, Hung Hom, Kowloon  24,734/247,769th equal and undivided parts or shares of and in Kowloon Inland Lot No. 11077	<p>The Metropolis Tower is a 15-storey office building comprising 11th to 28th Floors (13th, 14th and 24th floor numbers are omitted) built over a multi-storey retail/carparking podium on a registered site area of approximately 50,058 sq m (538,824.3 sq ft). The building was built in 2001.</p> <p>The Metropolis Tower is the office portion of the comprehensive mixed-use complex, called The Metropolis. The Metropolis comprises other components including a shopping centre (Fortune Metropolis), two 18-storey residential towers (The Metropolis Residence) and a 12-storey hotel (Harbour Plaza Metropolis).</p> <p>The Metropolis Tower comprises the entire office units from the 11th to 28th Floors with a total gross area of approximately 25,215.3 sq m (271,418 sq ft). The total saleable area is approximately 18,832.87 sq m (202,717 sq ft).</p> <p>The property also comprises of 98 carparking spaces within the retail/carparking podium of the development.</p> <p>Kowloon Inland Lot No. 11077 is held under Conditions of Grant No. 12444 from 14 February 1997 to 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The office portion of the property is let under various tenancies for various terms with the latest expiry in November 2023, yielding a total monthly rental income of approximately HK\$9,326,600, exclusive of Government rates and rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at date of valuation (excluding carparking spaces) was approximately 96.6%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$270,000 during the period from January 2020 to December 2020.</p>	<p>HK\$3,080,000,000</p> <p>(HONG KONG DOLLARS THREE BILLION AND EIGHTY MILLION)</p> <p>Estimated net property yield was approximately 3.7%.</p>

## VALUATION SUMMARY

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2020
2. Prosperity Millennia Plaza, 663 King's Road, North Point, Hong Kong  3,741/10,000th equal and undivided parts or shares of and in Inland Lot No. 8885	<p>Prosperity Millennia Plaza is a 32-storey office building (including 3 mechanical floors and a refuge floor) together with a 2-level basement carport. It is erected on portion of a site with a registered site area of approximately 3,404 sq m (36,640.7 sq ft). The property was built in 1999.</p> <p>The 2-level basement of the property is for carparking and ancillary purposes. The 1st Floor (Ground Floor is omitted from floor numbering) is used for lobby and circulation purposes whereas the remaining upper floors from the 2nd to 32nd Floors (4th, 13th, 14th and 24th floor numbers are omitted) are for office uses.</p> <p>The property comprises the entire office units with a total gross area of approximately 20,248.51 sq m (217,955 sq ft). The total saleable area is approximately 14,551.28 sq m (156,630 sq ft).</p> <p>The property also consists of 43 carparking spaces within the 2-level basement.</p> <p>Inland Lot No. 8885 is held under Conditions of Exchange No. 12374 for a term from 24 January 1996 to 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The office portion of the property is let under various tenancies for various terms with the latest one expiring in June 2024, yielding a total monthly rental income is approximately HK\$6,357,720, exclusive of Government rates and rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the date of valuation (excluding carparking spaces) was approximately 94.7%.</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average net monthly income of approximately HK\$279,000 during the period from January 2020 to December 2020.</p>	<p>HK\$2,139,000,000  (HONG KONG DOLLARS TWO BILLION ONE HUNDRED AND THIRTY NINE MILLION)</p> <p>Estimated net property yield was approximately 3.7%.</p>

## VALUATION SUMMARY

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2020
3. 9 Chong Yip Street Kwun Tong, Kowloon	9 Chong Yip Street is a 25-storey Grade A office building with ancillary parking erected on a registered site area of approximately 965.6 sq m (10,393.8 sq ft). The property was built in 2004.	The office portion of the property is let under various tenancies for various terms with the latest one expiring in October 2023, yielding a total monthly rental of approximately HK\$2,825,917, exclusive of Government rates and rent, management fees and utility charges.	HK\$1,032,000,000  (HONG KONG DOLLARS ONE BILLION AND THIRTY TWO 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 designated for office purposes.</p> <p>The total gross area of the property (excluding parking lots) is approximately 12,690.0 sq m (136,595 sq ft). The total saleable area is approximately 9,229.7 sq m (99,349 sq ft).</p> <p>The property also consists of 64 carparking spaces, 4 loading/unloading spaces and 5 motor cycle parking spaces.</p> <p>Kwun Tong Inland Lot No. 444 is held under Government Lease for a term of 99 years less the last 3 days thereof commencing from 1 July 1898. The lease has been extended to expire on 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The property was also subject to a licence yielding monthly licence fee of approximately HK\$3,800.</p> <p>The occupancy rate of the property as at the date of valuation (excluding carparking spaces) was approximately 98.9%.</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average net monthly income of approximately HK\$169,000 during the period from January 2020 to December 2020.</p>	<p>Estimated net property yield was approximately 3.5%.</p>

## VALUATION SUMMARY

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2020
4. Prosperity Place, 6 Shing Yip Street, Kwun Tong, Kowloon	Prosperity Place is a 27-storey commercial building with ancillary parking and loading/unloading facilities erected on a registered site area of approximately 1,858.05 sq m (20,000.1 sq ft). The building was built in 1996.	The commercial portion of the property is let under various tenancies for various terms with the latest one expiring in June 2024, yielding a total monthly rental income of approximately HK\$5,107,571, exclusive of Government rates and rent, management fees and utility charges.	HK\$1,684,000,000  (HONG KONG DOLLARS ONE BILLION SIX HUNDRED AND EIGHTY FOUR MILLION)
Kun Tong Inland Lot No. 62	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.  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.  The property comprises the entire commercial units with a total gross area of approximately 22,296.5 sq m (240,000 sq ft). The total saleable area is approximately 14,754.09 sq m (158,813 sq ft). The property also consists of a total of 83 carparking spaces.  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.	The property was also subject to various licences yielding a total monthly licence fee of approximately HK\$133,800.  The occupancy rate of the property as at the date of valuation (excluding carparking spaces) was approximately 98.4%.  The carparking spaces of the property are let on monthly and hourly basis yielding an average net monthly income of approximately HK\$451,000 during the period from January 2020 to December 2020.	Estimated net property yield was approximately 4.1%.

