

*This announcement is issued in connection with the transaction relating to the acquisition of a commercial property in Kwun Tong and related matters, in compliance with the REIT Code, and should not be used for any other purpose.*

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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**

- (1) MAJOR ACQUISITION RELATING TO THE PURCHASE OF A  
COMMERCIAL PROPERTY IN KWUN TONG  
(2) ISSUANCE OF ACQUISITION FEE UNITS  
(3) CONTINUING CONNECTED PARTY TRANSACTIONS  
AND  
(4) EXTRAORDINARY GENERAL MEETING AND CLOSURE OF  
REGISTER OF UNITHOLDERS**

**Financial Adviser to the REIT Manager**



## **Acquisition of the Target Property**

On 12 September 2016, Diamond Champ Enterprises Limited (as purchaser, a special purpose vehicle of Prosperity REIT wholly-owned by the Trustee) and Ultra Champion Holdings Limited (as vendor) entered into the Share Purchase Agreement, pursuant to which the Vendor agreed to: (i) sell to the Purchaser the Target Company Share; and (ii) assign the benefit of the Shareholders' Loan to the Purchaser, with the rights attaching to it to the Target Company Share and the Shareholders' Loan as at and from the Completion Date. Upon Completion, Prosperity REIT will (through the Purchaser, Target Company and Target Subsidiary) hold the Target Property.

The purchase consideration for the Acquisition is HK\$1,875,000,000 (which was arrived at after taking into account the valuation of the Target Property by the Independent Property Valuer (being the principal valuer of Prosperity REIT) and represents a discount of 5.5% to the Appraised Value as at 31 July 2016 (being HK\$1,985,000,000)), subject to adjustment by reference to the Target Group Adjusted NAV as at Completion.

The Target Property comprises a 24-storey plus basement commercial building located in Kwun Tong, Kowloon, Hong Kong.

## **Financing of the Acquisition**

The Consideration will be financed by drawing down on the New Facilities in full up to an aggregate amount of HK\$1,950,000,000. The Other Acquisition Fees and Expenses will be financed by internal cash and drawing down on the New Facilities.

## **Implications under the REIT Code and the Trust Deed**

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Vendor, the Target Group Companies and their respective ultimate beneficial owners, the Escrow Agent, the Vendor's Solicitors, Pricewaterhouse Coopers, the Mandated Lead Arranger, the WI Insurer and the tenants under the current tenancies of the Target Property, are independent third parties (and not Connected Persons) of Prosperity REIT.

As the net profit (after deducting all charges except taxation and excluding extraordinary items) attributable to the Target Property represents approximately 38.9% of the profit before taxation and transactions with Unitholders, the Acquisition constitutes a major acquisition by Prosperity REIT under the relevant Hong Kong rules and regulations and requires Unitholders' approval by way of an Ordinary Resolution under the REIT Code and the Trust Deed.

## **Continuing Connected Party Transaction and reasons for modification of the 2016 Extended Waiver**

If the Acquisition is completed, the Target Subsidiary, the REIT Manager and the Property Manager will enter into the Deed of Ratification and Accession at Completion, which will bind the Property Manager to manage the Target Property pursuant to and in accordance with the terms of the Property Management Agreement. As the Property Manager is a Connected Person of Prosperity REIT, the arrangements under the Deed of Ratification and Accession will constitute a continuing connected party transaction falling within the scope of the 2016 Extended Waiver. The current annual caps in respect of the Property Management Transactions can presently accommodate the payment of fees to the Property Manager under the Deed of Ratification and Accession, although the REIT Manager considers the remaining buffer going forward to be insufficient. The REIT Manager considers that it will be unduly burdensome and not in the best 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 such transactions on each and every occasion when they arise. The REIT Manager therefore proposes to increase the Existing Annual Caps for property management arrangements, third party services and other operational transactions for the financial years ending 31 December 2017, 2018 and 2019.

Accordingly, the REIT Manager would like to take the opportunity of the EGM for Independent Unitholders to approve modifications to the 2016 Extended Waiver so as to set new annual monetary limit to accommodate the Property Management Transactions for the financial years ending 31 December 2017, 31 December 2018 and 31 December 2019.

