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If you are in any doubt as to any aspect of this Circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all of your units in Prosperity REIT, you should at once hand this Circular, together with the accompanying form of proxy, to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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))

(Stock Code: 808)

Managed by



ARA Asset Management (Prosperity) Limited

CIRCULAR TO UNITHOLDERS IN RELATION TO
(1) EXTENSION OF CONTINUING CONNECTED PARTY TRANSACTION WAIVER
AND PROPOSED NEW ANNUAL CAPS FOR
CERTAIN CONTINUING CONNECTED PARTY TRANSACTIONS;
(2) CONTINUAL SERVICE OF
RELEVANT INDEPENDENT NON-EXECUTIVE DIRECTORS;
(3) PROPOSED GRANT OF GENERAL MANDATE
TO BUY BACK UNITS;
AND
(4) NOTICE OF ANNUAL GENERAL MEETING

**Independent Financial Adviser to the Independent Board Committee of
the REIT Manager, the Independent Unitholders and the Trustee**



A letter to the Unitholders is set out on pages 7 to 24 of this Circular.

A notice convening the AGM to be held at 2:30 p.m. on Friday, 17 May 2019 at Exhibition Venue A on Level 7, Fortune Metropolis, 6 The Metropolis Drive, Hung Hom, Kowloon, Hong Kong is set out on pages N-1 to N-4 of this Circular. Whether or not you are able to attend and vote at the AGM in person, please complete and return the accompanying form of proxy to the Unit Registrar of Prosperity REIT, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong in accordance with the instructions printed thereon as soon as possible and in any event not less than 48 hours before the time appointed for holding the AGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the AGM or any adjournment thereof should you so wish.

10 April 2019

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CORPORATE INFORMATION

Prosperity REIT	Prosperity Real Estate Investment Trust, a collective investment scheme constituted as a unit trust and authorised under section 104 of the SFO subject to applicable conditions from time to time.
REIT Manager	ARA Asset Management (Prosperity) Limited (in its capacity as manager of Prosperity REIT) Unit 901, Level 9, Fortune Metropolis 6 The Metropolis Drive Hung Hom, Kowloon Hong Kong
Directors of the REIT Manager	<i>Non-executive Directors</i> Dr. Chiu Kwok Hung, Justin (<i>Chairman</i>) Mr. Lim Hwee Chiang Mr. Ma Lai Chee, Gerald <i>Executive Director</i> Ms. Wong Lai Hung <i>Independent Non-executive Directors</i> Dr. Lan Hong Tsung, David Mrs. Sng Sow-Mei (alias Poon Sow Mei) Mr. Wong Kwai Lam
Trustee	HSBC Institutional Trust Services (Asia) Limited (in its capacity as trustee of Prosperity REIT) 1 Queen's Road Central Hong Kong
Unit Registrar	Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre 183 Queen's Road East, Wanchai Hong Kong
Legal Advisers to the REIT Manager	Baker & McKenzie 14th Floor, One Taikoo Place 979 King's Road Quarry Bay Hong Kong
Independent Financial Adviser to the Independent Board Committee, the Independent Unitholders and the Trustee	Ballas Capital Limited Unit 1802, 18/F 1 Duddell Street, Central Hong Kong

DEFINITIONS

In this Circular, the following definitions apply throughout unless otherwise stated. Also, where terms are defined and used in only one section of this document, these defined terms are not included in the table below:

2016 EGM	The extraordinary general meeting of Unitholders held on 6 May 2016.
2016 Extended Waiver	The waiver granted by the SFC on 6 May 2016 as more fully described in the circular dated 5 April 2016 issued by the REIT Manager to the Unitholders.
2019 Extended Waiver	Has the meaning ascribed to it in section 2.3 of this Circular headed “Extension of the 2016 Extended Waiver”.
2019 Waiver Extension	Has the meaning ascribed to it in section 2.3 of this Circular headed “Extension of the 2016 Extended Waiver”.
AGM	The annual general meeting of Unitholders to be convened on Friday, 17 May 2019 at 2:30 p.m. at Exhibition Venue A on Level 7, Fortune Metropolis, 6 The Metropolis Drive, Hunghom, Kowloon, Hong Kong.
AGM Notice	The notice included in this Circular in respect of the AGM to consider and, if thought fit, approve the resolutions to be proposed at the AGM.
Articles of Association	The articles of association of the REIT Manager.
Audit Committee	The audit committee of the REIT Manager.
Board	The board of directors of the REIT Manager.
Buy-back Mandate	The general mandate authorising the buy-back by Prosperity REIT of up to 10% of the Units in issue at the date of passing the Ordinary Resolution to approve the Buy-back Mandate on the Hong Kong Stock Exchange, as more fully described in this Circular.
CK Asset	CK Asset Holdings Limited (formerly known as Cheung Kong Property Holdings Limited), a company incorporated in the Cayman Islands with limited liability, whose shares are listed on the Main Board of the Hong Kong Stock Exchange (Stock Code: 1113).

DEFINITIONS

CK Asset Connected Persons Group	CK Asset and any person who is connected to CK Asset as described in paragraphs 8.1(e), (f) or (g) of the REIT Code, including: (i) any director, senior executive or officer of CK Asset; (ii) any associate (as defined in the REIT Code) of CK Asset or of any director, senior executive or officer of CK Asset; and (iii) any controlling entity, holding company, subsidiary or associated company (as defined in the REIT Code) of CK Asset.
CK Asset Connected Persons Group Leases/Licences	Has the meaning ascribed to it in section 2.3 of this Circular headed “Extension of the 2016 Extended Waiver”.
Compliance Manual	The compliance manual of the REIT Manager.
Connected Person	Has the meaning ascribed to it in the REIT Code.
Continuing Connected Party Transactions	The continuing connected party transactions between the Prosperity REIT Group on one part and the CK Asset Connected Persons Group and/or the Manager Group on the other part, the details of which are set out in this Circular.
Designated (Finance) Committee	The designated (finance) committee of the REIT Manager.
Directors	The directors of the REIT Manager.
Disclosures Committee	The disclosures committee of the REIT Manager.
Existing Properties	The seven properties held by Prosperity REIT as at the Latest Practicable Date, as described in the annual report of Prosperity REIT for the year ended 31 December 2018.
Hong Kong	The Hong Kong Special Administrative Region of the People’s Republic of China.
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited.
Independent Board Committee	The independent committee of the Board established to advise the Independent Unitholders on the 2019 Waiver Extension and the New Annual Caps, comprising Dr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Wong Kwai Lam, being all three of the INEDs.

DEFINITIONS

Independent Financial Adviser	Ballas Capital Limited, a corporation licensed to carry out type 1 (dealing in securities) and type 6 (advising in corporate finance) regulated activities as defined under the SFO and in its capacity as the independent financial adviser for the purpose of paragraph 10.10(p) of the REIT Code.
Independent Unitholders	Unitholders other than those who have a material interest in the relevant resolutions, within the meaning of paragraph 8.11 of the REIT Code.
INED	Independent Non-executive Director of the REIT Manager.
Latest Practicable Date	1 April 2019, being the latest practicable date prior to the printing of this Circular for the purpose of ascertaining certain information contained in this Circular.
Listing Date	16 December 2005, being the date on which Prosperity REIT was listed on the Hong Kong Stock Exchange.
Listing Rules	The Rules Governing the Listing of Securities on Hong Kong Stock Exchange, as amended, supplemented or otherwise modified for the time being.
Manager Group	The REIT Manager and any person who is connected to the REIT Manager as described in paragraphs 8.1(e), (f) or (g) of the REIT Code, including: (i) any director, senior executive or officer of the REIT Manager; (ii) any associate (as defined in the REIT Code) of the REIT Manager or of any director, senior executive or officer of the REIT Manager; and (iii) any controlling entity, holding company, subsidiary or associated company (as defined in the REIT Code) of the REIT Manager.
Manager Group Leases/ Licences	Has the meaning ascribed to it in section 2.3 of this Circular headed “Extension of the 2016 Extended Waiver”.
Matters Requiring Approval	Has the meaning ascribed to it in section 1 of this Circular headed “Introduction”.
New Annual Caps	Has the meaning ascribed to it in section 2.4 of this Circular headed “2019 Waiver Extension and New Annual Caps”.
New CPT Waiver Period	Has the meaning ascribed to it in section 2.3 of this Circular headed “Extension of the 2016 Extended Waiver”.
Ordinary Resolution	A resolution passed by a simple majority of the votes of those Unitholders present and entitled to vote in person or by proxy at a duly convened meeting by way of a poll, but with a quorum of two or more Unitholders holding 10% of Units in issue.

DEFINITIONS

Property Management Agreement	The property management agreement dated 29 November 2005 entered into between the REIT Manager and the Property Manager, as amended, supplemented and/or otherwise modified or extended from time to time.
Property Management Transactions	Has the meaning ascribed to it in section 2.3 of this Circular headed “Extension of the 2016 Extended Waiver”.
Property Manager	Goodwell-Prosperity Property Services Limited, a company incorporated in Hong Kong.
Prosperity REIT	Prosperity Real Estate Investment Trust.
Prosperity REIT Group	Prosperity REIT and companies or entities held or controlled by it.
REIT	Real estate investment trust.
REIT Code	The Code on Real Estate Investment Trusts published by the SFC as amended, supplemented or otherwise modified for the time being.
REIT Manager	ARA Asset Management (Prosperity) Limited, in its capacity as manager of Prosperity REIT.
Relevant INEDs Continual Service	The proposed continual service of each of Dr. Lan Hong Tsung, David and Mrs. Sng Sow-Mei (alias Poon Sow Mei) as an INED until the third annual general meeting of Unitholders following the AGM.
SFC	The Securities and Futures Commission of Hong Kong.
SFC Circular	The “Circular to Management Companies of SFC-authorized Real Estate Investment Trusts — On-market Unit Repurchases by SFC-authorized REITs” issued by the SFC on 31 January 2008.
SFO	The Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).
Takeovers Code	The Hong Kong Code on Takeovers and Mergers and Share Buy-backs, as amended, supplemented or otherwise modified for the time being.
Trust Deed	The trust deed entered into between the Trustee and the REIT Manager constituting Prosperity REIT, dated 29 November 2005 and as amended, varied and supplemented from time to time.

DEFINITIONS

Trustee	HSBC Institutional Trust Services (Asia) Limited, in its capacity as trustee of Prosperity REIT. All references to the Trustee in this Circular are, as the context may require, to the Trustee acting on behalf of Prosperity REIT and on the instruction of the REIT Manager.
Unit	One undivided unit in Prosperity REIT.
Unit Registrar	Computershare Hong Kong Investor Services Limited, in its capacity as the unit registrar of Prosperity REIT.
Unitholder	Any person registered as holding a Unit and any person holding Units through the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited.

Words importing the singular shall, where applicable, include the plural and vice versa and words importing the masculine gender shall, where applicable, include the feminine and neuter genders. References to persons shall include corporations.

Any reference in this Circular to any enactment is a reference to that enactment for the time being amended or re-enacted.

Any reference to a time of day in this Circular shall be a reference to Hong Kong time unless otherwise stated.



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))

(Stock Code: 808)

Managed by



ARA Asset Management (Prosperity) Limited

Directors of the REIT Manager:

Non-executive Directors

Dr. Chiu Kwok Hung, Justin (*Chairman*)
Mr. Lim Hwee Chiang
Mr. Ma Lai Chee, Gerald

Executive Director

Ms. Wong Lai Hung

Independent Non-executive Directors

Dr. Lan Hong Tsung, David
Mrs. Sng Sow-Mei (alias Poon Sow Mei)
Mr. Wong Kwai Lam

Registered Office of the REIT Manager:

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

10 April 2019

To: Unitholders of Prosperity REIT

Dear Sir or Madam,

**(1) EXTENSION OF CONTINUING CONNECTED PARTY TRANSACTION WAIVER AND PROPOSED NEW ANNUAL CAPS FOR CERTAIN CONTINUING CONNECTED PARTY TRANSACTIONS;
(2) CONTINUAL SERVICE OF RELEVANT INDEPENDENT NON-EXECUTIVE DIRECTORS;
(3) PROPOSED GRANT OF GENERAL MANDATE TO BUY BACK UNITS;
AND
(4) NOTICE OF ANNUAL GENERAL MEETING**

1. INTRODUCTION

References are made to the announcement dated 9 April 2019 by the REIT Manager in connection with, among other things: (i) the 2019 Waiver Extension and the New Annual Caps; (ii) the Relevant INEDs Continual Service; and (iii) the Buy-back Mandate (collectively, the “**Matters Requiring Approval**”). The purposes of this Circular are to: (1) provide you with further information in respect of, among other things, the Matters Requiring Approval; (2) set out the recommendation of the Independent Board Committee in relation to the 2019 Waiver Extension and the New Annual Caps; (3) set out the recommendation of the Independent Financial Adviser to the Independent Board Committee, the Independent Unitholders and the Trustee in relation to the 2019 Waiver Extension and the New Annual Caps; and (4) serve the AGM Notice.