## VALUATION SUMMARY

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2020
5. Trendy Centre, 682 Castle Peak Road, Lai Chi Kok, Kowloon	Trendy Centre is a 30-storey industrial/office building with ancillary parking and loading/unloading facilities erected on a registered site area of approximately 1,393.5 sq m (15,000.0 sq ft). The property was built in 1998.	The industrial/office portion of the property is let under various tenancies for various terms with the latest expiry in November 2023, yielding a total monthly rental income of approximately HK\$3,312,097, exclusive of Government rates and rent, management fees and utility charges.	HK\$1,036,000,000 (HONG KONG DOLLARS ONE BILLION AND THIRTY SIX 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 16,143.1 sq m (173,764 sq ft). The total saleable area is approximately 10,934.23 sq m (117,696 sq ft).</p> <p>The property also consists of 79 carparking spaces.</p> <p>New Kowloon Inland Lot No. 6224 is held under Conditions of Exchange No. 12399 for a term from 24 July 1996 to 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The property was also subject to a licence yielding monthly licence fee of approximately HK\$3,800.</p> <p>The occupancy rate of the property as at date of valuation (excluding carparking spaces) was approximately 94.4%.</p> <p>The carparking spaces of the property were let on monthly and hourly basis yielding an average net monthly income of approximately HK\$404,000 from January 2020 to December 2020.</p>	Estimated net property yield was approximately 4.3%.

## VALUATION SUMMARY

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2020
6. Portion of Prosperity Center, 25 Chong Yip Street, Kwun Tong, Kowloon (see note (1))	The property comprises various office/workshop units and retained areas within Prosperity Center, which is a 26-storey industrial/office building with ancillary parking and loading/unloading facilities. It is erected on a registered site area of approximately 1,889 sq m (20,333.2 sq ft), and was built in 1999.	The office/workshop portion of the property is let under various tenancies for various terms with the latest one expiring in November 2025, yielding a total monthly rental income of approximately HK\$2,442,560, exclusive of Government rates and rent, management fees and utility charges.	HK\$848,000,000  (HONG KONG DOLLARS EIGHT HUNDRED AND FORTY EIGHT MILLION)
12,014/22,510th equal and undivided parts or shares of and in Kwun Tong Inland Lot No. 729	<p>Portion of the Ground Floor, 2nd to 5th Floors of the building (1st and 4th floor numbers are omitted) are for carparking and/or loading/unloading purposes whereas the remaining portion of the Ground Floor and upper floors from the 6th to 30th Floors (13th, 14th and 24th floor numbers are omitted) are for office/workshop purposes.</p> <p>The property comprises portion of Prosperity Center with a total gross area of approximately 13,865.9 sq m (149,253 sq ft). The total saleable area is approximately 10,095.60 sq m (108,669 sq ft).</p> <p>The property also consists of 105 carparking spaces comprising 91 private carparking spaces, 13 lorry parking spaces and 1 container parking space within the building.</p> <p>Kwun Tong Inland Lot No. 729 is held under Conditions of Exchange No. 12317 for a term from 6 August 1994 to 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The occupancy rate of the property as at date of valuation (excluding carparking spaces) was approximately 90.2%.</p> <p>The carparking spaces of the property are let on monthly and hourly basis yielding an average net monthly income of approximately HK\$404,000 during the period from January 2020 to December 2020.</p>	<p>Estimated net property yield was approximately 4.0%.</p>

## VALUATION SUMMARY

Property	Description and Tenure	Particulars of Occupancy	Market Value as at 31 December 2020
7. Portion of New Treasure Centre, 10 Ng Fong Street, San Po Kong, Kowloon (see note (1))  11,163/26,198th equal and undivided parts or shares of and in New Kowloon Inland Lot No. 4864	<p>The property comprises various factory units within New Treasure Centre, which is a 30-storey industrial building (including a Mezzanine Floor) with ancillary parking and loading/unloading facilities. It is erected on a registered site area of approximately 1,304.3 sq m (14,040 sq ft), and was built in 1995.</p> <p>Portion of the Ground Floor and Mezzanine Floor of the building are for carparking and/or loading/unloading purposes whereas the remaining upper floors from the 1st to 31st Floors (4th, 14th and 24th floor numbers are omitted) are used for factory purposes.</p> <p>The property has a total gross area of approximately 8,005.2 sq m (86,168 sq ft). The total saleable area is approximately 5,947.70 sq m (64,021 sq ft).</p> <p>The property also consists of flat roof areas on the 1st Floor with a total area of approximately 401.99 sq m (4,327 sq ft) and 22 carparking spaces within the building.</p> <p>New Kowloon Inland Lot No. 4864 is held under Government Lease for the residue of a term of 99 years less the last three days thereof commencing from 1 July 1898. The lease has been extended to expire on 30 June 2047. The Government rent payable is at 3% of the rateable value of the property.</p>	<p>The factory portion of the property is let under various tenancies for various terms with the latest expiry in November 2023, yielding a total monthly rental income of approximately HK\$1,111,900, exclusive of Government rates and rent, management fees and utility charges.</p> <p>The occupancy rate of the property as at the date of valuation (excluding carparking spaces) was approximately 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\$154,000 from January 2020 to December 2020.</p>	<p>HK\$328,000,000</p> <p>(HONG KONG DOLLARS THREE HUNDRED AND TWENTY EIGHT MILLION)</p> <p>Estimated net property yield was approximately 4.6%.</p>

# 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 2020.

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

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

4 March 2021

# 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 125 to 166, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020, 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 ("HKSA") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

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

## INDEPENDENT AUDITOR'S REPORT

Key audit matter	How our audit addressed the key audit matter
<p><b>Valuation of investment properties</b></p> <p>We identified the valuation of investment properties as a key audit matter as they represented 97% of total assets of the Group as at 31 December 2020 and significant judgement is required in determining their fair value.</p> <p>As disclosed in note 11 to the consolidated financial statements, investment properties of the Group are office buildings, commercial buildings, industrial/office buildings and industrial building located in Hong Kong. The carrying amounts of investment properties amounted to HK\$10,147.0 million as at 31 December 2020 and their change in fair value included in the loss for the year was HK\$982.9 million. In estimating the fair value of investment properties, ARA Asset Management (Prosperity) Limited (the "REIT Manager" of Prosperity REIT) engaged an independent qualified external valuer (the "Valuer") to perform the valuation and worked with the Valuer to establish inputs to the valuation.</p> <p>As further disclosed in note 11 to the consolidated financial statements, the fair value was arrived at using income capitalisation method cross-referenced with the direct comparison method. The valuation involves the making of certain assumptions and the use of estimates in respect of the capitalisation rates.</p>	<p>Our procedures in relation to the valuation of investment properties included:</p> <ul style="list-style-type: none"> <li>• Evaluating the competence, capabilities and objectivity of the Valuer;</li> <li>• 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;</li> <li>• 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</li> <li>• 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, details and size of the properties on a sample basis.</li> </ul>

## 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.

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.