The Prosperity REIT Circular containing, among other things: (1) a letter from the Board to the Unitholders containing details of, among other things, the Transaction Matters Requiring Approval; (2) a letter from the Independent Board Committee to Independent Unitholders in relation to the issuance of the Acquisition Fee Units and the Waiver Modification; (3) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee, the Independent Unitholders and the Trustee in relation to the issuance of the Acquisition Fee Units and the Waiver Modification; and (4) the EGM Notice, will be sent to the Unitholders as soon as practicable.

Terms used herein shall bear the same respective meanings as set out in the Definitions section of this announcement.

**As the Acquisition may or may not complete, unitholders of and prospective investors of Prosperity REIT are advised to exercise caution when dealing in the units of Prosperity REIT.**

## **1. THE ACQUISITION**

### **1.1 Acquisition of the Target Property**

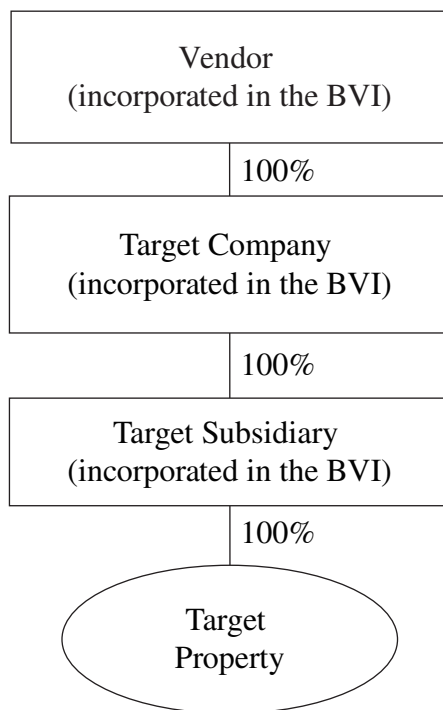
On 12 September 2016, the Purchaser and the Vendor entered into the Share Purchase Agreement, pursuant to which the Vendor agreed to: (i) sell to the Purchaser the Target Company Share; and (ii) assign the benefit of the Shareholders' Loan to the Purchaser, with the rights attaching to it to the Target Company Share and the Shareholders' Loan as at and from the Completion Date. Upon Completion, Prosperity REIT will (through the Purchaser, Target Company and Target Subsidiary) hold the Target Property.

The purchase consideration for the Acquisition is HK\$1,875,000,000 (which was arrived at after taking into account the valuation of the Target Property by the Independent Property Valuer (being the principal valuer of Prosperity REIT) and represents a discount of 5.5% to the Appraised Value as at 31 July 2016 (being HK\$1,985,000,000)), subject to adjustment by reference to the Target Group Adjusted NAV as at Completion as further described in section 2.2 of this announcement headed "Consideration". For illustration purposes, based on the Accountants' Report, the Target Group Adjusted NAV as at 30 June 2016 is approximately HK\$11,488,000.

Further details regarding the Target Property are contained section 5 of the Prosperity REIT Circular headed "Information on the Target Property and the Target Group".