The resolutions as set out in the AGM Notice seek: (a) Independent Unitholders’ approval for the 2019 Waiver Extension and the New Annual Caps; (b) Unitholders’ approval for the Relevant INEDs Continual Service; and (c) Unitholders’ approval for the Buy-back Mandate, in each case as more particularly described in this Circular.

2. 2019 WAIVER EXTENSION AND NEW ANNUAL CAPS

2.1 Existing waivers in relation to certain continuing connected party transactions under Chapter 8 of the REIT Code

As disclosed in the offering circular dated 5 December 2005 of Prosperity REIT, the REIT Manager applied for, and the SFC granted a waiver from strict compliance with the requirements of Chapter 8 of the REIT Code in respect of certain connected party transactions of Prosperity REIT on 30 November 2005. As disclosed in subsequent circulars and announcements, this waiver was subsequently modified and extended on 19 November 2008, 21 June 2011, 15 January 2014, 3 June 2015 and 6 May 2016.

2.2 Expiration of the 2016 Extended Waiver

The 2016 Extended Waiver will expire on 31 December 2019. In accordance with the terms of the 2016 Extended Waiver, it may be extended beyond 31 December 2019, and/or the terms and conditions may be modified from time to time, provided that:

- (a) the due approval of Independent Unitholders is obtained by way of an Ordinary Resolution passed in a general meeting of Unitholders;
- (b) disclosure of details of the proposed extension and/or modification (as the case may be) shall be made by way of an announcement by the REIT Manager of such proposal, and a circular and notice shall be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and

LETTERS TO UNITHOLDERS

- (c) any extension of the period of the 2016 Extended Waiver shall, on each occasion of such extension, be for a period which shall expire not later than the third full financial year-end date of Prosperity REIT after the date on which the approval referred to in paragraph (a) above is obtained.

2.3 Extension of the 2016 Extended Waiver

The REIT Manager expects that Continuing Connected Party Transactions will continue to be conducted between the Prosperity REIT Group, and the CK Asset Connected Persons Group and/or the Manager Group, beyond the expiry of the 2016 Extended Waiver.

Given the regular, ordinary and ongoing nature of the Continuing Connected Party Transactions, the REIT Manager is of the view that it will be unduly burdensome and not in the interests of the Unitholders for Prosperity REIT to be subject to strict compliance with the requirements under Chapter 8 of the REIT Code with respect to the Continuing Connected Party Transactions on each and every occasion they arise, and accordingly, the REIT Manager has applied to the SFC for an extension of the 2016 Extended Waiver (the “**2019 Waiver Extension**”) so that the resulting extended waiver (the “**2019 Extended Waiver**”) applies for the three financial years ending 31 December 2022 (the “**New CPT Waiver Period**”). The 2019 Extended Waiver shall cover the New CPT Waiver Period, and as part of its submission, the REIT Manager has also proposed New Annual Caps for the New CPT Waiver Period which are more particularly described in section 2.4 headed “2019 Waiver Extension and New Annual Caps” below.

The categories of Continuing Connected Party Transactions (including scope and nature) with respect to which the 2019 Extended Waiver is sought are the same as the Continuing Connected Party Transactions in respect of which the 2016 Extended Waiver was granted. The categories of Continuing Connected Party Transactions are:

2.3.1 Revenue Transactions

(a) Leasing or Licensing Transactions

As part of the Prosperity REIT Group’s ordinary and usual course of business, leasing or licensing transactions have been, or may from time to time be, entered into by the Prosperity REIT Group with members of the CK Asset Connected Persons Group (the “**CK Asset Connected Persons Group Leases/Licences**”) and/or members of the Manager Group (the “**Manager Group Leases/Licences**”).

2.3.2 Expenditure Transactions

The Prosperity REIT Group and members of the CK Asset Connected Persons Group have entered into various Continuing Connected Party Transactions relating to property management arrangements, third party services and other operational transactions in respect of Prosperity REIT and its assets and operations (the “**Property Management Transactions**”) which comprise the following:

(a) Property Management Arrangements

Under the Property Management Agreement, the REIT Manager has delegated the property and lease management and marketing functions in respect of Prosperity REIT’s real estate assets to the Property Manager, which is a subsidiary of CK Asset and a Connected Person of Prosperity REIT. Pursuant to the Property Management Agreement, the Property Manager is entitled to a fee of 3% per annum of the gross property revenue for the provision of property and lease management services, and commissions for provision of marketing services which are calculated by reference to the duration of the relevant leases/licences entered into or renewed and the total rental/licence fees payable.

(b) Third Party Services

Under the Property Management Agreement, the Property Manager, as agent for the relevant owners of the properties held by Prosperity REIT, has entered into, and will continue to enter into contracts with third party service providers for the provision of, among other things, cleaning, maintenance, security, car park management and other ancillary services in respect of the relevant properties. Some of these third party service providers are or may be members of the CK Asset Connected Persons Group. In consideration for such services, Prosperity REIT will pay fees to these third party service providers.

(c) Other Operational Transactions

The Prosperity REIT Group may also enter into operational transactions (other than property management arrangements and third party services) with members of the CK Asset Connected Persons Group. For example, each owner of the properties held by Prosperity REIT would, where applicable, be bound by the terms of the deed of mutual covenant applicable to the property owned by it. The deed of mutual covenant binds the manager under the deed of mutual covenant (the “**DMC Manager**”) and all the owners of the development and their successor-in-title, irrespective of whether they are original parties to the deed of mutual covenant. Some of the DMC Managers in respect of the properties held by Prosperity REIT are members of the CK Asset Connected Persons Group.

LETTERS TO UNITHOLDERS

2.4 2019 Waiver Extension and New Annual Caps

2.4.1 Historical transaction amount and New Annual Caps

The table below states: (i) the historical transaction amounts in respect of the Continuing Connected Party Transactions for each of the three financial years ended 31 December 2016, 31 December 2017 and 31 December 2018 and the two-month period ended 28 February 2019; and (ii) the proposed annual monetary limits for Continuing Connected Party Transactions falling within the New CPT Waiver Period (the “**New Annual Caps**”). The New Annual Caps have been determined with general reference to the historical transaction amounts, and are based on the anticipated aggregate value of such transactions for each of the three financial years ending 31 December 2020, 31 December 2021 and 31 December 2022, with a buffer for contingencies such as changes in rental or other market conditions.

Categories of Continuing Connected Party Transactions	Connected Person	Historical transaction amounts				New Annual Caps		
		For the financial year ended 31 December 2016	For the financial year ended 31 December 2017	For the financial year ended 31 December 2018	For the two-month period ended 28 February 2019	For the financial year ending 31 December 2020	For the financial year ending 31 December 2021	For the financial year ending 31 December 2022
		(HK\$)	(HK\$)	(HK\$)	(HK\$) Note	(HK\$)	(HK\$)	(HK\$)
I. Revenue								
Leasing/licensing transactions	CK Asset Connected Persons Group	2,749,181	2,848,886	6,856,780	2,028,215	—	—	—
Annual Cap		33,000,000	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000	33,000,000
Leasing/licensing transactions	Manager Group	—	—	—	—	—	—	—
Annual Cap		5,100,000	5,100,000	5,100,000	5,100,000	5,100,000	5,100,000	5,100,000
II. Expenditure								
Property management arrangements, third party services and other operational transactions	CK Asset Connected Persons Group	25,135,198	26,115,091	27,355,100	4,129,171	—	—	—
Annual Cap		35,600,000	37,400,000	39,300,000	41,300,000	43,400,000	45,600,000	47,900,000

Note: As at the Latest Practicable Date, only figures up to 28 February 2019 are available.

2.4.2 In respect of the CK Asset Connected Persons Group Leases/Licences

The New Annual Caps in respect of the CK Asset Connected Persons Group Leases/Licences for each of the three financial years ending 31 December 2020, 31 December 2021 and 31 December 2022 have been determined based on:

- (a) the sum of the highest transaction amounts for the financial years between the Listing Date to 31 December 2018 incurred for the properties held by Prosperity REIT in respect of each of the tenants/

LETTERS TO UNITHOLDERS

licensees from the CK Asset Connected Persons Group Leases/Licences (provided that the same unit was occupied by only one such tenant/licensee at any time during such period), which was HK\$30,322,349;

- (b) an increment factor of 7.4% which is derived from the average rental reversion rate of 7.6% and 7.2% for the financial years ended 31 December 2017 and 31 December 2018, respectively, representing the steady rental growth of Prosperity REIT, and resulting in HK\$32,566,203 after multiplying by the aforesaid increment factor; and
- (c) a buffer of 1.3% built on top of the resulting amount as stated in paragraph (b) above which caters for the flexibility required to facilitate additional CK Asset Connected Persons Group Leases/Licences to be entered into in respect of the Existing Properties in the future as a result of potential and growing demand from CK Asset Connected Persons Group for leasing/licensing services which are expected to be driven by further business development of CK Asset.

2.4.3 In respect of the Manager Group Leases/Licences

The Manager Group does not currently have any leases/licences in respect of the Existing Properties. However, it is possible that such leases/licences may be entered into at some time during the New CPT Waiver Period.

As such, the REIT Manager considers it is unnecessary to increase the New Annual Caps in respect of the Manager Group Leases/Licences and intends to maintain the proposed annual monetary limit for each of the three financial years ending 31 December 2020, 31 December 2021 and 31 December 2022 at the amount which is equivalent to the annual monetary limit of HK\$5,100,000 on the Manager Group Leases/Licences for each of the three financial years ended/ending 31 December 2017, 31 December 2018 and 31 December 2019. The REIT Manager considers that such annual monetary limit is reasonably sufficient to cater for the Manager Group Leases/Licences should the Manager Group look for office premises for expansion or relocation in Hong Kong.

2.4.4 In respect of the Property Management Transactions

The New Annual Caps in respect of the Property Management Transactions for each of the three financial years ending 31 December 2020, 31 December 2021 and 31 December 2022 have been determined based on:

- (a) the sum of the highest annual transaction amounts for the financial years between the Listing Date to 31 December 2018 incurred for each of the properties held by Prosperity REIT in respect of each category of the Property Management Transactions, which was HK\$28,814,925;

- (b) an increment factor of 43.4% built on top of the abovementioned sum of highest annual transaction amounts which includes: (i) an approximate 10.0% increase in staff and wages costs; and (ii) the remaining 33.4% to cater for the anticipated increase in marketing service fees and property management fees as a result of the increase of gross revenue generated from the Existing Properties (including that generated from the possible additional CK Asset Connected Persons Group Leases/Licences and possible Manager Group Leases/Licences) during the New CPT Waiver Period; and
- (c) a buffer of 5.0%, which takes into account inflation.

2.5 Historical transaction amounts

The annual value of the Continuing Connected Party Transactions entered into between the Prosperity REIT Group on the one hand, and the CK Asset Connected Persons Group and/or the Manager Group (as the case may be) on the other hand for the past three financial years have been published in the reports as follows:

- (i) the annual value of the Continuing Connected Party Transactions of Prosperity REIT for the year ended 31 December 2016 is disclosed in the annual report of Prosperity REIT for the year ended 31 December 2016;
- (ii) the annual value of the Continuing Connected Party Transactions of Prosperity REIT for the year ended 31 December 2017 is disclosed in the annual report of Prosperity REIT for the year ended 31 December 2017; and
- (iii) the annual value of the Continuing Connected Party Transactions of Prosperity REIT for the year ended 31 December 2018 is disclosed in the annual report of Prosperity REIT for the year ended 31 December 2018.

2.6 Waiver conditions of the 2019 Extended Waiver

The REIT Manager undertakes that it will comply with the waiver conditions of the 2019 Extended Waiver, which will be the same as the waiver conditions of the 2016 Extended Waiver, except for the proposed revisions to the annual monetary limits and waiver expiry date described above. The waiver conditions of the 2019 Extended Waiver will be as follows:

2.6.1 Due approval by Independent Unitholders

The due approval by Independent Unitholders and adoption of the Ordinary Resolution in respect of the 2019 Waiver Extension and the New Annual Caps as set out in the AGM Notice, without material amendments thereto.

LETTERS TO UNITHOLDERS

2.6.2 Modification or extension

The 2019 Extended Waiver may be extended beyond 31 December 2022, and/or the terms and conditions of the 2019 Extended Waiver may be modified from time to time, provided that:

- (a) Independent Unitholders' approval — the due approval of Independent Unitholders is obtained by way of an Ordinary Resolution passed in a general meeting of Unitholders;
- (b) Disclosure — disclosure of details of the proposed extension and/or modification (as the case may be) shall be made by way of an announcement by the REIT Manager of such proposal, and a circular and notice shall be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (c) Extension period — any extension of the period of the 2019 Extended Waiver shall, on each occasion of such extension, be for a period which shall expire not later than the third full financial year-end date of Prosperity REIT after the date on which the approval referred to in paragraph (a) above is obtained.