## INDEPENDENT AUDITOR'S REPORT

- Conclude on the appropriateness of the REIT Manager's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

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

Deloitte Touche Tohmatsu  
Certified Public Accountants  
Hong Kong  
4 March 2021

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Notes	2020 HK\$000	2019 HK\$000
Revenue	5	452,894	462,314
Property management fees		(10,977)	(11,288)
Property operating expenses	6	(83,879)	(85,160)
Total property operating expenses		(94,856)	(96,448)
<b>Net property income</b>		<b>358,038</b>	<b>365,866</b>
Interest income		4,572	5,773
Manager's fee		(53,267)	(55,314)
Trust and other expenses	7	(8,149)	(8,716)
Change in fair value of investment properties		(982,856)	128,112
Finance costs	8	(152,981)	(60,681)
<b>(Loss)/Profit before taxation and transactions with unitholders</b>		<b>(834,643)</b>	<b>375,040</b>
Taxation	9	(39,858)	(41,935)
<b>(Loss)/Profit for the year, before transactions with unitholders</b>		<b>(874,501)</b>	<b>333,105</b>
Distribution to unitholders		(272,922)	(274,651)
<b>(Loss)/Profit for the year, after transactions with unitholders</b>		<b>(1,147,423)</b>	<b>58,454</b>
<b>Total comprehensive (expense) income for the year, after transactions with unitholders</b>		<b>(1,147,423)</b>	<b>58,454</b>
Income available for distribution to unitholders		272,922	274,651
Basic (loss)/earning per unit (HK\$)	10	(0.58)	0.22

# DISTRIBUTION STATEMENT

For the year ended 31 December 2020

	2020 HK\$000	2019 HK\$000
(Loss)/Profit for the year, before transactions with unitholders	(874,501)	333,105
<b>Adjustments:</b>		
Manager's fee	52,123	54,127
Change in fair value of investment properties	982,856	(128,112)
Change in fair value of derivative financial instruments	94,320	(5,017)
Finance costs	8,013	7,991
Deferred tax	10,111	12,557
<b>Income available for distribution (note (i))</b>	<b>272,922</b>	<b>274,651</b>
<b>Distributions to unitholders:</b>		
HK\$0.0899 (2019: HK\$0.0933) per unit for the six months ended 30 June (note (ii))	136,513	139,770
HK\$0.0892 (2019: HK\$0.0895) per unit for the six months ended 31 December (note (iii))	136,409	134,881
	<b>272,922</b>	<b>274,651</b>
<b>Total distribution per unit (HK\$)</b>	<b>0.1791</b>	<b>0.1828</b>

**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 and payable in units of HK\$52,123,000 (2019: HK\$54,127,000) out of the total manager's fee of HK\$53,267,000 (2019: HK\$55,314,000) (the differences of HK\$1,144,000 (2019: HK\$1,187,000) are paid in cash);
- (b) change in fair value of investment properties of HK\$982,856,000 (2019: a gain of HK\$128,112,000) and loss on fair value change of derivative financial instruments of HK\$94,320,000 (2019: a gain of HK\$5,017,000);
- (c) adjustment in respect of the accounting finance costs of HK\$152,981,000 (2019: HK\$60,681,000), less a loss on fair value change of derivative financial instruments of HK\$94,320,000 (2019: a gain of HK\$5,017,000) and the cash finance costs of HK\$50,648,000 (2019: HK\$57,707,000); and
- (d) deferred tax provision of HK\$10,111,000 (2019: HK\$12,557,000).
- (ii) The distribution per unit of HK\$0.0899 for the six months ended 30 June 2020 (six months ended 30 June 2019: HK\$0.0933) is calculated based on Prosperity REIT's income available for distribution of HK\$136,513,000 (six months ended 30 June 2019: HK\$139,770,000) over 1,518,303,244 units (30 June 2019: 1,498,090,958 units), representing units in issue as at 30 June 2020 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 9 September 2020.
- (iii) The distribution per unit of HK\$0.0892 for the six months ended 31 December 2020 (six months ended 31 December 2019: HK\$0.0895) is calculated based on Prosperity REIT's income available for distribution of HK\$136,409,000 (six months ended 31 December 2019: HK\$134,881,000) over 1,529,288,611 units (31 December 2019: 1,507,153,680 units), representing units in issue as at 31 December 2020 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 2020

	Notes	2020 HK\$000	2019 HK\$000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties	11	10,147,000	11,126,000
Derivative financial instruments	12	—	27,288
		10,147,000	11,153,288
<b>Current assets</b>			
Trade and other receivables	13	13,029	11,858
Bank balances and cash	14	351,788	387,084
<b>Total current assets</b>		<b>364,817</b>	<b>398,942</b>
<b>Total assets</b>		<b>10,511,817</b>	<b>11,552,230</b>
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Derivative financial instruments	12	46,001	—
Borrowings	15	1,529,669	2,319,927
Deferred tax liabilities	16	220,047	209,936
<b>Total non-current liabilities, excluding net assets attributable to unitholders</b>		<b>1,795,717</b>	<b>2,529,863</b>
<b>Current liabilities</b>			
Derivative financial instruments	12	21,031	—
Trade and other payables	17	187,685	191,377
Amounts due to related companies	18	6,980	13,142
Borrowings	15	798,271	—
Provision for taxation		10,347	32,265
Manager's fee payable		12,871	13,948
Distribution payable		136,409	134,881
<b>Total current liabilities</b>		<b>1,173,594</b>	<b>385,613</b>
<b>Total liabilities, excluding net assets attributable to unitholders</b>		<b>2,969,311</b>	<b>2,915,476</b>
<b>Net assets attributable to unitholders</b>		<b>7,542,506</b>	<b>8,636,754</b>
Units in issue ('000)	19	1,524,068	1,502,622
<b>Net asset value per unit (HK\$) attributable to unitholders</b>	20	<b>4.95</b>	<b>5.75</b>

The consolidated financial statements on pages 125 to 166 were approved and authorised for issue by ARA Asset Management (Prosperity) Limited on 4 March 2021 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 2020