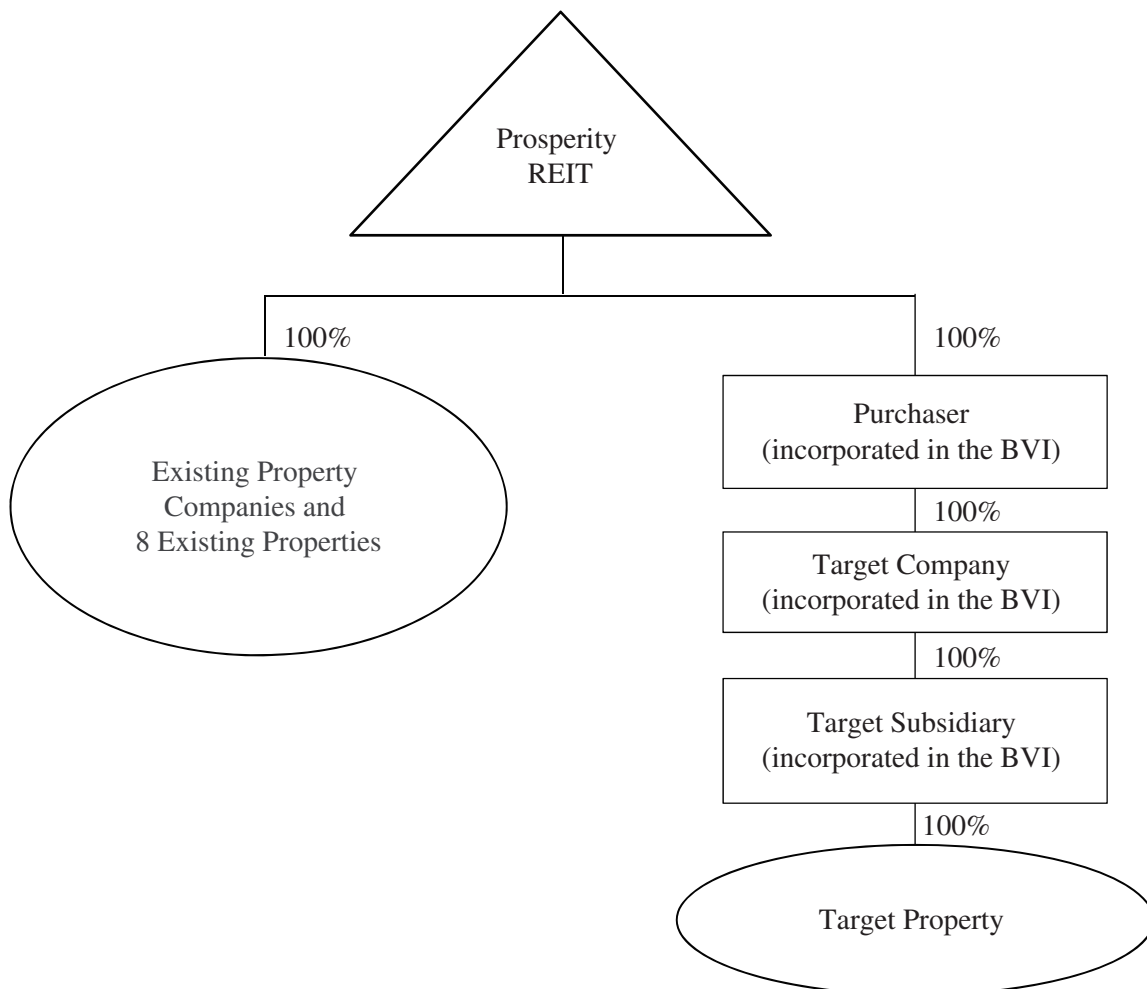
## 1.2 Current and Expected Holding Structure

Below is a chart showing the holding structure of the Target Property as at the date of this announcement:



To the best of the knowledge, information and belief of the REIT Manager, the Vendor is a BVI business company incorporated under the laws of the BVI and its principal business activity is investment holding. The Target Company is incorporated in the BVI and wholly-owns the Target Subsidiary, which in turn holds the Target Property pursuant to a Government Grant. As at the Latest Practicable Date: (i) the principal business activities of the Target Company and the Target Subsidiary were investment holding and property investment in the Target Property; (ii) neither the Target Company or the Target Subsidiary held any other property investments or operated any other businesses; and (iii) to the best of the knowledge, information and belief of the REIT Manager, having made all reasonable enquiries, and based on its due diligence, neither the Target Company or the Target Subsidiary had any employees.

The simplified expected holding structure of the Target Property immediately after Completion is as follows:



### 1.3 Information on the Target Property

The Target Property comprises a 24-storey plus basement commercial building located in Kwun Tong, Kowloon, Hong Kong. The basement floor to second floor of the Target Property are for retail use; the ground floor and the third floor to sixth floor (the fourth floor is omitted) contain car parking spaces; and the remaining 18 floors are designated for office use.