For the avoidance of doubt, any material change to the transactions covered under the 2019 Extended Waiver (including without limitation the scope or nature of the transactions) as set out in this Circular and the announcement dated 9 April 2019 based on which the waiver is sought and granted must be approved by the Independent Unitholders as referred to in paragraph (a) above and details of the proposed changes shall be disclosed in the manner as referred to in paragraph (b) above.

2.6.3 Annual caps

The annual value of the Continuing Connected Party Transactions shall not exceed the respective New Annual Cap stated in section 2.4 headed "2019 Waiver Extension and New Annual Caps".

In respect of leasing/licensing transactions, an independent valuation shall be conducted for each of such leasing/licensing transactions except where they are conducted on standard or published rates.

2.6.4 Disclosure in interim and annual reports

Details of the Continuing Connected Party Transactions shall be disclosed in Prosperity REIT's interim and annual reports, as required under paragraph 8.14 of the REIT Code.

2.6.5 Auditors' review procedures

In respect of each relevant financial year, the REIT Manager shall engage and agree with the auditors of Prosperity REIT to perform certain review procedures on the Continuing Connected Party Transactions. The auditors shall then report to the REIT Manager on the factual findings based on the work performed by them (and a copy of such report shall be provided to the SFC), confirming whether all such Continuing Connected Party Transactions:

- (a) have received the approval of the Board (including its INEDs);
- (b) are in accordance with the pricing policies of Prosperity REIT;
- (c) have been entered into in accordance with the terms of the agreements governing the transactions; and
- (d) the total value in respect of which has not exceeded the respective annual monetary limits (where applicable) as set out above.

2.6.6 Review by the INEDs

The INEDs shall review the Continuing Connected Party Transactions annually and confirm in Prosperity REIT's annual report for the relevant financial year that such 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 and the REIT Manager's internal procedures governing them (if any) on terms that are fair and reasonable and in the interests of Independent Unitholders, as well as the Unitholders as a whole.

2.6.7 Auditors' access to books and records

The REIT Manager shall allow, and shall procure the counterparty to the relevant Continuing Connected Party Transactions to allow, the auditors of Prosperity REIT sufficient access to their records for the purpose of reporting on the transactions.

2.6.8 Notification to the SFC

The REIT Manager shall promptly notify the SFC and publish an announcement if it knows or has reason to believe that the auditors and/or the INEDs will not be able to confirm the matters set out in sections 2.6.5 headed “Auditors’ review procedures” and 2.6.6 headed “Review by the INEDs”.

2.6.9 Subsequent increases in annual caps with Independent Unitholders’ approval

If necessary, for example, where there are further asset acquisitions by Prosperity REIT thereby increasing the scale of its operations generally, or where there are changes in market or operating conditions, the REIT Manager may, from time to time in the future, seek to increase one or more of the annual limits set out above, provided that:

- (a) Independent Unitholders’ approval — the approval of Independent Unitholders is obtained by way of an Ordinary Resolution passed in a general meeting of Unitholders;
- (b) Disclosure — disclosure of details of the proposal to increase the relevant annual cap amounts shall be made by way of an announcement by the REIT Manager of such proposal, and a circular and notice shall be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (c) Other compliance requirements — all the waiver terms and conditions described in this section 2.6 shall continue to apply to the relevant transactions, save that the relevant increased annual cap amounts shall apply.

2.6.10 Paragraph 8.14 of the REIT Code

The REIT Manager shall comply with all requirements under paragraph 8.14 of the REIT Code where there is any material change to the terms of the relevant connected party transactions or where there is any subsequent change to the REIT Code which may impose stricter requirements in respect of disclosure and/or Unitholders’ approval.

Details of the Continuing Connected Party Transactions shall be disclosed in the interim and annual reports of Prosperity REIT in the relevant financial year as required under paragraph 8.14 of the REIT Code. The INEDs shall review the Continuing Connected Party Transactions annually and confirm whether such transactions are carried out in the ordinary and usual course of business of Prosperity REIT based on normal commercial terms and in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Unitholders.

LETTERS TO UNITHOLDERS

3. CONTINUAL SERVICE OF RELEVANT INDEPENDENT NON-EXECUTIVE DIRECTORS

Both Dr. Lan Hong Tsung, David (currently an INED and the chairman of the Audit Committee and a member of the Disclosures Committee and the Designated (Finance) Committee) and Mrs. Sng Sow-Mei alias Poon Sow Mei (currently an INED and a member of the Audit Committee) have served on the Board since 2005. At the 2016 EGM, Unitholders approved each of their continual service until the third annual general meeting of Unitholders following the 2016 EGM. In accordance with the Articles of Association and the Compliance Manual, separate Ordinary Resolutions will be proposed for Unitholders to consider and, if thought fit, approve the continual service of Dr. Lan and Mrs. Sng until the third annual general meeting of Unitholders following the AGM.

The Board (with each of Dr. Lan and Mrs. Sng abstaining from participating in discussions relating to himself and herself respectively) has assessed the independence of each of Dr. Lan and Mrs. Sng, having regard to the criteria for independence under Rule 3.13 of the Listing Rules (as if they were applicable to Prosperity REIT) and the Compliance Manual, and considers each of them to be independent and believes that they should continue to serve as INEDs for the reasons set out below.

Dr. Lan and Mrs. Sng have always contributed objectively in advising and giving independent guidance to the Board in their capacity as INEDs and as members of different Board committees. Both directors place great importance on the REIT Manager observing high standards of corporate governance, and expressed impartial views on the strategy, business, operations, performance and risk management of the REIT Manager and Prosperity REIT. The REIT Manager has also received annual confirmations from Dr. Lan and Mrs. Sng regarding their independence in accordance with Rule 3.13 of the Listing Rules (as if they were applicable to Prosperity REIT) and the Compliance Manual, and the Board is of the view that both Directors will continue to meet the Director's independence requirements stated therein.

Given that each of Dr. Lan and Mrs. Sng holds fewer than six listed company directorships, has regularly attended the meetings of the Board and the Board committees of which he or she is a member and actively participated in the deliberations in such meetings and has continually kept abreast of current trends and issues relevant to the REIT industry and refreshed his or her skills and knowledge through ongoing training, the Board is of the view that each of them has devoted, and will be able to continue to devote, sufficient time and effort to the Board and discharge his or her duties effectively.

The Board has also considered the contributions of each of Dr. Lan and Mrs. Sng to the diversity of the Board and is satisfied that each of them has the requisite perspectives, skills and experience that would enhance the diversity of the Board as a whole in a manner relevant to the strategic objectives and business of the REIT Manager and Prosperity REIT. Dr. Lan possesses a wealth of knowledge and experience in the areas of macroeconomics, public sector management and corporate governance, and Mrs. Sng has wide experience in various fields of industrial investment, business development, strategic and financial management, and in particular, property investment and management. In addition to their

LETTERS TO UNITHOLDERS

respective individual expertise which add to the overall dynamism of the Board, both of them have demonstrated in-depth understanding, acquired over their years of service, of the REIT market in general. Taking into account the current Board composition and synergies, and the respective contributions of Dr. Lan and Mrs. Sng to the collective effectiveness of the Board in discharging its functions, the Board believes that the continued membership of Dr. Lan and Mrs. Sng on the Board will ensure continuity of experience without compromising the Board's oversight capabilities, the rigour of Board discussions and diversity of perspectives.

Taking into consideration of the above, the Board is of the view that the length of service of each of Dr. Lan and Mrs. Sng has not, in any way, diminished their independence, and that each of Dr. Lan and Mrs. Sng is independent notwithstanding the fact that each of them has served on the Board for more than nine years as at the date of this Circular. The Board is also of the view that each of Dr. Lan and Mrs. Sng has shown the requisite level of competency and commitment to effectively discharge their respective duties as INEDs. Accordingly, the Board believes that each of Dr. Lan and Mrs. Sng possesses the required integrity and experience to continue fulfilling their respective roles as INEDs, and their continued tenures will continue to bring valuable insights and expertise to the Board. The Board further notes that both Dr. Lan and Mrs. Sng have historically enjoyed strong Unitholders' support for their continual service as INEDs, as demonstrated by the high level of Unitholders' approval each of them received during the 2016 EGM. As such, the Board believes that each of Dr. Lan and Mrs. Sng should continue to serve as INEDs beyond the AGM, and that the Relevant INEDs Continual Service is in the best interests of Prosperity REIT and the Unitholders as a whole.

Subject to the passing of the abovementioned Ordinary Resolutions, the continual service of Dr. Lan and Mrs. Sng shall be subject to the annual retirement and re-election requirements under the Articles of Association applicable to all Directors.

Biographical details and other relevant information of each of Dr. Lan and Mrs. Sng are set out in Appendix I and Appendix II to this Circular respectively.

4. PROPOSED GRANT OF GENERAL MANDATE TO BUY BACK UNITS

At the annual general meeting of Unitholders held on 11 May 2018, an Ordinary Resolution was passed to grant a general mandate to the REIT Manager on behalf of Prosperity REIT to buy back Units of up to 10% of the aggregate number of Units in issue as at 11 May 2018. This general mandate will expire at the conclusion of the AGM. The REIT Manager proposes to seek Unitholders' approval at the AGM to grant a general mandate to the REIT Manager on behalf of Prosperity REIT to buy back Units on the Hong Kong Stock Exchange.

Under the Trust Deed, the REIT Manager shall not repurchase any Units until permitted to do so under the guidelines issued by the SFC from time to time. Pursuant to the SFC Circular, an SFC-authorized REIT may purchase its own units on the Hong Kong Stock Exchange provided that the REIT has followed the requirements as set out in the SFC

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Circular, including, *inter alia*, the despatch of an explanatory statement of the repurchase mandate to the unitholders and a specific approval or a general mandate to make such repurchase(s) has been obtained from the unitholders of the REIT.

Having regard to the above, an Ordinary Resolution will be proposed for Unitholders to consider and, if thought fit, grant a general mandate to the REIT Manager on behalf of Prosperity REIT to buy back Units on the Hong Kong Stock Exchange. The Units which may be bought back pursuant to the Buy-back Mandate are up to 10% of the total Units in issue on the date of passing the relevant resolution. The Units bought back by Prosperity REIT pursuant to the Buy-back Mandate shall be automatically cancelled upon such buy-back. The REIT Manager will ensure that the documents of title of the Units bought back are cancelled and destroyed as soon as reasonably practicable following settlement of any such buy-back.

The Buy-back Mandate, if approved by Unitholders, will be in force for the period commencing from the date of the AGM and expiring on the earliest of the following dates: (a) the conclusion of the next annual general meeting of the Unitholders; (b) the expiration of the period within which the next annual general meeting of the Unitholders as referred to in (a) above is required to be held by the Trust Deed, the REIT Code or any applicable laws; or (c) the revocation or variation of the authority given under the resolution approving the Buy-back Mandate by the passing of an Ordinary Resolution.

Prosperity REIT shall also comply with other restrictions and notification requirements applicable to listed companies purchasing their own shares on a stock exchange under Rule 10.06 of the Listing Rules, with necessary changes being made, as if the provisions therein were applicable to REITs. These include, but are not limited to, the dealing restrictions, the restrictions on subsequent issues, the reporting requirements and status of purchased shares.

An explanatory statement in connection to the Buy-back Mandate is set out in Appendix III to this Circular.

5. VOTING AT THE AGM

Paragraph 9.9(f) of the REIT Code provides that where a Unitholder has a material interest in the resolution tabled for approval, and that interest is different from that of all other Unitholders, such Unitholder shall abstain from voting.

Further, under paragraph 3.2 of Schedule 1 of the Trust Deed, where a Unitholder has a material interest in the resolution tabled for approval at a general meeting of the Unitholders, and that interest is different from the interests of other Unitholders, such Unitholder shall be prohibited from voting its Units or being counted in the quorum for the general meeting.

Members of the CK Asset Connected Persons Group and the Manager Group are parties to one or more of the Continuing Connected Party Transactions, and as such, have a material interest in the Ordinary Resolution to approve the 2019 Waiver Extension and the

LETTERS TO UNITHOLDERS

New Annual Caps. Further, Dr. Lan is interested in 350,000 Units, and as such, has a material interest in the Ordinary Resolution to approve his continual service as an INED until the third annual general meeting of Unitholders following the AGM.

Pursuant to the REIT Code and the Trust Deed:

- (a) CK Asset has agreed to abstain, and will procure that each member of the CK Asset Connected Persons Group will abstain, from voting on the Ordinary Resolution to approve the 2019 Waiver Extension and the New Annual Caps, except pursuant to a proxy where a specific direction by an Independent Unitholder as to voting is given;
- (b) ARA Asset Management Limited (being the ultimate holding company of the REIT Manager) has agreed to abstain, and will procure that each member of the Manager Group will abstain, from voting on the Ordinary Resolution to approve the 2019 Waiver Extension and the New Annual Caps, except pursuant to a proxy where a specific direction by an Independent Unitholder as to voting is given; and
- (c) Dr. Lan has agreed to abstain from voting on the Ordinary Resolution to approve his continual service as an INED until the third annual general meeting of Unitholders following the AGM, except pursuant to a proxy where a specific direction by an Independent Unitholder as to voting is given.