	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 2020	3,248,419	(91,278)	5,479,613	8,636,754
<b>OPERATIONS</b>				
Loss for the year, before transactions with unitholders	—	—	(874,501)	(874,501)
Distribution paid and payable	—	—	(272,922)	(272,922)
Total comprehensive expense for the year, after transaction with unitholders	—	—	(1,147,423)	(1,147,423)
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>				
Units issued to REIT Manager (note 19)	53,175	—	—	53,175
Net assets attributable to unitholders as at 31 December 2020	3,301,594	(91,278)	4,332,190	7,542,506

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
<b>OPERATIONS</b>				
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
<b>UNITHOLDERS' TRANSACTIONS OTHER THAN DISTRIBUTIONS</b>				
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 CASH FLOWS

For the year ended 31 December 2020

	2020 HK\$000	2019 HK\$000
<b>Operating activities</b>		
(Loss)/Profit before taxation and transactions with unitholders	(834,643)	375,040
Adjustments for:		
Impairment losses recognised under expected credit loss model, net of reversal	1,163	197
Manager's fees paid/payable in units	52,123	54,127
Change in fair value of investment properties	982,856	(128,112)
Interest income	(4,572)	(5,773)
Finance costs	152,981	60,681
Operating cashflow before working capital changes	349,908	356,160
(Decrease)/Increase in amounts due to related companies	(6,162)	1,682
(Increase)/Decrease in trade and other receivables	(2,563)	3,667
Decrease in trade and other payables	(3,692)	(1,564)
Decrease in Manager's fee payable	(25)	—
Cash generated from operations	337,466	359,945
Income tax (paid)/refunded	(51,665)	1,337
Net cash from operating activities	285,801	361,282
<b>Investing activities</b>		
Interest received	4,801	5,067
Additional expenditure to investment properties	(3,856)	(7,888)
Net cash inflow (used) in investing activities	945	(2,821)
<b>Financing activities</b>		
Interest payments of term loans	(50,648)	(57,707)
Distributions to unitholders	(271,394)	(272,406)
Cash used in financing activities	(322,042)	(330,113)
Net (decrease) increase in cash and cash equivalents	(35,296)	28,348
Cash and cash equivalents at beginning of the year	387,084	358,736
Cash and cash equivalents at end of year	351,788	387,084

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020*

## 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, Hung Hom, 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 2020

### 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### Amendments to HKFRSs that are mandatorily effective for the current year

Prosperity REIT and its subsidiaries has applied the *Amendments to References to the Conceptual Framework in HKFRS Standards* and the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

Amendments to HKAS 1 and HKAS 8	Definition of Material
Amendments to HKFRS 3	Definition of a Business
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	Interest Rate Benchmark Reform

Excepted as described below, the application of the *Amendments to References to the Conceptual Framework in HKFRS Standards* and other amendments to HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

#### Impacts on Application of Amendments to HKAS 1 and HKAS 8 Definition of Material

The Group has applied the Amendments to HKAS 1 and HKAS 8 for the first time in the current year. The amendments provide a new definition of material that states information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments also clarify that materiality depends on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements taken as a whole.

The application of the amendments in the current year has no impact on the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

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

### New HKFRS and amendments to HKFRSs in issue but not yet effective

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

HKFRS 17	<i>Insurance Contracts and the related Amendments</i> <sup>1</sup>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> <sup>4</sup>
Amendments to HKFRS 3	<i>Reference to the Conceptual Framework</i> <sup>2</sup>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</i> <sup>5</sup>
Amendments to HKFRS 10 and HKAS 28	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>3</sup>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current and related amendments to Hong Kong Interpretation 5 (2020)</i> <sup>1</sup>
Amendments to HKAS 16	<i>Property, Plant and Equipment — Proceeds before Intended Use</i> <sup>2</sup>
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i> <sup>2</sup>
Amendments to HKFRSs	<i>Annual Improvements to HKFRSs 2018–2020</i> <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2023.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2022.

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

<sup>4</sup> Effective for annual periods beginning on or after 1 June 2020.

<sup>5</sup> Effective for annual periods beginning on or after 1 January 2021.

The REIT Manager anticipates that the application of all new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

## 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 REIT Manager is, at the time of approving the consolidated financial statements, negotiating with banks to obtain new bank facilities and/or contemplating to renew existing bank borrowing which will mature within one year from the end of the reporting period. Taking into account the headroom of the fair value of investment properties of HK\$10,147,000,000, presently available bank facilities and internal financial resources of the Group, the REIT Manager is of the opinion that the Group has sufficient working capital for its present requirements within one year from the end of the reporting period. Thus they continue to adopt the going concern basis of accounting in preparing the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020***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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

#### (d) Financial instruments

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

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)***(d) Financial instruments** *(continued)***Financial assets** *(continued)**Classification and measurement of financial assets (continued)*

## (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.

*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 assessment 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

##### Financial assets *(continued)*

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

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

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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)***(d) Financial instruments** *(continued)*Financial assets *(continued)**Impairment of financial assets (continued)*

## (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.

## (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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

##### Financial assets *(continued)*

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

##### (v) Measurement and recognition of ECL *(continued)*

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.

##### *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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020***3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)***(d) Financial instruments** *(continued)***Financial liabilities and equity** *(continued)**Financial liabilities (continued)*

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.

When the contractual terms of a financial liability are modified, the Group assess whether the revised terms result in a substantial modification from original terms taking into account all relevant facts and circumstances including qualitative factors. If qualitative assessment is not conclusive, 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 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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

##### 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

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 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 2020

**3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)***(f) Leases** *(continued)*Definition of a lease *(continued)**The Group as lessor (continued)*

## Allocation of consideration to components of a contract

When a contract includes both leases and non-lease components, the Group applies HKFRS 15 Revenue from Contracts with Customers ("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

Changes in considerations of lease contracts that were not part of the original terms and conditions are accounted for as lease modifications, including lease incentives provided through forgiveness or reduction of rentals.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 3 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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

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.

**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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31 December 2020***3 SIGNIFICANT ACCOUNTING POLICIES** *(continued)***(i) Taxation** *(continued)*

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

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 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.

#### (a) Valuation of investment properties

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 assumptions of market conditions.

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. REIT Manager considers valuations of the Group's investment properties are the best estimates. Changes to these assumptions would result in changes in the fair values of the Group's investment properties and the corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss and other comprehensive income.

As at 31 December 2020, the carrying amount of the Group's investment properties is HK\$10,147 million (2019: HK\$11,126 million).

#### (b) Valuation of derivative financial instruments

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.

As at 31 December 2020, the carrying amount of the Group's derivative financial instruments represented liabilities amounting to HK\$67.0 million (2019: assets of HK\$27.3 million).