The Appraised Value of the Target Property as assessed by the Independent Property Valuer (being the principal valuer of Prosperity REIT) as at 31 July 2016 was HK\$1,985,000,000.

The table below sets out certain key information on the Target Property as at 31 July 2016, unless otherwise indicated.

|  |   |
|--|---|
| <b>Address</b>   | 410 Kwun Tong Road, Kwun Tong, Kowloon, Hong Kong   |
| <b>Year and month of completion</b>  | March 2002  |
| <b>Government Lease Expiry</b>   | 30 June 2047  |
| <b>Gross Rentable Area<br/>(excluding parking spaces)</b>  | Office: 117,159 sq.ft.<br>Retail: 27,621 sq.ft.<br>Total: 144,780 sq.ft.                  |
| <b>Number of parking spaces</b>  | 37 private car parking spaces<br>5 motorcycle spaces<br>5 lorry spaces                    |
| <b>Number of tenants</b>   | 27  |
| <b>Monthly rental per leased sq.ft. for office and retail (for the month of July 2016)<sup>(1)</sup></b> | HK\$37.44   |
| <b>Monthly rental for parking spaces (for the month of July 2016)</b>                                    | HK\$105,000   |
| <b>Occupancy rate<sup>(2)</sup></b>  | Office: 85.9%<br>Retail: 100%<br>Office and retail overall: 88.6%<br>Parking spaces: 100% |
| <b>Net Property Income for the six months ended 30 June 2016<sup>(3)</sup></b>                           | HK\$25,630,000  |
| <b>Appraised Value as at 31 July 2016</b>  | HK\$1,985,000,000   |

Notes:

- (1) *The monthly rental per leased sq.ft. is calculated by dividing Gross Rental Income for the month ended 31 July 2016 by leased Gross Rentable Area as at 31 July 2016.*
- (2) *The occupancy rate for office and retail space is calculated based on leased Gross Rentable Area excluding the parking spaces as at 31 July 2016.*
- (3) *Calculated by deducting property operating expenses from Gross Revenue based on information provided by the Vendor.*

## **2. SHARE PURCHASE AGREEMENT**

### **2.1 General**

On 12 September 2016, the Purchaser and the Vendor entered into the Share Purchase Agreement, pursuant to which the Vendor agreed to: (i) sell to the Purchaser the Target Company Share; and (ii) assign the benefit of the Shareholders' Loan to the Purchaser, with the rights attaching to the Target Company Share and the Shareholders' Loan as at and from the Completion Date. Upon Completion, Prosperity REIT will (through the Purchaser, Target Company and Target Subsidiary) hold the Target Property.

### **2.2 Consideration**

The purchase consideration for the Acquisition is HK\$1,875,000,000 (which was arrived at after taking into account the valuation of the Target Property by the Independent Property Valuer), subject to an adjustment (the "**Adjustment**") to either: (a) add the amount of the Target Group Adjusted NAV as set out in the Completion Statement (if it is a positive amount); or (b) subtract the absolute value of the amount of the Target Group Adjusted NAV as set out in the Completion Statement (if it is a negative amount) (such adjusted amount being the "**Consideration**"). The Target Group Adjusted NAV is the total consolidated assets of the Target Group (other than the value of the Target Property and certain outstanding account receivables of the Target Group that the REIT Manager does not consider to be material) minus total consolidated liabilities of the Target Group (other than the liability in respect of the Shareholders' Loan and deferred tax liabilities) as at Completion as shown in the Completion Statement.