Mrs. Sng is not interested in any Units within the meaning of Part XV of the SFO as at the date of this Circular, but will abstain from voting at the AGM on the Ordinary Resolution to approve her continual service as an INED should she subsequently become interested in any Units as at the record date for the AGM (being Friday, 17 May 2019).

As at the Latest Practicable Date, to the best of the REIT Manager's knowledge, information and belief, after having made reasonable enquiries, the REIT Manager takes the view that, save as disclosed above, no other Unitholder is required to abstain from voting at the AGM in respect of the resolutions to be proposed at the AGM.

6. RECOMMENDATIONS

6.1 Directors

Having regard to the reasons for, terms of, and factors and other information taken into consideration in relation to the Matters Requiring Approval as described in this Circular, the Board (including all the INEDs) considers that:

- (1) the 2019 Extended Waiver and the basis for the 2019 Extended Waiver (including the New Annual Caps and the basis for arriving at the same) are fair and reasonable as far as the Independent Unitholders are concerned and in the interests of Prosperity REIT, the Independent Unitholders, as well as the Unitholders as a whole;

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- (2) each of the Continuing Connected Party Transactions subsisting as at the Latest Practicable Date has been entered into: (i) in the ordinary and usual course of business of Prosperity REIT and is consistent with the investment objectives and strategy of Prosperity REIT; (ii) on terms which are normal commercial terms at arm's length and are fair and reasonable as far as the Independent Unitholders are concerned and in the interests of Prosperity REIT, the Independent Unitholders, as well as the Unitholders as a whole; and
- (3) each of the Continuing Connected Party Transactions to be entered into after the Latest Practicable Date for the three financial years ending 31 December 2020, 31 December 2021 and 31 December 2022: (i) shall be entered into in the ordinary and usual course of business of Prosperity REIT and shall be consistent with the investment objectives and strategy of Prosperity REIT; and (ii) shall be entered into on terms which are normal commercial terms at arm's length and be fair and reasonable as far as the Independent Unitholders are concerned and shall be in the interests of Prosperity REIT, the Independent Unitholders, as well as the Unitholders as a whole,

and accordingly, the Board recommends Independent Unitholders to vote in favour of the Ordinary Resolution in respect of the 2019 Waiver Extension and the New Annual Caps.

Further, the Board considers that: (i) the continual service of each of Dr. Lan and Mrs. Sng as an INED until the third annual general meeting of Unitholders following the AGM is in the interests of Prosperity REIT and the Unitholders as a whole; and (ii) the granting of the Buy-back Mandate is in the interests of Prosperity REIT and the Unitholders as a whole, and accordingly, recommends all Unitholders to vote in favour of the Ordinary Resolutions in respect of the Relevant INEDs Continual Service and the Buy-back Mandate.

6.2 Independent Board Committee

The Independent Board Committee (which comprises all three of the current INEDs) has been established by the Board to advise the Independent Unitholders on the 2019 Waiver Extension and the basis for the 2019 Extended Waiver (including the New Annual Caps and the basis for arriving at the same). The Independent Financial Adviser has been appointed to advise the Independent Board Committee, the Independent Unitholders and the Trustee as to whether (among other things) the 2019 Extended Waiver and the New Annual Caps are fair and reasonable.

Your attention is drawn to: (i) the "Letter from the Independent Board Committee" set out in this Circular, which contains the Independent Board Committee's recommendation to the Independent Unitholders; and (ii) the "Letter from the Independent Financial Adviser" set out in this Circular which contains among other things: (1) the Independent Financial Adviser's advice to the Independent Board Committee, the Independent Unitholders and the Trustee; and (2) the principal

LETTERS TO UNITHOLDERS

factors taken into consideration by the Independent Financial Adviser, and assumptions and qualifications adopted by the Independent Financial Adviser in arriving at such opinion.

The Independent Board Committee, having taken into account the opinion of the Independent Financial Adviser and the principal factors considered by it, considers that:

- (1) the 2019 Extended Waiver and the basis for the 2019 Extended Waiver (including the New Annual Caps and the basis for arriving at the same) are fair and reasonable as far as the Independent Unitholders are concerned and in the interests of Prosperity REIT, the Independent Unitholders, as well as the Unitholders as a whole; and
- (2) each of the Continuing Connected Party Transactions subsisting as at the Latest Practicable Date has been entered into: (i) in the ordinary and usual course of business of Prosperity REIT and is consistent with the investment objectives and strategy of Prosperity REIT; and (ii) on terms which are normal commercial terms at arm's length and are fair and reasonable as far as the Independent Unitholders are concerned and in the interests of Prosperity REIT, the Independent Unitholders, as well as the Unitholders as a whole,

and accordingly, the Independent Board Committee recommends Independent Unitholders to vote in favour of the Ordinary Resolution in respect of the 2019 Waiver Extension and the New Annual Caps.

6.3 Independent Financial Adviser

Ballas Capital Limited has been appointed as the independent financial adviser for the purposes of paragraph 10.10(p) of the REIT Code to advise the Independent Board Committee, the Independent Unitholders and the Trustee on whether (among other things) the 2019 Extended Waiver and the New Annual Caps are fair and reasonable. In this regard, the Independent Financial Adviser considers that:

- (1) the 2019 Extended Waiver and the basis for the 2019 Extended Waiver (including the New Annual Caps and the basis for arriving at the same) are fair and reasonable as far as the Independent Unitholders are concerned and in the interests of Prosperity REIT, the Independent Unitholders, as well as the Unitholders as a whole; and
- (2) each of the Continuing Connected Party Transactions subsisting as at the Latest Practicable Date has been entered into: (i) in the ordinary and usual course of business of Prosperity REIT and is consistent with the investment objectives and strategy of Prosperity REIT; and (ii) on terms which are normal commercial terms at arm's length and are fair and reasonable as far

LETTERS TO UNITHOLDERS

as the Independent Unitholders are concerned and in the interests of Prosperity REIT, the Independent Unitholders, as well as the Unitholders as a whole,

and accordingly, the Independent Financial Adviser recommends Independent Unitholders to vote in favour of the Ordinary Resolution in respect of the 2019 Waiver Extension and the New Annual Caps.

Details of the Independent Financial Adviser's opinion, together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion, are set out in the "Letter from Independent Financial Adviser" in this Circular.

6.4 Trustee

Based on and in sole reliance upon: (1) the opinion of the Board in this letter and the information and assurances provided by the REIT Manager; (2) the Letter from the Independent Financial Adviser; and (3) the Letter from the Independent Board Committee, the Trustee, having taken into account its duties set out in the Trust Deed and the REIT Code, is of the view that the 2019 Extended Waiver and New Annual Caps are fair and reasonable and in the interests of Prosperity REIT, the Independent Unitholders, as well as the Unitholders as a whole. This view is being furnished for the sole purpose of complying with paragraph 10.10(o) of the REIT Code, and is not to be taken as a recommendation or representation by the Trustee of the merits of the 2019 Extended Waiver and the New Annual Caps.

Further, the Trustee has confirmed that the Buy-back Mandate complies with the requirements in the Trust Deed and, subject to Unitholders' approval, the Trustee does not have any objection to the buy-back of Units pursuant to the Buy-back Mandate. The Trustee's confirmation is being furnished for the sole purpose of complying with the SFC Circular, and is not to be taken as a recommendation or representation by the Trustee of the merits of the Buy-back Mandate or of any statements or information made or disclosed in this Circular.

The Trustee has not made any assessment of the merits or impact of the 2019 Extended Waiver, the New Annual Caps or the Buy-back Mandate, other than for the purposes of fulfilling its fiduciary duties set out in the Trust Deed and the REIT Code. Accordingly, the Trustee urges all Unitholders, including those who are in any doubt as to the merits or impact of the 2019 Extended Waiver, the New Annual Caps or the Buy-back Mandate, to seek their own financial or other professional advice.

7. RESPONSIBILITY STATEMENTS

For the purposes of paragraphs 5.2A and 10.10(t) of the REIT Code, the REIT Manager and the Directors, collectively and individually, accept full responsibility for the accuracy of the information contained in this Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this Circular misleading.

LETTERS TO UNITHOLDERS

8. ANNUAL GENERAL MEETING

The AGM will be held at 2:30 p.m. on Friday, 17 May 2019 at Exhibition Venue A on Level 7, Fortune Metropolis, 6 The Metropolis Drive, Hung Hom, Kowloon, Hong Kong for the purpose of considering and, if thought fit, passing with or without amendments, each of the Ordinary Resolutions set out in the AGM Notice, which is set out on pages N-1 to N-4 of this Circular.

The Register of Unitholders will be closed from Tuesday, 14 May 2019 to Friday, 17 May 2019 (both days inclusive), during which no transfer of Units will be effected, to determine which Unitholders will qualify to attend and vote at the AGM. For those Unitholders who are not already on the Register of Unitholders, in order to qualify to attend and vote at the AGM, all duly completed transfers of Units accompanied by the relevant Unit certificates must be lodged with the Unit Registrar of Prosperity REIT, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration by 4:30 p.m. on Friday, 10 May 2019.

You can vote at the AGM if you are a Unitholder on Friday, 17 May 2019. You will find enclosed with this Circular the AGM Notice (please refer to pages N-1 to N-4 of this Circular) and a form of proxy for use for the AGM.

Your vote is very important. Accordingly, please complete, sign and date the enclosed form of proxy, whether or not you plan to attend the AGM in person, in accordance with the instructions printed on the form of proxy, and return it to the Unit Registrar of Prosperity REIT, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. The form of proxy should be completed and returned as soon as possible but in any event not less than 48 hours before the time appointed for holding the AGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the AGM or any adjournment thereof should you so wish.

Yours faithfully,
By Order of the Board
ARA Asset Management (Prosperity) Limited
(as manager of Prosperity Real Estate Investment Trust)
Wong Lai Hung
Executive Director and Chief Executive Officer



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))

(Stock Code: 808)

Managed by



ARA Asset Management (Prosperity) Limited

10 April 2019

To: The Independent Unitholders

Dear Sir or Madam,

EXTENSION OF CONTINUING CONNECTED PARTY TRANSACTION WAIVER AND PROPOSED NEW ANNUAL CAPS FOR CERTAIN CONTINUING CONNECTED PARTY TRANSACTIONS

We have been appointed as members of the Independent Board Committee to advise you in connection with the 2019 Waiver Extension and the New Annual Caps, details of which are set out in the “Letter to Unitholders” in the circular dated 10 April 2019 (the “**Circular**”) from the REIT Manager to the Unitholders, of which this letter forms a part. Terms defined in the Circular shall have the same meanings when used in this letter unless the context otherwise requires.

The Independent Financial Adviser has been appointed to advise us, the Independent Unitholders and the Trustee as to whether (among other things) the 2019 Extended Waiver and the New Annual Caps are fair and reasonable. Details of their opinion, together with the principal factors taken into consideration, and assumptions and qualifications in arriving at such opinion, are set out in the “Letter from the Independent Financial Adviser” the text of which is contained in the Circular.

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the opinion of the Independent Financial Adviser and the principal factors considered by them, we consider that:

- (1) the 2019 Extended Waiver and the basis for the 2019 Extended Waiver (including the New Annual Caps and the basis for arriving at the same) are fair and reasonable as far as the Independent Unitholders are concerned and in the interests of Prosperity REIT, the Independent Unitholders, as well as the Unitholders as a whole; and
- (2) each of the Continuing Connected Party Transactions subsisting as at the Latest Practicable Date has been entered into: (i) in the ordinary and usual course of business of Prosperity REIT and is consistent with the investment objectives and strategy of Prosperity REIT; and (ii) on terms which are normal commercial terms at arm's length and are fair and reasonable as far as the Independent Unitholders are concerned and in the interests of Prosperity REIT, the Independent Unitholders, as well as the Unitholders as a whole,

and accordingly, we recommend that the Independent Unitholders vote in favour of the Ordinary Resolution in respect of the 2019 Waiver Extension and the New Annual Caps.

Yours faithfully,
Independent Board Committee of
ARA Asset Management (Prosperity) Limited
(as manager of Prosperity Real Estate Investment Trust)

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*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The following is the text of the letter of advice to the Independent Board Committee, Independent Unitholders and the Trustee from the Independent Financial Adviser which has been prepared for inclusion in this Circular.

BALLAS
C A P I T A L

Unit 1802, 18/F
1 Duddell Street
Central, Hong Kong

10 April 2019

*To the Independent Board Committee,
the Independent Unitholders and the Trustee*

Dear Sir or Madam,

EXTENSION OF CONTINUING CONNECTED PARTY TRANSACTION WAIVER AND PROPOSED NEW ANNUAL CAPS FOR CERTAIN CONTINUING CONNECTED PARTY TRANSACTIONS

INTRODUCTION

We refer to our engagement as the independent financial adviser to the Independent Board Committee, the Independent Unitholders and the Trustee in relation to the 2019 Waiver Extension and the New Annual Caps, details of which are set out in the letter to the Unitholders (the “**Letter to the Unitholders**”) contained in the circular of Prosperity REIT (the “**Circular**”) to the Unitholders dated 10 April 2019, of which this letter forms part. Capitalized terms used in this letter shall have the same meanings as those defined in the Circular unless the context otherwise requires.