### 5 REVENUE

	2020 HK\$000	2019 HK\$000
Rental income	363,860	374,588
Car park income	27,358	30,015
	391,218	404,603
Rental related income	61,676	57,711
	452,894	462,314

Notes:

- (i) 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.
- (ii) For contracts that includes both lease and non-lease components (properties management services), the Group applies HKFRS 15 to allocate the consideration to separate lease and non-lease components on a relative stand-alone selling price basis.

Advance consideration allocated to the properties management services is recognised as a contract liability and is released over the period of services.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

**6 PROPERTY OPERATING EXPENSES**

	2020 HK\$000	2019 HK\$000
Audit fee	1,288	1,285
Building management fees	38,185	38,593
Car park operating expenses	7,729	8,265
Government rent and rates	550	671
Impairment losses recognised under expected credit loss model, net of reversal	1,163	197
Lease commission	5,254	5,106
Legal cost and stamp duty	2,278	1,303
Marketing service fee	10,566	11,889
Others	1,537	1,132
Repairs and maintenance	8,965	9,933
Secretarial fee	671	727
Tax fees	161	186
Utilities	5,357	5,692
Valuation fees (paid to principal valuers)	175	181
	<b>83,879</b>	<b>85,160</b>

**7 TRUST AND OTHER EXPENSES**

	2020 HK\$000	2019 HK\$000
Audit fee	206	243
Back-office support service fee	—	29
Bank charges	1,397	1,392
Legal and professional fees	571	991
Public relations-related expenses	253	236
Registrar fee	600	600
Trust administrative expenses	1,883	1,906
Trustee's fee	3,239	3,319
	<b>8,149</b>	<b>8,716</b>

**8 FINANCE COSTS**

	2020 HK\$000	2019 HK\$000
Interest expense on bank borrowings	53,873	72,816
Interest rate swaps expenses/(income) realised	4,788	(7,118)
	58,661	65,698
Change in fair value of derivative financial instruments	94,320	(5,017)
	<b>152,981</b>	<b>60,681</b>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 9 TAXATION

	2020 HK\$000	2019 HK\$000
Current tax	30,725	30,484
Over-provision in prior year	(978)	(1,106)
Deferred tax (note 16)	10,111	12,557
	<b>39,858</b>	<b>41,935</b>

Prosperity REIT's subsidiaries in Hong Kong are subject to Hong Kong Profits Tax at 16.5% (2019: 16.5%) for the year ended 31 December 2020.

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:

	2020 HK\$000	2019 HK\$000
Tax at income tax rate of 16.5%	(137,716)	61,882
Over-provision in prior year	(978)	(1,106)
Tax effect of non-taxable income	(754)	(22,919)
Tax effect of non-deductible expenses	181,900	4,930
Tax effect of tax loss not recognised	2	5
Tax effect of utilisation of tax losses previously not recognised	(42)	(325)
Tax effect of utilisation of deductible temporary differences not recognised	(1,541)	(1,849)
Others	(1,013)	1,317
Taxation for the year	<b>39,858</b>	<b>41,935</b>

## 10 BASIC (LOSS)/EARNING PER UNIT

The basic (loss)/earning per unit is calculated by dividing the loss for the year, before transactions with unitholders of HK\$874,501,000 (2019: Profit of HK\$333,105,000) by the weighted average of 1,518,353,207 (2019: 1,498,382,842) 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 2020

## 11 INVESTMENT PROPERTIES

	2020 HK\$000	2019 HK\$000
<b>FAIR VALUE</b>		
At beginning of the year	11,126,000	10,990,000
Additional expenditure	3,856	7,888
Change in fair value of investment properties	(982,856)	128,112
At end of the year	10,147,000	11,126,000

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 2020, an independent valuation on the investment properties was undertaken by Jones Lang LaSalle Limited (2019: 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 capitalisation method cross-referenced with the direct comparison method. Income capitalisation method is based on the capitalisation of the current passing rental income and potential reversionary income over the remaining tenure of the investment properties from the date of valuation at appropriate investment yields to arrive at the capital value. Direct comparison method is based on comparing the properties to be valued directly with other comparable properties which recently changed hands or leased. These premises are generally located in the surrounding areas or in another market which is comparable to the properties

The adopted capitalisation rates in the valuation range from 3.7% to 4.3% (2019: 3.6% to 4.2%). The capitalisation rates is one of the key parameter in the income capitalisation 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 2020 and 31 December 2019 was pledged to secure banking facilities granted to the Group.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 12 DERIVATIVE FINANCIAL INSTRUMENTS

	2020 HK\$000	2019 HK\$000
Reflected on consolidated statement of financial position based on remaining contractual maturity as:		
Non-current assets	—	27,288
Non-current liabilities	46,001	—
Current liabilities	21,031	—
	<b>67,032</b>	<b>27,288</b>

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 2019: HK\$1,640,000,000) will mature from September 2022 to September 2026 (31 December 2019: September 2022 to September 2026). These contracts have fixed interest payments at rates ranging from 1.254% to 1.918% (31 December 2019: 1.254% to 1.918%) 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 loss of HK\$94,320,000 is recognised to profit or loss during the year ended 31 December 2020 (2019: a gain of HK\$5,017,000).

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 swaps.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 13 TRADE AND OTHER RECEIVABLES

	2020 HK\$000	2019 HK\$000
Trade receivables	5,774	3,162
Less: allowance for credit losses	(1,414)	(251)
	4,360	2,911
Deposit and prepayments and other receivables	8,669	8,947
	13,029	11,858

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:

	2020 HK\$000	2019 HK\$000
Current-1 month	153	77
2-3 months	4,207	2,834
	4,360	2,911

As at 31 December 2020, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK\$5,774,000 (2019: HK\$3,162,000) which are past due as at the reporting date. Out of the past due balances, amount of HK\$1,414,000 (2019: HK\$251,000) 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

	2020 HK\$000	2019 HK\$000
Cash at bank	351,788	387,084

Cash at bank carries at the market interest rate, of which aggregate value of HK\$61,788,000 (2019: HK\$87,084,000) are placed with The Hongkong and Shanghai Banking Corporation Limited, a related company of the Trustee.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 15 BORROWINGS

	2020 HK\$000	2019 HK\$000
Unsecured term loans	2,340,000	2,340,000
Bank facility origination fees	(12,060)	(20,073)
	2,327,940	2,319,927
Carrying amount repayable:		
Within one year	798,271	—
Within a period of more than one year but not exceeding five years	1,529,669	2,319,927
	2,327,940	2,319,927
Less: Amount due within one year shown under current liabilities	(798,271)	—
	1,529,669	2,319,927

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 2020 and 31 December 2019 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.