The Consideration will be paid as follows:

- (a) at Completion, the Purchaser shall pay an amount in cash (the “**Initial Payment**”) equal to HK\$1,875,000,000 plus/minus the Target Group Adjusted NAV as set out in the Pro Forma Completion Statement; and
- (b) within 15 Business Days after agreement or determination of the Completion Statement (which shall be agreed between the Purchaser and the Vendor, and failing any agreement between the Purchaser and the Vendor, it shall be audited by Pricewaterhouse Coopers or such other auditors jointly appointed by the Vendor and the Purchaser): (i) if the Target Group Adjusted NAV (as set out in the Completion Statement) is higher than the Target Group Adjusted NAV (as set out in the Pro Forma Completion Statement), the Purchaser shall pay to the Vendor the difference; and (ii) if the Target Group Adjusted NAV (as set out in the Completion Statement) is lower than the Target Group Adjusted NAV (as set out in the Pro Forma Completion Statement), the Vendor shall repay to the Purchaser the difference (such payment by the Purchaser or the Vendor being the “**Final Payment**”).

The amount of the Consideration, Initial Payment and Final Payment shall be announced by the REIT Manager as soon as practicable after being determined.

Pursuant to the Share Purchase Agreement, the Purchaser shall pay the Initial Payment at or prior to Completion in the following manner:

- (a) an earnest money in the sum of HK\$10,000,000 has been paid by the Purchaser to the Vendor’s Solicitors on 26 July 2016, upon the signing of an exclusivity letter in respect of the Acquisition;
- (b) a further deposit in the sum of HK\$83,750,000 (such further deposit, together with the earnest money mentioned above, being the “**Deposits**”) has been paid to the Vendor’s Solicitors upon execution of the Share Purchase Agreement;
- (c) an amount equal to HK\$20,000,000 (the “**Rental Support Amount**”) shall be paid by the Purchaser to the Escrow Agent at Completion, and retained and released by the Escrow Agent in accordance with section 2.7 of this announcement headed “Rental Support”;
- (d) an amount equal to HK\$18,750,000 (the “**Holdback Amount**”) shall be paid by the Purchaser to the Escrow Agent at Completion, and retained and released by the Escrow Agent in accordance with section 2.8 of this announcement headed “Release of Holdback Amount”;

- (e) an amount equal to the balance of the Initial Payment after deducting the amounts in (a), (b), (c) and (d) above (such balance being the “**Completion Amount**”) shall be paid at Completion in the following manner:
  - (A) a sum equal to the total amount (if any) owing in respect of the ANZ Loans and the amount payable to ensure the full release and discharge of the security documents (including all further interest, prepayment fees, break funding fees and costs and expenses incurred by ANZ for such release and discharge), which the Purchaser shall pay directly to the specified bank account(s) of ANZ; and
  - (B) a sum equal to the balance of the Completion Amount (being the balance remaining after deducting the amount in (A) above from the Completion Amount) shall be paid by the Purchaser to the Vendor.

The Deposits shall be refunded to the Purchaser if the Share Purchase Agreement is terminated due to (a) any Condition not being satisfied (or waived) on or before the Completion Date; or (b) the respective obligations of the Vendor in respect of Completion not being complied with by the Vendor on the Completion Date. The Deposits shall be held by the Vendor’s Solicitors as stakeholders and shall only be released (together with all interest accrued thereon, if any) by the Vendor’s Solicitors to (as the case may be):

- (a) the Vendor on Completion as partial payment of the Consideration;
- (b) the Vendor if it elects to terminate the Share Purchase Agreement due to the Purchaser’s failure to satisfy its obligations in respect of Completion; or
- (c) the Purchaser if the Conditions are not satisfied and/or if the Purchaser has elected to terminate the Share Purchase Agreement due to the Vendor’s failure to satisfy its obligations in respect of Completion.

The Target Group Adjusted NAV does not take into account certain liabilities of the Target Group including: (i) the Shareholders' Loan (which is to be assigned to the Purchaser at Completion); and (ii) deferred tax liabilities. For illustration purposes: (i) the Shareholders' Loan as at 30 June 2016 was approximately HK\$453.5 million; and (ii) the deferred tax liabilities as at 30 June 2016 (which represents the tax allowances previously claimed by the Target Company in respect of the Target Property) were approximately HK\$2.15 million. As the Target Property is to be held by Prosperity REIT for long term investment purposes, the REIT Manager is of the view that the deferred tax liabilities are unlikely to be crystallised in the future. As such, the REIT Manager believes the deferred tax liabilities to be immaterial and does not expect the exclusion thereof from the Adjustment would materially affect Prosperity REIT. In light of the above, the Vendor and Purchaser have, pursuant to their commercial negotiations, also agreed to exclude the deferred tax liabilities from the Adjustment.