In view of (i) the expiry of the 2016 Extended Waiver on 31 December 2019; and (ii) the fact that the REIT Manager expects that the Continuing Connected Party Transactions will continue to be conducted between the Prosperity REIT Group, and the CK Asset Connected Persons Group and/or the Manager Group, beyond the expiry of the 2016 Extended Waiver, the REIT Manager proposes to seek Unitholders’ approval, by way of Ordinary Resolution at the AGM for, among other things, the 2019 Waiver Extension and the New Annual Caps. The 2019 Waiver Extension shall extend the 2016 Extended Waiver for a further three years to 31 December 2022.

Members of the CK Asset Connected Persons Group and the Manager Group are parties to one or more of the Continuing Connected Party Transactions, and as such, have a material interest in the Ordinary Resolution approving the 2019 Waiver Extension and the New Annual Caps as set out in the AGM Notice. Accordingly, (i) CK Asset will abstain, and will procure that each member of the CK Asset Connected Persons Group will abstain,

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

from voting on the Ordinary Resolution approving the 2019 Waiver Extension and the New Annual Caps as set out in the AGM Notice; and (ii) ARA Asset Management Limited (being the ultimate holding company of the REIT Manager) will abstain, and will procure that each member of the Manager Group will abstain, from voting on the Ordinary Resolution approving the 2019 Waiver Extension and the New Annual Caps as set out in the AGM Notice.

The Independent Board Committee comprising all INEDs, namely Dr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Wong Kwai Lam, has been formed to advise the Independent Unitholders in relation to the 2019 Waiver Extension and the basis for the 2019 Extended Waiver (including the New Annual Caps and the basis for arriving at the same).

We, Ballas Capital Limited (“**Ballas Capital**”), have been appointed by the REIT Manager to advise the Independent Board Committee, the Independent Unitholders and the Trustee as to whether (among other things) the 2019 Waiver Extension and the New Annual Caps are fair and reasonable.

BASIS OF OUR OPINION

In formulating our recommendation, we have relied on the information and facts contained or referred to in the Circular as well as the representations made or provided by the Directors and the senior management of the REIT Manager. The REIT Manager and the Directors have declared in a responsibility statement set out in the Letter to the Unitholders that they collectively and individually accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in the Circular misleading. We have also assumed that the information and the representations made by the Directors as contained or referred to in the Circular were true and accurate at the time they were made and continue to be so up to the date of the AGM. We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors and the senior management of the REIT Manager. We have also been advised by the Directors and believe that no material facts have been omitted or withheld from the Circular.

We consider that we have reviewed sufficient information to reach an informed view, to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have not, however, conducted an independent verification of the information nor have we conducted any form of in-depth investigation into the businesses and affairs or the prospects of Prosperity REIT, the REIT Manager and the related subject of and parties to the Continuing Connected Party Transactions. Our opinion is based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date.

INDEPENDENCE DECLARATION

As at the Latest Practicable Date, Ballas Capital is not aware of any relationships or interests between Ballas Capital and Prosperity REIT or any other parties that could be reasonably regarded as a hindrance to Ballas Capital's independence as defined under the REIT Code to act as the independent financial adviser to the Independent Board Committee, the Independent Unitholders and the Trustee in respect of the 2019 Waiver Extension and the New Annual Caps.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our opinion and advice in relation to the 2019 Waiver Extension and the New Annual Caps, we have considered the following principal factors and reasons:

1. Background of the Continuing Connected Party Transactions

The Continuing Connected Party Transactions can be broadly categorized into two types of transactions: (a) revenue transactions, which primarily consist of leasing and licensing transactions to Connected Persons (collectively, the "**Revenue Continuing Connected Party Transactions**"); and (b) expenditure transactions, which primarily consist of property management arrangements, third party services and other operational transactions provided by Connected Persons (collectively, the "**Expenditure Continuing Connected Party Transactions**"), details of which are particularly set out in the Letter to the Unitholders and are summarized as follows:

(a) Revenue Continuing Connected Party Transactions

As part of the Prosperity REIT Group's ordinary and usual course of business, leasing/licencing transactions have been, or will from time to time be, entered into by the Prosperity REIT Group with members of the CK Asset Connected Persons Group and/or members of the Manager Group.

(b) Expenditure Continuing Connected Party Transactions

The Prosperity REIT Group and members of the CK Asset Connected Persons Group have entered into various Continuing Connected Party Transactions relating to property management arrangements, third party services and other operational transactions in respect of Prosperity REIT and its assets and operations which comprise the following:

(i) Property Management Arrangements

Under the Property Management Agreement, the REIT Manager has delegated the property and lease management and marketing functions in respect of Prosperity REIT's real estate assets to the Property Manager, which is a subsidiary of CK Asset and a Connected Person of Prosperity REIT. Pursuant to the Property Management Agreement, the Property Manager is entitled to a fee of 3% per annum of the gross property revenue

for the provision of property and lease management services, and commissions for provision of marketing services which are calculated by reference to the duration of the relevant leases/licences entered into or renewed and the total rental/licence fees payable.

(ii) Third Party Services

Under the Property Management Agreement, the Property Manager, as agent for the relevant owners of the properties held by Prosperity REIT, has entered into, and will continue to enter into contracts with third party service providers for the provision of, among other things, cleaning, maintenance, security, car park management and other ancillary services in respect of the relevant properties. Some of these third party service providers are or may be members of the CK Asset Connected Persons Group. In consideration for such services, Prosperity REIT will pay fees to these third party service providers.

(iii) Other Operational Transactions

The Prosperity REIT Group may also enter into operational transactions (other than property management arrangements and third party services) with members of the CK Asset Connected Persons Group. For example, each owner of the properties held by Prosperity REIT would, where applicable, be bound by the terms of the deed of mutual covenant applicable to the property owned by it. The deed of mutual covenant binds the manager under the deed of mutual covenant (the “**DMC Manager**”) and all the owners of the development and their successor-in-title, irrespective of whether they are original parties to the deed of mutual covenant. Some of the DMC Managers in respect of the properties held by Prosperity REIT are members of the CK Asset Connected Persons Group.

2. Reasons for the extension of the 2016 Extended Waiver and the Continuing Connected Party Transactions

Prosperity REIT is a real estate investment trust formed primarily to own and invest in commercial and industrial properties portfolio located in Hong Kong with the primary objective of producing stable and sustainable distributions to the Unitholders and to achieve long term growth in the net asset value per unit. According to Prosperity REIT’s annual reports for the two years ended 31 December 2016 and 2017 and the annual results announcement for the year ended 31 December 2018, the revenue of the Prosperity REIT Group for the three years ended 31 December 2016, 2017 and 2018 amounted to approximately HK\$452.9 million, HK\$446.2 million and HK\$446.8 million, respectively.

The 2016 Extended Waiver granted by the SFC in 2016 was for the period up to 31 December 2019, and such waiver may be extended, on each occasion of such extension, for a period which will expire not later than the third full financial year-end date of Prosperity REIT after the approval from Unitholders is obtained. Similarly, the 2019

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Extended Waiver is in respect of a period which commences from 1 January 2020 and continues until 31 December 2022, and such waiver may be extended, on each occasion of such extension, for a period which shall expire not later than the third full financial year-end date of Prosperity REIT after the approval from the Unitholders is obtained.

The nature and categories of the Continuing Connected Party Transactions under the 2019 Extended Waiver between the Prosperity REIT Group and its connected persons (namely, the CK Asset Connected Persons Group and the Manager Group) remain the same as those of the Continuing Connected Party Transactions in respect of the 2016 Extended Waiver.

We have discussed with the REIT Manager to understand that the REIT Manager considers that the entering into of the Continuing Connected Party Transactions is beneficial and provides flexibility to the Prosperity REIT Group provided that the Continuing Connected Party Transactions are carried out in the ordinary and usual course of business of the Prosperity REIT Group on normal commercial terms and in accordance with the REIT Manager's internal policies. Furthermore, the REIT Manager considers that it will be unduly burdensome and not in the interests of the Unitholders for Prosperity REIT to be subject to strict compliance with the requirements under Chapter 8 of the REIT Code with respect to the Continuing Connected Party Transactions on each and every occasion when they arise.

Having considered that:

- (a) the 2016 Extended Waiver will expire on 31 December 2019 and the purpose of the 2019 Extended Waiver is to extend the 2016 Extended Waiver for a three-year period from 1 January 2020 to 31 December 2022;
- (b) the leasing/licencing of properties is one of the core businesses and major sources of income of the Prosperity REIT Group and the Revenue Continuing Connected Party Transactions contribute reliable income to the Prosperity REIT Group;
- (c) the property management arrangement, third party services and other operational transactions provided by the CK Asset Connected Persons Group facilitate continuous effective management of the Prosperity REIT Group's properties;
- (d) the nature and categories of the Continuing Connected Party Transactions is the same as the Continuing Connected Party Transactions in respect of the 2016 Extended Waiver; and
- (e) the Continuing Connected Party Transactions will continue to give flexibility to the Prosperity REIT Group to transact with the CK Asset Connected Persons Group and the Manager Group, which are trusted and long-term business partners of the Prosperity REIT Group, in an efficient manner,

we consider that the Continuing Connected Party Transactions are within the ordinary and usual course of business of the Prosperity REIT Group, and it is in the interests of Prosperity REIT and the Independent Unitholders as a whole to extend the 2016 Extended Waiver for a three-year period from 1 January 2020 to 31 December 2022.

3. Major terms of the Continuing Connected Party Transactions

(a) Revenue Continuing Connected Party Transactions

Under the 2016 Extended Waiver and the REIT Code, all connected leasing/licencing transactions should be conducted in the ordinary and usual course of business of the Prosperity REIT Group, and the terms of such transactions should be on normal commercial terms (to the extent that there are sufficient 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. Moreover, an independent valuation shall be conducted for each of the connected leasing/licencing transactions except where they are conducted on standard or published rates.

As at the Latest Practicable Date, certain rentable areas of properties owned by the Prosperity REIT Group were leased to the CK Asset Connected Persons Group and the Manager Group (collectively, the “**Leasing Connected Parties**”). The REIT Manager confirmed that such leasing/licencing transactions have been and will be conducted in the ordinary and usual course of business of Prosperity REIT and the terms of such transactions have been and will be determined on normal commercial terms.

Our work done

We have obtained from the REIT Manager a schedule of all leasing/licencing transactions in effect for the year ended 31 December 2018 between Prosperity REIT and the Leasing Connected Parties, and selected sample transactions on a random basis from such schedule. For these selected samples, we noted that the REIT Manager appointed an independent property valuer, who is an independent third party to Prosperity REIT, to evaluate the fairness of the rental rates, which is in accordance with the REIT Manager’s internal control procedures. We obtained from the REIT Manager and reviewed the relevant leasing agreements and rental fair value letters prepared by an independent property valuer for these sample transactions, and noted from the rental fair value letters that the rentals were at market levels as of their respective leasing agreement dates. Thus, for our reviewed samples, we noted that the REIT Manager has adhered to the internal control procedures of appointing an independent valuer to evaluate the fairness of rental rates. Furthermore, we also obtained from the REIT Manager the relevant leasing agreements for similar leasing/licencing transactions (in terms of location and timing of the lease) between

Prosperity REIT and independent third parties, and noted that the key terms offered to independent third parties, including payment terms, and rights and liabilities of the parties to the leasing agreements, were in general comparable to the key terms offered to the Leasing Connected Parties.

Our view

Taking into account the principal business of Prosperity REIT as set out in the section headed “2. Reasons for the extension of the 2016 Extended Waiver and the Continuing Connected Party Transactions” above, we are of the view that the leasing/licencing transactions carried out with the Leasing Connected Parties fall within the ordinary and usual course of business of Prosperity REIT.

Furthermore, based on our review of the sample documents as stated above, we noted the relevant internal control procedures (which include the appointment of an independent property valuer to evaluate the fairness of rental rates of connected leasing/licencing transactions except where they are conducted on standard or published rates) were strictly adhered to by the REIT Manager. With such internal control procedures in place, we are also of the view that the terms of such leasing/licencing transactions have been and will be at arm’s length, fair and reasonable and determined on normal commercial terms.

(b) Expenditure Continuing Connected Party Transactions

Pursuant to the Property Management Agreement entered into between the REIT Manager and the Property Manager on 29 November 2005 (as amended, supplemented, and/or otherwise modified or extended from time to time), the Property Manager was appointed to operate, maintain, manage and market all the properties of Prosperity REIT, subject to overall management and supervision of the REIT Manager. The Property Management Agreement will be in effect until 15 December 2020. Assuming no amendments are made to the Property Management Agreement, the existing terms of the Property Management Agreement (including, among others, property management service fees and commission rates) will remain unchanged until 15 December 2020.