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:

	2020 HK\$000	2019 HK\$000
Balance at beginning of the year	20,073	28,064
Amortised during the year	(8,013)	(7,991)
Balance at the end of the year	12,060	20,073

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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 2019	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
Charge to profit or loss	10,111	—	10,111
As at 31 December 2020	228,260	(8,213)	220,047

At the end of the reporting period, tax loss amounting to approximately HK\$18,090,000 (31 December 2019: HK\$18,335,000) were not recognised, due to unpredictability of future profits stream.

At the end of the reporting period, the Group has deductible temporary differences of approximately HK\$14,198,000 (2019: HK\$20,079,000) in respect of the investment properties measured at fair value. The carrying amount of such properties are presumed to be recovered entirely through sale. No deferred tax asset has been recognised in relation to such deductible temporary differences as it is not expected to be reversed upon disposal of the properties.

## 17 TRADE AND OTHER PAYABLES

	2020 HK\$000	2019 HK\$000
Trade payables	1,960	2,098
Tenants' deposits		
— Outside parties	137,077	141,383
— Related parties (note 27)	3,596	3,450
Rental received in advance		
— Outside parties	5,869	4,972
Other payables	39,183	39,474
	187,685	191,377

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

	2020 HK\$000	2019 HK\$000
Current-1 month	715	823
2-3 months	607	887
Over 3 months	638	388
	1,960	2,098

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\$82,205,000 (2019: HK\$93,753,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

### 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 2019	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
Payment of manager's base fee and variable fee through issuance of new units during the year	21,446,033	53,175
Balance as at 31 December 2020	1,524,068,034	3,301,594

Subsequent to the end of the reporting period, 5,220,577 units (2019: 4,531,679 units) at HK\$2.4137 (2019: HK\$3.0129) 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 2020 was HK\$2.42 (31 December 2019: HK\$3.05).

### 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 1,524,068,034 units in issue as at 31 December 2020 (1,502,622,001 units in issue as at 31 December 2019).

### 21 MAJOR NON-CASH TRANSACTION

During the year, the REIT Manager earned manager's fee of HK\$53,267,000 (2019: manager's fee of HK\$55,314,000) of which HK\$52,123,000 (2019: HK\$54,127,000) was paid or payable through the issuance of units to the REIT Manager. An amount of HK\$39,521,000 (2019: HK\$40,473,000) had been settled through the issuance of units to the REIT Manager while the balance of HK\$12,602,000 (2019: HK\$13,654,000) were paid in units subsequent to the year end.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

**22 FINANCIAL INSTRUMENTS****(a) Categories of financial instruments**

	2020 HK\$000	2019 HK\$000
<b>Financial assets</b>		
Trade and other receivables	4,411	3,190
Bank balances and cash	351,788	387,084
At amortised cost	356,199	390,274
<b>Derivative instruments</b>		
Interest rate swaps, net	(67,032)	27,288
<b>Financial liabilities</b>		
Trade payables	(1,960)	(2,098)
Tenants' deposits	(140,673)	(144,833)
Amounts due to related companies	(6,980)	(13,142)
Term loans	(2,327,940)	(2,319,927)
Manager's fee payable	(12,871)	(13,948)
Distribution payable	(136,409)	(134,881)
At amortised cost	(2,626,833)	(2,628,829)
Unitholders' funds	7,542,506	8,636,754

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.

**(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).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

**22 FINANCIAL INSTRUMENTS** *(continued)***(b) Financial risks management objectives and policies** *(continued)***(i) Interest rate risk** *(continued)*

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

	Term loans HK\$'000	Derivative financial instruments HK\$'000
<b>2020</b>		
Loss for the year	11,700	(28,056)
<b>2019</b>		
Profit for the year	(11,700)	32,508

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:

*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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

**22 FINANCIAL INSTRUMENTS** *(continued)***(b) Financial risks management objectives and policies** *(continued)***(ii) Credit risk and impairment assessment** *(continued)**Trade receivables (continued)*

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 has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime ECL. The Group performs impairment assessment under ECL model upon application of HKFRS 9 on trade receivables individually.

The following table shows the movement of lifetime ECL that has been recognised for trade receivables under the simplified approach.

	HK\$'000
As at 1 January 2019	54
Impairment losses recognised	197
As at 31 December 2019	251
Impairment losses recognised	1,414
Impairment losses reversed	(126)
Written-off	(125)
As at 31 December 2020	1,414

*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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 22 FINANCIAL INSTRUMENTS *(continued)*

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

#### (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 2020, the Group has three bank loan facilities of HK\$2,770,000,000 (2019: HK\$2,770,000,000), comprising two term loans with total of HK\$2,340,000,000 (2019: HK\$2,340,000,000) and a revolving credit facility of HK\$430,000,000 (2019: HK\$430,000,000). None (2019: nil) of the revolving credit facility was drawn as at 31 December 2020. Details of the borrowing are set out in note 15.

As at 31 December 2020 and 31 December 2019, 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 REIT Manager is negotiating with banks to obtain new bank facilities and/or contemplating to renew existing bank borrowing which will mature within one year from the end of the reporting period. Taking into account the headroom of the fair value of investment properties of HK\$10,147,000,000, presently available bank facilities and internal financial resources of the Group, the REIT Manager is of the opinion that the Group has sufficient working capital for its present requirements within one year from the end of the reporting period.

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.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 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 31/12/2020 HK\$'000
<b>2020</b>							
<b>Non-derivative</b>							
Trade payables	—	715	607	638	—	1,960	1,960
Tenants' deposits	—	8,797	1,562	48,109	82,205	140,673	140,673
Amounts due to related companies	—	6,980	—	—	—	6,980	6,980
Term loans	1.21%	2,401	4,569	817,307	1,573,804	2,398,081	2,327,940
Manager's fee payable	—	12,871	—	—	—	12,871	12,871
Distribution payable	—	—	—	136,409	—	136,409	136,409
Cash outflow		31,764	6,738	1,002,463	1,656,009	2,696,974	2,626,833
<b>Derivatives — net settlement</b>							
Interest rate swaps	—	—	5,086	15,340	49,478	69,904	67,032
<b>2019</b>							
<b>Non-derivative</b>							
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
<b>Derivatives — net receipt</b>							
Interest rate swaps	—	—	(3,241)	(7,366)	(19,067)	(29,674)	(27,288)

## (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 are 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 23 NET CURRENT (LIABILITIES)/ASSETS

At the end of the reporting period, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$808,777,000 (2019: net current assets of HK\$13,329,000).