The Consideration has been arrived at on a willing buyer and a willing seller arm's-length transaction basis after taking into account the Appraised Value as at 31 July 2016 (being HK\$1,985,000,000). The Consideration (prior to the Adjustment) represents a discount of 5.5% to the Appraised Value.

For further details on the calculation methodology of the Appraised Value, please refer to section 5.3 of the Prosperity REIT Circular headed "Property Valuation".

The Consideration is to be financed entirely by drawing down on the New Facilities. For further details, please refer to section 4.2 of this announcement headed "New Facilities".

## **2.3 Completion**

Completion shall take place on 26 October 2016 or such other date as the Vendor and the Purchaser may agree in writing on which Completion takes place (the "**Completion Date**").

As soon as practicable following Completion, the REIT Manager will issue an announcement to inform Unitholders that Completion has occurred. Such announcement will, among other things, contain further details regarding the calculation of the Initial Payment payable at Completion.

## 2.4 Conditions Precedent

Completion is subject to and conditional upon the following conditions (the “**Conditions**”) being satisfied (or waived in accordance with the Share Purchase Agreement) before Completion:

- (1) the Independent Unitholders passing the ordinary resolutions proposed by the REIT Manager in respect of the following (such resolutions being inter-conditional):
  - (i) the Acquisition as well as the entering into and performance of the Share Purchase Agreement; and
  - (ii) the issuance of the Acquisition Fee Units to the REIT Manager;
- (2) no major part of the Target Property (comprising, in total, 50% or more of the total Gross Floor Area of the Target Property and/or relating to such income generating parts of the Target Property that account for 30% or more of the monthly income due to the Target Group under all tenancies of the Target Property) being, for any reason, declared dangerous by the Government, damaged, destroyed, rendered inaccessible or subject to demolition order(s) or closure order(s) under the applicable laws on the date on which Completion would otherwise have taken place if it were not for this Condition;
- (3) there being no outstanding breach of any of the fundamental warranties (as further described in section 2.5 of this announcement headed “Warranties and Indemnity”) in respect of the Target Company Share, Target Subsidiary Share, the Shareholders’ Loan, or the ownership of the Target Property, in each case on the date on which Completion would otherwise have taken place if it were not for this Condition, unless such outstanding breach relates to building order(s) and/or charging order(s) which entitles the Purchaser to make one or more claims not exceeding the aggregate amount of HK\$93,750,000;
- (4) there being no notice or order issued in relation to resumption or compulsory acquisition of the Target Property or a material part thereof under the applicable laws on the date on which Completion would otherwise have taken place if it were not for this Condition; and

- (5) no statute, regulation or decision which would prohibit or materially delay the sale and purchase of the Target Company Share and Shareholders' Loan, or which would prohibit or materially restrict the operation of the Target Group or the Target Property, having been enacted or taken by any government authority.

The Purchaser shall use all reasonable endeavours to procure the satisfaction of the Condition set out in paragraph (1) above before the Completion Date and shall notify the Vendor when such Condition has been satisfied.

The Condition set out in paragraph (3) above may be waived conditionally or unconditionally by the Purchaser in writing to the Vendor at any time. Each of the Conditions set out in paragraphs (2), (4) and (5) may only be waived jointly, conditionally or unconditionally, by the Purchaser and the Vendor in writing. The REIT Manager will only instruct the Purchaser to waive (solely or jointly with the Vendor) any of the abovementioned Conditions (2), (3), (4) and (5) if and only if it considers this to be in compliance with the REIT Code and the Trust Deed, as well as in the best interests of Prosperity REIT and the Unitholders as a whole. In the event that any of the Conditions have not been satisfied or waived on or before the Completion Date, any party to the Share Purchase Agreement may (without prejudice to any other right or remedy it may have) by notice to the other party (a) postpone the Completion Date to a date falling not more than 10 Business Days after the original Completion Date; or (b) terminate the Share Purchase Agreement.