The Property Manager, as an agent for the relevant owners of the properties held by Prosperity REIT, could also enter into contracts with third party service providers on arm’s length normal commercial terms for the provision of, among other things, cleaning, maintenance, security, car park management and other ancillary services for the relevant properties.

Under the Property Management Agreement, the Property Manager receives a fee of 3.0% per annum of the gross property revenue of the relevant properties for property and lease management services. In addition, the Property Manager is

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also entitled to commissions for the provision of marketing services, and such commissions are derived at by reference to the duration of the relevant leases/licences entered into or renewed and the total rental/licence fees paid.

The REIT Manager confirmed that the transactions in respect of property management services and third party services for Prosperity REIT's properties have been and will be conducted in the ordinary and usual course of business of the Prosperity REIT Group and the terms of such transactions shall be on normal commercial terms or, where there are insufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Prosperity REIT Group than terms available from/to independent third parties.

Our work done

In relation to the property management services, we understand from the REIT Manager that they were and will be conducted in accordance with the REIT Manager's internal control procedures, which require an independent assessment to be conducted on the property management fee and commission rates of any property management agreements before they are entered into or renewed. We have obtained from the REIT Manager an independent report from a property consultancy firm on the review of the Property Management Agreement in relation to the fees charged by the Property Manager and noted that the property management fee of 3.0% per annum and the commission range for the provision of marketing services were reasonable and at market levels as of the date of the extension of the Property Management Agreement. According to the REIT Manager, an independent assessment will be conducted on the property management fee and commission rates before any extension of the Property Management Agreement according to the internal control procedures. Furthermore, we have obtained from the REIT Manager the Property Management Agreement and reviewed its terms, and also reviewed the latest published annual report of another real estate investment trust listed in Hong Kong regarding the terms of similar property management services and noted that their key terms, including property management fees, commission range for marketing services and arrangements regarding third party services, are in general comparable to those offered by the Property Manager to the Prosperity REIT Group. The Prosperity REIT Group has not engaged an independent third party for the provision of property management services of a similar nature and hence, we are not able to compare the terms of the Property Management Agreement to property management agreements entered into between the Prosperity REIT Group and its independent third parties.

In relation to the third party services, we understand from the REIT Manager that they have been and will be conducted in accordance with the REIT Manager's internal control procedures, which require, among other

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things, invitation of tenders or quotations from contractors or suppliers, including both the CK Asset Connected Persons Group and independent third parties. In respect of the third party services for the year ended 31 December 2018, we have obtained a sample from the REIT Manager and noted that quotations from independent third parties and the CK Asset Connected Persons Group were obtained and compared before the entering into the third party service contract. The terms offered by the CK Asset Connected Persons Group were no less favourable to Prosperity REIT than terms available from independent third parties.

In relation to the other operational transactions, we have selected and reviewed sample deeds of mutual covenant of properties held by the Prosperity REIT Group. In light of the fact that the deeds of mutual covenant bind the DMC Manager and all the owners of a development and their successors-in-title, irrespective of whether they are original parties to the deed of mutual covenant, and all the owners of a development and their successors-in-title, including the Prosperity REIT Group and other independent third parties, are bound by, and have the benefit of, the terms of the deeds of mutual covenant, we consider that it is fair and reasonable and commercially justifiable for the Prosperity REIT Group to enter into the deeds of mutual covenant, and that the terms of these deeds of mutual covenants are at arm's length and on normal commercial terms.

Our view

Taking into account the principal business of Prosperity REIT as set out in the section headed "2. Reasons for the extension of the 2016 Extended Waiver and the Continuing Connected Party Transactions" above, we are of the view that the property management and third party services carried out with the CK Asset Connected Persons Group fall within the ordinary and usual course of business of Prosperity REIT.

Furthermore, based on our review of information relating to another real estate investment trust listed in Hong Kong (for property management services) and sample documents (for third party services), we noted that the relevant internal control procedures (which, for (i) property management services, include independent assessment to be conducted on the property management fee and commission rates of any property management agreements before they are entered into or renewed by the Prosperity REIT Group, and (ii) third party services, include quotations from suppliers, including both the CK Asset Connected Persons Group and independent third parties) were strictly adhered to by the REIT Manager. With such internal control procedures in place, we are also of the view that the terms of such property management and third party services have been and will be at arm's length, fair and reasonable and determined on normal commercial terms.

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Our view

Based on the above, we are of the opinion that the Revenue Continuing Connected Party Transactions and the Expenditure Continuing Connected Party Transactions to be carried out under the 2019 Extended Waiver will be on normal commercial terms, fair and reasonable and in the interest of the Independent Unitholders.

4. The proposed New Annual Caps

The historical transaction amounts under the 2016 Extended Waiver and the proposed New Annual Caps under the 2019 Extended Waiver are summarized as follows:

		Historical Transaction Amount				New Annual Caps		
		For the financial year ended 31 December			For the two-month period ended 28 February	For the financial year ended 31 December		
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue Continuing Connected Party Transactions	Connected Person							
Leasing/licencing transactions	CK Asset Connected Persons Group	2,749	2,849	6,857	2,028	33,000	33,000	33,000
Leasing/Licencing transactions	Manager Group	—	—	—	—	5,100	5,100	5,100
Expenditure Continuing Connected Party Transactions	Connected Person							
Property management arrangements, third party services and other operational transactions	CK Asset Connected Persons Group	25,135	26,115	27,355	4,129	43,400	45,600	47,900

Note: As at the Latest Practicable Date, only figures up to 28 February 2019 are available.

(a) Revenue Continuing Connected Party Transactions

In respect of the CK Asset Connected Persons Group Leases/Licences

As stated in the Circular, the proposed New Annual Caps for the CK Asset Connected Persons Group Leases/Licences for each of the three years ending 31 December 2020, 2021 and 2022 have been determined based on:

- (i) the sum of the highest transaction amounts for the financial years between the Listing Date to 31 December 2018 incurred for the Prosperity REIT Group's properties in respect of each of the tenants/licensees from the CK Asset Connected Persons Group Leases/Licences (provided that the same unit was occupied by only one such tenant/licensee at any time during such period), which was HK\$30,332,349;

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- (ii) an increment factor of 7.4% which is derived from the average rental reversion rate of 7.6% and 7.2% for the financial years ended 31 December 2017 and 31 December 2018, respectively, representing the steady rental growth of Prosperity REIT, and resulting in HK\$32,566,203 after multiplying by the aforesaid increment factor; and
- (iii) a buffer of 1.3% built on top of the resulting amount as stated in paragraph (ii) above which caters for the flexibility required to facilitate additional CK Asset Connected Persons Group Leases/Licences to be entered into in respect of the Existing Properties in the future as a result of potential and growing demand from CK Asset Connected Persons Group for leasing/licensing services which are expected to be driven by further business development of CK Asset.

The proposed New Annual Caps for the CK Asset Connected Persons Group Leases/Licences remain unchanged for the three years ending 31 December 2020, 2021 and 2022 under the 2019 Extended Waiver at HK\$33 million. We understand from the REIT Manager that it is possible that members of the CK Asset Connected Persons Group may take up sizeable spaces, based on the prevailing market rent. We noted from the schedule of all leasing/licensing transactions entered into between Prosperity REIT and members of the CK Asset Connected Persons Group since the Listing Date that one member of the CK Asset Connected Persons Group had previously leased a sizeable floor space of the Prosperity REIT Group's properties for six years (generating an average annual rental income of approximately HK\$16.8 million from 2006 to 2011). Such lease has since expired, and is not reflected in the historical transaction amounts for the three years ended 31 December 2018.

Based on the lease expiry profile by gross rental income of the Prosperity REIT Group as at 31 December 2017 as disclosed in the annual report of Prosperity REIT for the year ended 31 December 2017, we note that the leases expiring after 2019 accounted for a significant portion of the gross rental income of 54.2%. Having considered the current lease expiry profile and the potential new leases and licenses which the Prosperity REIT Group and the CK Asset Connected Persons Group may enter into following the expiry of leases during the New CPT Waiver Period, we consider that the proposed New Annual Caps provide flexibility to Prosperity REIT for entering into new leases/licenses transactions with the CK Asset Connected Persons Group. In addition, we consider that the proposed New Annual Caps provide buffer to Prosperity REIT to cater for its ongoing growth. We note that according to the Prosperity REIT Group's published annual reports, the 5-year compound annual growth rate ("CAGR") of the Prosperity REIT Group's rental income from 2014 to 2018, is approximately 6.2%. We have also reviewed statistics from the Rating and

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Valuation Department of the Government of Hong Kong and noted that the average monthly rent for private offices increased at a 5-year CAGR of approximately 5.1% from 2013 to 2017.

Having considered the above, we are of the view that the basis in determining the proposed New Annual Caps for the CK Asset Connected Persons Group Leases/Licences for each of the three years ending 31 December 2020, 2021 and 2022 are fair and reasonable as far as the Independent Unitholders are concerned, and in the interests of Prosperity REIT, the Independent Unitholders as well as the Unitholders as a whole.

In respect of the Manager Group Leases/Licences

The proposed New Annual Caps for the Manager Group Leases/Licences remain unchanged for the three years ending 31 December 2020, 2021 and 2022 under the 2019 Extended Waiver at HK\$5.1 million. Although the Manager Group does not currently have any leases/licences in respect of the Existing Properties, it is possible that such leases/licences may be entered into at some time during the New CPT Waiver Period.

The REIT Manager considers it is unnecessary to increase the New Annual Caps in respect of the Manager Group Leases/Licences and intends to maintain the proposed annual monetary limit for each of the three financial years ending 31 December 2020, 31 December 2021 and 31 December 2022 at the amount which is equivalent to the annual monetary limit of HK\$5,100,000 on the Manager Group Leases/Licences for each of the three financial years ended 31 December 2017, 31 December 2018 and 31 December 2019. The REIT Manager considers that such annual monetary limit is reasonably sufficient to cater for the Manager Group Leases/Licences should the Manager Group look for office premises for expansion or relocation in Hong Kong. We consider such flexibility is fair and reasonable and beneficial to Prosperity REIT as it allows Prosperity REIT to increase its lease/licence revenue by leasing/licencing its properties to an additional party, namely the Manager Group, when the right opportunity arises.

Having considered the above, we are of the view that the basis in determining the proposed New Annual Caps for the Manager Group Leases/Licences for each of the three years ending 31 December 2020, 2021 and 2022 are fair and reasonable as far as the Independent Unitholders are concerned, and in the interests of Prosperity REIT, the Independent Unitholders as well as the Unitholders as a whole.

(b) Expenditure Continuing Connected Party Transactions

As stated in the Circular, the New Annual Caps for the Expenditure Continuing Connected Party Transactions for each of the three years ending 31 December 2020, 2021 and 2022 have been determined based on:

- (i) the sum of the highest annual transaction amounts for the financial years between the Listing Date to 31 December 2018 incurred for each of the properties held by Prosperity REIT in respect of each category of the Property Management Transactions, which was HK\$28,814,925;
- (ii) an increment factor of 43.4% built on top of the abovementioned sum of highest annual transaction amounts which includes (i) an approximate 10.0% increase in staff and wages costs (the “**Staff Cost Increment Factor**”); and (ii) the remaining 33.4% to cater for the anticipated increase in marketing service fees and property management fees as a result of the increase of gross revenue generated from the Existing Properties (including that generated from the possible additional CK Asset Connected Persons Group Leases/Licences and possible Manager Group Leases/Licences) during the New CPT Waiver Period (the “**Marketing and Property Management Fees Increment Factor**”); and
- (iii) a buffer of 5.0%, which takes into account inflation.

In respect of the Expenditure Continuing Connected Party Transactions, we have obtained from the REIT Manager a schedule for the relevant proposed New Annual Caps, and understand from the REIT Manager that the proposed New Annual Caps for the Expenditure Continuing Connected Party Transactions mainly represent property management fees, third party services fees and other operational transactions fees to be paid to the CK Asset Connected Persons Group. Based on the Property Management Agreement and as advised by the REIT Manager, the property management fees were based on an annual rate of 3% of the gross property revenue for provision of the property and lease management services, and such gross property revenue has steadily increased over the past years. According to the Prosperity REIT Group’s published annual reports and annual results, the 5-year CAGR of the Prosperity REIT Group’s gross property revenue from 2014 to 2018, is approximately 6.1%. We concur with the view of the REIT Manager that the proposed New Annual Caps taking into consideration the aggregate of the historical highest annual transaction amounts allows maximum flexibility for Prosperity REIT to cater for the possibility of any reversion to the historical high of the property management expenses. We have also discussed with the REIT Manager and understand that based on the REIT Manager’s experience, there may be unforeseeable market fluctuations in respect of the Hong Kong property market, in particular volatility of property rental values.