## 24 TOTAL ASSETS LESS CURRENT LIABILITIES

At the end of the reporting period, the Group's total assets less current liabilities amounted to HK\$9,338,223,000 (2019: HK\$11,166,617,000).

## 25 SEGMENTAL REPORTING

During the year, Prosperity REIT invested in seven (2019: 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 2020

	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	114,178	78,986	34,929	68,115	45,086	35,110	14,814	391,218
Rental related income	23,974	15,174	4,619	4,652	7,521	3,529	2,207	61,676
Segment revenue in Hong Kong	138,152	94,160	39,548	72,767	52,607	38,639	17,021	452,894
Segment profit	115,082	76,355	30,785	56,224	39,403	28,113	12,076	358,038
Interest income								4,572
Manager's fee								(53,267)
Trust and other expenses								(8,149)
Change in fair value of investment properties								(982,856)
Finance costs								(152,981)
Loss before taxation and transactions with unitholders								(834,643)

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

25 SEGMENTAL REPORTING *(continued)*Segment revenue and results *(continued)*

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

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 2020

**25 SEGMENTAL REPORTING** *(continued)***Segment assets**

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

	2020 HK\$000	2019 HK\$000
The Metropolis Tower	3,080,000	3,370,000
Prosperity Millennia Plaza	2,139,000	2,300,000
9 Chong Yip Street	1,032,000	1,150,000
Prosperity Place	1,684,000	1,889,000
Trendy Centre	1,036,000	1,120,000
Portion of Prosperity Center	848,000	936,000
Portion of New Treasure Centre	328,000	361,000
Total segment assets	10,147,000	11,126,000
Other assets	364,817	426,230
Consolidated assets	10,511,817	11,552,230

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.

	2020 HK\$'000	2019 HK\$'000
Undiscounted lease payments receivable on leases are as follows:		
Within one year	287,281	305,534
In the second year	128,077	171,340
In the third year	33,601	41,779
In the fourth year	4,731	3,348
In the fifth year	2,024	—
	455,714	522,001

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

**27 CONNECTED AND RELATED PARTY TRANSACTIONS**

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

	Notes	2020 HK\$000	2019 HK\$000
Rent and rental related income from			
E-Park Parking Management Limited	(a)	663	282
Goodwell Property Management Limited	(a)	2,056	1,981
Gama Aviation (HK) Limited (formerly known as Gama Aviation Hutchison (Hong Kong) Limited)	(f)(g)	1,234	1,334
Hutchison Telephone Company Limited	(b)	351	77
Hutchison Whampoa (China) Limited	(b)	8,170	8,170
Carpark lease agency fee for the operations of the Group's carpark			
E-Park Parking Management Limited	(a)	3,012	3,305
Property management fee			
Goodwell-Prosperity Property Services Limited	(a)	10,977	11,288
Marketing service fee			
Goodwell-Prosperity Property Services Limited	(a)	10,566	11,889
Back-office support service fee			
CK Asset Companies	(a)	—	29
Lease commission and consultancy service fee			
Colliers	(c)	215	832
Valuation Fee			
Colliers International (Hong Kong) Limited	(c)	65	182
Trustee's fee			
HSBC Institutional Trust Services (Asia) Limited	(d)	3,239	3,319

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

## 27 CONNECTED AND RELATED PARTY TRANSACTIONS (continued)

	Notes	2020 HK\$000	2019 HK\$000
Manager's fee			
ARA Asset Management (Prosperity) Limited	(e)	53,267	55,314
Building manager's remuneration			
Goodwell Property Management Limited	(a)	583	560
Carpark manager's remuneration			
Goodwell Property Management Limited	(a)	52	51
Citybase Property Management Limited	(a)	40	38
Balances as at year end with connected and related parties are as follows:			
Amount due to			
Citybase Property Management Limited	(a)	486	638
E-Park Parking Management Limited	(a)	259	241
Goodwell-Prosperity Property Services Limited	(a)	2,624	3,033
Goodwell Property Management Limited	(a)	3,611	9,230
Deposits placed with the Group for the lease of the Group's properties			
E-Park Parking Management Limited	(a)	175	175
Goodwell Property Management Limited	(a)	551	551
Gama Aviation (HK) Limited (formerly known as Gama Aviation Hutchison (Hong Kong) Limited)	(f)	354	354
Hutchison Telephone Company Limited	(b)	167	21
Hutchison Whampoa (China) Limited	(b)	2,349	2,349

## Notes:

- (a) These companies are the subsidiaries of CK Asset Holdings Limited ("CK Asset"), a substantial unitholder (defined in the REIT Code as a holder of 10% or more of the outstanding units) of Prosperity REIT.
- (b) These companies are associates (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 was the principal valuer of investment properties up to 30 November 2020. Jones Lang LaSalle Limited is the principal valuer of investment properties from 1 December 2020.
- Principal valuer is no longer a connected person subsequent to the amendment of the REIT Code with effect from 4 December 2020.
- (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.
- (f) Gama Aviation (HK) Limited (formerly known as Gama Aviation Hutchison (Hong Kong)) is an associated company of CK Asset. Associated company of a substantial holder is no longer a connected person subsequent to the amendment of the REIT Code with effect from 4 December 2020. Thus, it ceases to be a connected person of Prosperity REIT with effect from 4 December 2020.
- (g) Amount for the period from 1 January 2020 to 3 December 2020 (2019: from 1 January 2019 to 31 December 2019).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2020

**27 CONNECTED AND RELATED PARTY TRANSACTIONS** *(continued)*

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\$675,000 (2019: HK\$649,000).

**28. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES**

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

	Term loans (Note 15) HK\$'000	Distribution payable HK\$'000	Total HK\$'000
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 1 January 2020	2,319,927	134,881	2,454,808
Financing cash flows	(50,648)	(271,394)	(322,042)
Finance costs	58,661	—	58,661
Distribution to unitholders	—	272,922	272,922
At 31 December 2020	2,327,940	136,409	2,464,349

# 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 2020		As at 31 December 2019			
		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

	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Gross rental from investment properties	391,218	404,603	395,388	393,905	396,468
Net property income	358,038	365,866	350,811	353,600	357,847
Profit/(loss) for the year, before transactions with unitholders	(874,501)	333,105	687,580	748,425	565,244
Distribution to unitholders	272,922	274,651	268,899	261,533	258,362
Earnings/(loss) per unit (HK\$)	(0.58)	0.22	0.46	0.51	0.39
Distribution per unit (HK\$)	0.1791	0.1828	0.1810	0.1780	0.1777

## MAJOR ASSETS AND LIABILITIES OF PROSPERITY REIT AS AT 31 DECEMBER

	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Investment properties	10,147,000	11,126,000	10,990,000	10,490,000	10,777,000 <sup>(3)</sup>
Borrowings, excluding bank facility origination fees	(2,340,000)	(2,340,000)	(2,340,000)	(2,340,000)	(2,890,000)
Net asset value	7,542,506	8,636,754	8,524,411	8,053,743	7,515,721
Net asset value per unit (HK\$) <sup>(1)</sup>	4.95	5.75	5.74	5.48	5.17
<b>Other Information</b>					
The highest traded price during the year (HK\$)	3.07	3.65	3.50	3.46	3.61
The discount of the highest traded price to net asset value	(38.0%)	(36.5%)	(39.0%)	(36.9%)	(30.2%)
The lowest traded price during the year (HK\$)	2.15	2.75	2.76	3.06	2.61
The discount of the lowest traded price to net asset value	(56.6%)	(52.2%)	(51.9%)	(44.2%)	(49.5%)
The net yield per unit based on market price at the end of year	7.4% <sup>(2)</sup>	6.0%	6.0%	5.3%	5.8%

<sup>1</sup> 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.

<sup>2</sup> Based on the distribution per unit of HK\$0.1791 for the year ended 31 December 2020 and the closing market price of HK\$2.42 as at 31 December 2020.

<sup>3</sup> 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 2020

Property	Type	Lease term	Lease expiry date	Location	Valuation 2020 HK\$ Million
The Metropolis Tower	O	Medium-term lease	30 June 2047	10 Metropolis Drive Hung Hom Kowloon Hong Kong	3,080
Prosperity Millennia Plaza	O	Medium-term lease	30 June 2047	663 King's Road North Point Hong Kong	2,139
9 Chong Yip Street	O	Medium-term lease	30 June 2047	9 Chong Yip Street Kwun Tong Kowloon Hong Kong	1,032
Prosperity Place	C	Medium-term lease	30 June 2047	6 Shing Yip Street Kwun Tong Kowloon Hong Kong	1,684
Trendy Centre	I/O	Medium-term lease	30 June 2047	682 Castle Peak Road Lai Chi Kok Kowloon Hong Kong	1,036
Prosperity Center (portion)	I/O	Medium-term lease	30 June 2047	25 Chong Yip Street Kwun Tong Kowloon Hong Kong	848
New Treasure Centre (portion)	I	Medium-term lease	30 June 2047	10 Ng Fong Street San Po Kong Kowloon Hong Kong	328
<b>Total</b>					<b>10,147</b>

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

# SUMMARY FINANCIAL INFORMATION

Following is a summary of the consolidated 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 2020:

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

	Year ended 31 Dec 2020 HK\$'000	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
Revenue	452,894	462,314	446,814	446,242	452,926
(Loss)/profit before taxation and transactions with unitholders	(834,643)	375,040	725,520	788,162	603,101
Taxation	(39,858)	(41,935)	(37,940)	(39,737)	(37,857)
(Loss)/profit for the years, before transactions with unitholders	(874,501)	333,105	687,580	748,425	565,244
Distribution to unitholders	272,922	274,651	268,899	261,533	258,362
Distribution per unit (HK\$)	0.1791	0.1828	0.1810	0.1780	0.1777

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	2020 HK\$'000	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000
Non-current assets	10,147,000	11,153,288	11,011,065	10,510,341	10,221,436
Current assets	364,817	398,942	374,958	373,646	707,336
Current liabilities	1,173,594	385,613	352,297	338,091	404,198
Net assets attributable to unitholders	7,542,506	8,636,754	8,524,411	8,053,743	7,515,721

# 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

*Registered Public Interest Entity Auditors*

## PRINCIPAL VALUER

Jones Lang LaSalle Limited

## PRINCIPAL BANKERS

DBS Bank Limited

Sumitomo Mitsui Banking Corporation

The Hongkong and Shanghai Banking Corporation Limited

## LEGAL ADVISER

Baker & McKenzie

## REGISTERED OFFICE

Unit 901, Level 9, Fortune Metropolis  
6 The Metropolis Drive, Hunghom, 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

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Email: [prosperityenquiry@ara-group.com](mailto:prosperityenquiry@ara-group.com)

## WEBSITE

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

## KEY DATES

Annual Results Announcement	4 March 2021
Closure of Register of Unitholders for Final Distribution	23 March to 24 March 2021 (both days inclusive)
Payment of Final Distribution	7 April 2021
Closure of Register of Unitholders for Annual General Meeting	17 May to 21 May 2021 (both days inclusive)
Annual General Meeting	21 May 2021

This annual report 2020 ("Annual Report") is available in both English and Chinese versions. Unitholders who have received either the English or the Chinese version of the Annual Report may request a copy on the other language by writing to Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, or email to [prosperityreit.ecom@computershare.com.hk](mailto:prosperityreit.ecom@computershare.com.hk).

The Annual Report (in both English and Chinese versions) has been posted on Prosperity REIT's website at [www.prosperityreit.com](http://www.prosperityreit.com) and the website of Hong Kong Exchanges and Clearing Limited at [www.hkexnews.hk](http://www.hkexnews.hk). Unitholders who have chosen (or are deemed to have consented) to receive Prosperity REIT's Corporate Communication (including but not limited to annual report, interim report, notice of meeting, listing documents, circular and proxy form) by electronic means through Prosperity REIT's website and who for any reason have difficulty in receiving or gaining access to the Annual Report posted on Prosperity REIT's website may request a printed copy of the Annual Report free of charge.

Unitholders may at any time change the choice of means of receipt (i.e. in printed form or by electronic means through Prosperity REIT's website) and/or language of Prosperity REIT's Corporate Communication by reasonable prior notice in writing to Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited, either by post or by email to [prosperityreit.ecom@computershare.com.hk](mailto:prosperityreit.ecom@computershare.com.hk).



STOCK CODE: 808



[WWW.PROSPERITYREIT.COM](http://WWW.PROSPERITYREIT.COM)

Manager



ARA Asset Management (Prosperity) Limited

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ARA Asset Management (Prosperity) Limited