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In respect of the Staff Cost Increment Factor of 10%, we have reviewed the Statutory Minimum Wage of Hong Kong and noted that the Statutory Minimum Wage had been increasing and the three-year growth rate was approximately 6.2% for the three years ended 31 December 2018. We have also obtained from the REIT Manager and reviewed the Prosperity REIT Group's historical staff costs related to marketing and property management. We noted that the three-year growth rate of the staff and wages costs incurred for property management services and marketing services was approximately 8.8% for the three years ended 31 December 2018. Based on the aforesaid, we consider that the Staff Cost Increment Factor of 10% is fair and reasonable.

In respect of the Marketing and Property Management Fees Increment Factor of 33.4%, we reviewed the historical gross rental from investment properties of the Prosperity REIT Group as disclosed in the annual reports of Prosperity REIT as the property management fee and the marketing service fee is determined based on the rental revenue of the Prosperity REIT Group. We noted that the growth rate of the gross rental from investment properties of the Prosperity REIT Group for every three years from 2010 to 2018 ranged from approximately 3.3% to approximately 50.6%. Based on the aforesaid, we consider that the Marketing and Property Management Fees Increment Factor of 33.4% is fair and reasonable.

Furthermore, we have reviewed statistics from the Census and Statistics Department of Hong Kong and noted that (i) during the 5 years from 2013 to 2017, the average annual inflation rate (as measured by the composite consumer price index) is approximately 3.1%; (ii) the general average wage rate and the average wage rate for real estate leasing and maintenance management as measured by the wage index in September 2018 increased by 4.1% and 4.2% respectively, over the same month in previous year; and (iii) the 5-year CAGR of the GDP of Hong Kong from 2013 to 2017 is approximately 5.5%. Thus, we believe a 5% buffer factor applied by the REIT Manager on the proposed New Annual Caps for the Expenditure Continuing Connected Party Transactions is justifiable.

Having considered the above, we are of the view that the basis in determining the proposed New Annual Caps for the Expenditure Continuing Connected Party Transactions for each of the three years ending 31 December 2020, 2021 and 2022 are fair and reasonable as far as the Independent Unitholders are concerned, and in the interests of Prosperity REIT, the Independent Unitholders as well as the Unitholders as a whole.

5. Waiver conditions of the 2019 Extended Waiver

The REIT Manager undertakes that it will continue to comply with the waiver conditions of the 2019 Extended Waiver subject to the Unitholders' approval of the 2019 Waiver Extension and the proposed New Annual Caps as described above. The waiver conditions of the 2019 Extended Waiver will be as follows:

(a) Due approval by Independent Unitholders

The due approval by Independent Unitholders and adoption of the Ordinary Resolution in respect of the 2019 Waiver Extension and the New Annual Caps as set out in the AGM Notice, without material amendments thereto.

(b) Modification or extension

The 2019 Extended Waiver may be extended beyond 31 December 2022, and/or the terms and conditions of the 2019 Extended Waiver may be modified from time to time, provided that:

- (i) Independent Unitholders' approval — the due approval of Independent Unitholders is obtained by way of an Ordinary Resolution passed in a general meeting of Unitholders;
- (ii) Disclosure — disclosure of details of the proposed extension and/or amendment (as the case may be) will be made by way of an announcement by the REIT Manager of such proposal, and a circular and notice will be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (iii) Extension period — any extension of the period of the 2019 Extended Waiver shall, on each occasion of such extension, be for a period which will expire not later than the third full financial year-end date of Prosperity REIT after the date on which the approval referred to in paragraph (i) above is obtained.

For the avoidance of doubt, any material change to the transactions covered under the 2019 Extended Waiver (including without limitation the scope or nature of the transactions) as set out in the Circular and announcement dated 9 April 2019 based on which the waiver is sought and granted must be approved by the Independent Unitholders as referred to in paragraph (i) above and details of the proposed changes shall be disclosed in the manner as referred to in paragraph (ii) above.

(c) Annual caps

The annual value of the Continuing Connected Party Transactions shall not exceed the respective New Annual Cap stated in section 4 headed "The proposed New Annual Caps" above.

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In respect of leasing/licensing transactions, an independent valuation will be conducted for each of such leasing/licensing transactions except where they are conducted on standard or published rates.

(d) Disclosure in interim and annual reports

Details of the Continuing Connected Party Transactions shall be disclosed in Prosperity REIT's interim and annual reports, as required under paragraph 8.14 of the REIT Code.

(e) Auditors' review procedures

In respect of each relevant financial year, the REIT Manager shall engage and agree with the auditors of Prosperity REIT to perform certain review procedures on the Continuing Connected Party Transactions. The auditors will then report to the REIT Manager on the factual findings based on the work performed by them (and a copy of such report shall be provided to the SFC), confirming whether all such Continuing Connected Party Transactions:

- (i) have received the approval of the Board (including its INEDs);
- (ii) are in accordance with the pricing policies of Prosperity REIT;
- (iii) have been entered into in accordance with the terms of the agreements governing the transactions; and
- (iv) the total value in respect of which has not exceeded the respective annual monetary limits (where applicable) as set out above.

(f) Review by the INEDs

The INEDs shall review the Continuing Connected Party Transactions annually and confirm in Prosperity REIT's annual report for the relevant financial year that such transactions have been entered into:

- (i) in the ordinary and usual course of business of Prosperity REIT;
- (ii) 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
- (iii) in accordance with the relevant agreement and the REIT Manager's internal procedures governing them (if any) on terms that are fair and reasonable and in the interests of the Independent Unitholders, as well as the Unitholders as a whole.

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(g) Auditors' access to books and records

The REIT Manager shall allow, and shall procure the counterparty to the relevant Continuing Connected Party Transactions to allow, the auditors of Prosperity REIT sufficient access to their records for the purpose of reporting on the transactions.

(h) Notification to the SFC

The REIT Manager shall promptly notify the SFC and publish an announcement if it knows or has reason to believe that the auditors and/or the INEDs will not be able to confirm the matters set out in paragraph (e) headed "Auditors' Review Procedures" and (f) headed "Review by the INEDs" above.

(i) Subsequent increases in annual caps with Independent Unitholders' approval

If necessary, for example, where there are further asset acquisitions by Prosperity REIT thereby increasing the scale of its operations generally, or where there are changes in market or operating conditions, the REIT Manager may, from time to time in the future, seek to increase one or more of the annual limits referred to above, provided that:

- (i) Independent Unitholders' approval — the approval of Independent Unitholders is obtained by way of an Ordinary Resolution passed in a general meeting of Unitholders;
- (ii) Disclosure — disclosure of details of the proposal to increase the relevant annual cap shall be made by way of an announcement by the REIT Manager of such proposal, and a circular and notice shall be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (iii) Other compliance requirements — all the waiver terms and conditions described above shall continue to apply to the relevant transactions, save that the relevant increased annual cap shall apply.

(j) Paragraph 8.14 of the REIT Code

The REIT Manager shall comply with all requirements under paragraph 8.14 of the REIT Code where there is any material change to the terms of the relevant connected party transactions or where there is any subsequent change to the REIT Code which may impose stricter requirements in respect of disclosure and/or Unitholders' approval.

We are of the view that the aforesaid review requirements can provide appropriate measures to govern the REIT Manager in carrying out the Continuing Connected Party Transactions and safeguard the interest of the Unitholders.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the aforesaid principal factors and reasons, we consider that the 2019 Waiver Extension and the basis for the 2019 Waiver Extension (including the New Annual Caps and the basis for arriving at the same) are fair and reasonable as far as the Independent Unitholders are concerned and are in the interests of Prosperity REIT, the Independent Unitholders, as well as the Unitholders as a whole; and each of the Continuing Connected Party Transactions subsisting as at the Latest Practicable Date has been entered into (i) in the ordinary and usual course of business of Prosperity REIT and is consistent with the investment objectives and strategy of Prosperity REIT; and (ii) on terms which are normal commercial terms at arm's length and are fair and reasonable as far as the Independent Unitholders are concerned and in the interests of Prosperity REIT, the Independent Unitholders, as well as the Unitholders as a whole.

We therefore recommend the Independent Board Committee to advise the Independent Unitholders, and we also recommend the Independent Unitholders, to vote in favour of the resolutions in respect of the 2019 Waiver Extension and the New Annual Caps as set out in the AGM Notice.

Yours faithfully,
For and on behalf of
Ballas Capital Limited

Heidi Cheng
Managing Director

Cathy Leung
Assistant Director

Note: Ms. Heidi Cheng of Ballas Capital Limited has been a responsible officer of Type 6 (advising on corporate finance) regulated activities since 2003, and Ms. Cathy Leung of Ballas Capital Limited has been a licensed representative of Type 6 (advising on corporate finance) regulated activities since 2009.

Dr. LAN Hong Tsung, David, aged 78, has been an INED since 2 October 2005. He is the Chairman of the Audit Committee and a member of each of the Disclosures Committee and Designated (Finance) Committee. He is an Independent Non-executive Director of CK Infrastructure Holdings Limited (listed in Hong Kong), Hutchison Telecommunications Hong Kong Holdings Limited (listed in Hong Kong) and SJM Holdings Limited (listed in Hong Kong). Dr. Lan is currently the Chairman of David H T Lan Consultants Ltd., Supervisor of Nanyang Commercial Bank (China), Limited, an Independent Non-executive Director of Cinda Financial Holdings Co., Limited and holds a directorship at Nanyang Commercial Bank Ltd. Dr. Lan is the President of the International Institute of Management. He is also a Chartered Secretary and a Fellow Member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators.

Dr. Lan was the Secretary for Home Affairs of the Government of the Hong Kong Special Administrative Region until his retirement in July 2000. He had served as civil servant in various capacities for 39 years and was awarded the Gold Bauhinia Star Medal (GBS) on 1 July 2000. He was appointed to the 10th and 11th sessions of the National Committee Member of the Chinese People's Political Consultative Conference of the People's Republic of China. Dr. Lan was previously an Independent Non-executive Director of ARA Asset Management (Fortune) Limited as the manager of Fortune REIT (listed in Hong Kong and Singapore), China Oceanwide Holdings Limited (formerly known as "Hutchison Harbour Ring Limited") (listed in Hong Kong) and a Non-executive Director and Co-Chairman of Aurum Pacific (China) Group Limited (listed in Hong Kong). Save as disclosed above, Dr. Lan has not held any other directorship in any listed public companies in the last three years.

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

Dr. Lan has entered into a service contract with the REIT Manager for a term of 12 months from 2 October 2005, which has been and will be automatically renewed for successive 12-month periods unless otherwise terminated prior to the expiry of the term. Dr. Lan's service agreement also requires him to retire and seek re-election by rotation at the annual general meetings of the REIT Manager in accordance with the Articles of Association. All remuneration payable to Dr. Lan will be paid and borne by the REIT Manager out of its own resources.

As at the date of this Circular, Dr. Lan is interested in 350,000 Units within the meaning of Part XV of the SFO. Save as disclosed above, he is not related to any directors, senior management, substantial or controlling shareholders of the REIT Manager or significant or controlling unitholders of Prosperity REIT. Dr. Lan has confirmed to the Board that he has met the independence criteria contained in the Compliance Manual.

Save as disclosed above, there is no other matter in connection with Dr. Lan's continual service as an INED that needs to be brought to the attention of the Unitholders and there is no other information that should be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules, as if they were applicable to Prosperity REIT.

Mrs. SNG Sow-Mei (alias POON Sow Mei), aged 77, has been an INED since 2 October 2005 and is a member of the Audit Committee. She is an Independent Non-executive Director of CK Infrastructure Holdings Limited (listed in Hong Kong), and an Independent Non-executive Director and the Lead Independent Director of Hutchison Port Holdings Management Pte Limited as the trustee-manager of Hutchison Port Holdings Trust (listed in Singapore).

Mrs. Sng was an Independent Non-executive Director of ARA Asset Management (Fortune) Limited as the manager of Fortune REIT (listed in Hong Kong and Singapore) from 2003 to 2016, and an Independent Non-executive Director of ARA Trust Management (Suntec) Limited as the manager of Suntec REIT (listed in Singapore) from 2004 to 2013. Prior to her appointments with Singapore Technologies Pte Ltd where she was Director of Special Projects (North East Asia) in 2000, and Senior Consultant (International Business) of Singapore Technologies Electronics Limited from 2001 to 2013, Mrs. Sng was the Managing Director of CapitaLand Hong Kong Ltd. for investment in Hong Kong and the region including Japan and Taiwan. In Hong Kong, Mrs. Sng was a Director of INFA Systems Ltd from 2007 to 2013, the Centre Director and then Regional Director of the Singapore Economic Development Board and Trade Development Board respectively from 1983 to 1997. She was Singapore's Trade Commissioner in Hong Kong from 1990 to 1997. Save as disclosed above, Mrs. Sng has not held any other directorship in any listed public companies in the last three years.

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).

Mrs. Sng has entered into a service contract with the REIT Manager for a term of 12 months from 2 October 2005, which has been and will be automatically renewed for successive 12-month periods unless otherwise terminated prior to the expiry of the term. Mrs. Sng's service agreement also requires her to retire and seek re-election by rotation at the annual general meetings of the REIT Manager in accordance with the Articles of Association. All remuneration payable to Mrs. Sng will be paid and borne by the REIT Manager out of its own resources.

As at the date of this Circular, Mrs. Sng is not interested in any Units within the meaning of Part XV of the SFO. Save as disclosed above, she is not related to any directors, senior management, substantial or controlling shareholders of the REIT Manager or significant or controlling unitholders of Prosperity REIT. Mrs. Sng has confirmed to the Board that she has met the independence criteria contained in the Compliance Manual.

Save as disclosed above, there is no other matter in connection with Mrs. Sng's continual service as an INED that needs to be brought to the attention of the Unitholders and there is no other information that should be disclosed pursuant to Rule 13.51(2)(h) to (v) of the Listing Rules, as if they were applicable to Prosperity REIT.

The following is the explanatory statement in connection with the proposed Buy-back Mandate:

1. ISSUED UNITS

It is proposed that the Buy-back Mandate will authorise the buy-back by Prosperity REIT of up to 10% of the Units in issue at the date of passing the Ordinary Resolution to approve the Buy-back Mandate. As at the Latest Practicable Date, the number of Units in issue was 1,490,179,376 Units. On the basis of such figure (and if no new Units will be issued after the Latest Practicable Date and up to the date of passing such Ordinary Resolution), exercise in full of the Buy-back Mandate would result in the purchase by Prosperity REIT of up to 149,017,937 Units. The number of Units in issue as at the date of passing such Ordinary Resolution is expected to be larger than the number of Units in issue as at the Latest Practicable Date, as a result of the Units expected to be issued to the REIT Manager as payment of part of the base fee and variable fees for the period from 1 January 2019 to 31 March 2019 to the REIT Manager by way of Units. Details of such Units expected to be issued to the REIT Manager will be disclosed by way of announcement on the date of issue.

2. REASONS FOR BUY-BACKS

The Directors believe that the general mandate from Unitholders to enable buy-back of Units is in the interests of Prosperity REIT and the Unitholders as a whole. Buy-backs may, depending on the circumstances and funding arrangements at the time, lead to an enhancement of the net assets and/or earnings per Unit. The Directors are seeking the grant of a general mandate to buy back Units to give Prosperity REIT the flexibility to do so if and when appropriate. The number(s) of Units to be bought back on any occasion and the price and other terms upon which the same are bought back will be decided by the Directors at the relevant time having regard to the circumstances then pertaining and the interests of the Unitholders and Prosperity REIT. Buy-backs of Units will only be made when the REIT Manager believes that such buy-backs will benefit Prosperity REIT and the Unitholders as a whole.

3. FUNDING OF BUY-BACKS

Buy-backs of Units pursuant to the Buy-back Mandate will be made from funds legally available for such purpose in accordance with the Trust Deed and the applicable laws and regulations of Hong Kong. Subject to applicable law and regulation, the REIT Manager intends to use internal sources of funds of Prosperity REIT or external borrowings (or a combination of both) to finance the buy-back of Units pursuant to the Buy-back Mandate.

There could be a material adverse impact on the working capital or gearing position of Prosperity REIT (as compared with the position disclosed in its most recent audited financial statements) in the event that the Buy-back Mandate were exercised in full at any time during the proposed buy-back period. However, the Directors do not propose to exercise the Buy-back Mandate to such extent as would, in the

circumstances, have a material adverse effect on the working capital of Prosperity REIT or the gearing level which in the opinion of the Directors is from time to time appropriate for Prosperity REIT.

4. DISCLOSURE OF INTERESTS

There are no Directors or, to the best of the knowledge of the Directors having made all reasonable enquiries, any associates (as defined in the REIT Code) of the Directors, who have a present intention, in the event that the Buy-back Mandate is approved and granted by the Unitholders, to sell Units to Prosperity REIT.

Up to the Latest Practicable Date, no Connected Persons of Prosperity REIT have notified the REIT Manager of a present intention to sell Units to Prosperity REIT and no such persons have undertaken not to sell Units held by them to Prosperity REIT, in the event that the Buy-back Mandate is granted by the Unitholders.

5. DIRECTORS' UNDERTAKING

The Directors have undertaken to the SFC to exercise Prosperity REIT's power to buy back Units pursuant to the Buy-back Mandate in accordance with the provisions of the Trust Deed, the applicable laws of Hong Kong, the REIT Code, the Takeovers Code and the guidelines issued by the SFC from time to time.

6. UNITS BOUGHT BACK

No buy-back of Units have been made by Prosperity REIT in the past six months prior to the Latest Practicable Date.

7. EFFECT OF THE TAKEOVERS CODE

If, on exercise of Prosperity REIT's power to buy back Units pursuant to the Buy-back Mandate, a Unitholder's proportionate interest in the voting rights of Prosperity REIT increases, pursuant to Rule 32 of the Takeovers Code, such increase will be treated as an acquisition of voting rights for purposes of the Takeovers Code. As a result, a Unitholder, or group of Unitholders acting in concert, could obtain or consolidate control of Prosperity REIT and thereby become obliged to make a mandatory offer in accordance with Rule 26 of the Takeovers Code, unless a waiver is available.

For illustrative purposes only and as far as the REIT Manager is aware, as at the Latest Practicable Date, CK Asset (being the largest Unitholder of Prosperity REIT) has a 18.47% interest in Prosperity REIT. In the event of full exercise of the Buy-back Mandate and assuming: (i) no Units are acquired by and/or bought back from CK Asset; and (ii) no Units are issued by Prosperity REIT, CK Asset's interest in Prosperity REIT would increase to 20.52%. In such case and based on the above assumptions, CK Asset would not be obliged to make a mandatory general offer pursuant to Rule 26 of the Takeovers Code.

8. UNIT PRICES

The highest and lowest prices at which Units were traded on the Hong Kong Stock Exchange in each of the previous twelve months before the Latest Practicable Date are as follows:

	Highest <i>(HK\$)</i>	Lowest <i>(HK\$)</i>
April 2018	3.28	3.20
May 2018	3.25	3.19
June 2018	3.29	3.16
July 2018	3.28	3.14
August 2018	3.28	3.14
September 2018	3.16	3.03
October 2018	3.05	2.76
November 2018	2.94	2.77
December 2018	3.01	2.91
January 2019	3.15	2.98
February 2019	3.35	3.12
March 2019	3.57	3.26

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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))

(Stock Code: 808)

Managed by



ARA Asset Management (Prosperity) Limited

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that an Annual General Meeting of the unitholders (the “Unitholders”) of Prosperity Real Estate Investment Trust (“Prosperity REIT”) will be held at Exhibition Venue A on Level 7, Fortune Metropolis, 6 The Metropolis Drive, Hunghom, Kowloon, Hong Kong on Friday, 17 May 2019 at 2:30 p.m. for the following purposes:

- (1) To note the audited financial statements of Prosperity REIT together with the auditors’ report for the year ended 31 December 2018;
- (2) To note the appointment of auditors of Prosperity REIT and the fixing of their remuneration; and
- (3) To consider and, if thought fit, pass with or without amendments, the resolutions set out below as Ordinary Resolutions.

Words and expressions that are not expressly defined in this notice of annual general meeting shall bear the same meaning as that defined in the unitholder circular dated 10 April 2019 (the “Circular”).

ORDINARY RESOLUTIONS

1. THAT:

- (a) approval (where relevant, shall include approval by way of ratification) be and is hereby given for the 2019 Waiver Extension and the New Annual Caps, in each case, as more fully described in the Circular; and
- (b) authorisation be granted to the REIT Manager, any director of the REIT Manager, the Trustee and any authorised signatory of the Trustee to complete and to do all such acts and things (including executing all such documents as may be required) as the REIT Manager, such director of the REIT Manager, the Trustee

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or such authorised signatory of the Trustee, as the case may be, may consider expedient or necessary or in the interest of Prosperity REIT to give effect to all matters in relation to the 2019 Waiver Extension and the New Annual Caps.

2. THAT:

- (a) approval (where relevant, shall include approval by way of ratification) be and is hereby given for the continual service of Dr. Lan Hong Tsung, David as an INED until the third annual general meeting of Unitholders following the AGM; and
- (b) authorisation be granted to the REIT Manager, any director of the REIT Manager, the Trustee and any authorised signatory of the Trustee to do all such acts and things (including executing all such documents as may be required) as the REIT Manager, such director of the REIT Manager, the Trustee or such authorised signatory of the Trustee, as the case may be, may consider expedient or necessary or in the interest of Prosperity REIT to give effect to the matters resolved upon in paragraph (a) of this resolution.

3. THAT:

- (a) approval (where relevant, shall include approval by way of ratification) be and is hereby given for the continual service of Mrs. Sng Sow-Mei (alias Poon Sow Mei) as an INED until the third annual general meeting of Unitholders following the AGM; and
- (b) authorisation be granted to the REIT Manager, any director of the REIT Manager, the Trustee and any authorised signatory of the Trustee to do all such acts and things (including executing all such documents as may be required) as the REIT Manager, such director of the REIT Manager, the Trustee or such authorised signatory of the Trustee, as the case may be, may consider expedient or necessary or in the interest of Prosperity REIT to give effect to the matters resolved upon in paragraph (a) of this resolution.

4. THAT:

- (a) subject to paragraph (b) of this resolution, the exercise by the REIT Manager during the Relevant Period (as defined below) of all the powers of Prosperity REIT to purchase the Units on the Hong Kong Stock Exchange, subject to and in accordance with the Trust Deed, the REIT Code, the circulars and guidelines issued by the SFC from time to time, and applicable laws of Hong Kong, be and is hereby generally and unconditionally approved;
- (b) the aggregate number of Units which may be purchased or agreed to be purchased by Prosperity REIT pursuant to the approval in paragraph (a) of this resolution during the Relevant Period (as defined below) shall not exceed 10% of the total number of Units in issue as at the date of the passing of this resolution, and the authority pursuant to paragraph (a) of this resolution shall be limited accordingly; and

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- (c) for the purpose of this resolution, “**Relevant Period**” means the period from the date of the passing of this resolution until whichever is the earliest of:
- (i) the conclusion of the next annual general meeting of the Unitholders; or
 - (ii) the expiration of the period within which the next annual general meeting of the Unitholders as referred to in sub-paragraph (i) above is required to be held by the Trust Deed, the REIT Code or any applicable laws; or
 - (iii) the revocation or variation of the authority given under this resolution by the passing of an Ordinary Resolution.

By Order of the Board
ARA Asset Management (Prosperity) Limited
(as manager of Prosperity Real Estate Investment Trust)
Wong Lai Hung
Executive Director and Chief Executive Officer

Hong Kong, 10 April 2019

Registered Office of the REIT Manager:
Unit 901, Level 9, Fortune Metropolis
6 The Metropolis Drive
Hunghom, Kowloon
Hong Kong

Notes:

- (a) A Unitholder entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote in his/her stead. The person appointed to act as a proxy need not be a Unitholder.
- (b) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy thereof, must be deposited at the registered office of the Unit Registrar of Prosperity REIT, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong, not less than 48 hours before the time fixed for holding the meeting or any adjournment thereof. Completion and return of the proxy will not preclude you from attending and voting in person should you so wish. In the event that you attend the meeting or adjourned meeting (as the case may be) after having lodged a form of proxy, the form of proxy will be deemed to have been revoked.
- (c) Where there are joint registered Unitholders of a Unit, any one of such Unitholders may vote at the meeting either personally or by proxy in respect of such Unit as if he/she were solely entitled thereto, but if more than one of such Unitholders is present at the meeting personally or by proxy, that one of such Unitholders so present whose name stands first on the Register of Unitholders of Prosperity REIT in respect of such Unit shall alone be entitled to vote in respect thereof.
- (d) The Register of Unitholders will be closed from Tuesday, 14 May 2019 to Friday, 17 May 2019, both days inclusive, to determine which Unitholders will qualify to attend and vote at the AGM, during which period no transfer of Units will be effected. For those Unitholders who are not already on the Register of Unitholders, in order to qualify to attend and vote at the meeting convened by the above notice, all Unit

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certificates accompanied by the duly completed transfer forms must be lodged with the Unit Registrar of Prosperity REIT, Computershare Hong Kong Investor Services Limited, Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen’s Road East, Wanchai, Hong Kong for registration by 4:30 p.m. on Friday, 10 May 2019.

- (e) If a black rainstorm warning, signal or a tropical cyclone warning signal no.8 or above is in force in Hong Kong at 11:30 a.m. on Friday, 17 May 2019, the AGM will be rescheduled. The REIT Manager will publish an announcement on the websites of Prosperity REIT at www.prosperityreit.com and Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk to notify Unitholders of the arrangement of the rescheduled meeting.

The Directors of the REIT Manager as at the date of this notice are Dr. Chiu Kwok Hung, Justin (Chairman), Mr. Lim Hwee Chiang and Mr. Ma Lai Chee, Gerald as Non-executive Directors; Ms. Wong Lai Hung as Executive Director; Dr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Wong Kwai Lam as Independent Non-executive Directors.