If any Condition set out in paragraphs (2), (3), (4) or (5) above is not satisfied but the Purchaser and the Vendor (or in respect of the Condition set out in paragraph (3), the Purchaser only) elect to proceed with Completion, the REIT Manager shall ensure that such Completion is subject to compliance with the REIT Code and obtaining SFC's approval and/or waiver (if required).

If the parties elect to proceed with Completion where the Condition set out in paragraph (2) or (4) is not satisfied, the Purchaser and the Vendor shall agree an adjustment to be made to the Consideration referred to in section 2.2 of this announcement headed "Consideration" to take into account any diminution in value of the Target Property caused by the material damage or resumption. The amount of such adjustment shall be determined by an independent property valuer.

## 2.5 Warranties and Indemnity

The Share Purchase Agreement contains certain customary representations and warranties given by the Vendor in respect of the Target Group and the Target Property, including in respect of the Target Company Share. However, as the Purchaser and the Vendor have agreed on the Acquisition being on an “as-is” basis, the Vendor has not given certain warranties as to the state, condition, usage and future development potential of the Target Property.

The REIT Manager is of the view that the sale of the Target Property on an “as-is” basis is in line with market practice. Based on the REIT Manager’s due diligence as further described in section 2.11 of this announcement headed “Due Diligence Review”: (i) the REIT Manager considers the Target Property to be fit for the purposes of operation as a commercial building; (ii) the REIT Manager is not aware of any breaches of the Government Grant or other regulatory breaches which affect the good and marketable nature of the Target Property; and (iii) based on legal advice, the REIT Manager is of the view that, immediately upon Completion, Prosperity REIT will hold good marketable legal and beneficial title in the Target Property. Further, based on the representations and warranties contained in the Share Purchase Agreement, and having regard to the other provisions of the Share Purchase Agreement, the REIT Manager is of the view that notwithstanding the sale of the Target Property on an “as-is” basis, the terms of the Share Purchase Agreement sufficiently protects the interests of Prosperity REIT and the Unitholders as a whole.

The Share Purchase Agreement sets out limitations on the liability of the Vendor in respect of any breach of warranties. The maximum aggregate liability of the Vendor in respect of claims under the warranties (other than any claims under the fundamental warranties, being certain warranties relating to the shares of the Target Group, the Shareholders’ Loan and the ownership of the Target Property) and other provisions of the Share Purchase Agreement (including those provisions for tax) shall not exceed a sum of HK\$500,000,000. The aggregate liability of the Vendor in respect of claims under the fundamental warranties, when taken together with any and all other claims under the Share Purchase Agreement, shall not exceed a maximum sum equal to the Consideration.

The Share Purchase Agreement also provides for a limitation period of three years commencing on the Completion Date for all claims relating to fundamental warranties. The limitation period for all claims relating to any other case (other than those claims relating to tax, in which case the limitation period is four years commencing on the Completion Date) is two years commencing on the Completion Date. The REIT

Manager considers that such limitations are on normal commercial terms (having regard to the present transaction being a private equity transaction) following arm's length negotiations between the relevant parties, are fair and reasonable, and are in the interests of Prosperity REIT and the Unitholders as a whole.

Notwithstanding there being no guarantee provided in respect of the Vendor's obligations under the Share Purchase Agreement, the REIT Manager is satisfied that the interests of Prosperity REIT and the Unitholders as a whole in respect of potential claims are adequately and sufficiently protected for the reasons stated in the last paragraph of section 2.9 of this announcement headed "WI Insurance" (having regard to, among other things, the WI Insurance Policy procured and the Holdback Amount being held in escrow).

The Share Purchase Agreement contains a customary tax indemnity provided by the Vendor pursuant to which the Vendor agrees to indemnify the Purchaser in respect of certain liabilities for taxation and any and all reasonable costs incurred in connection with a successful claim.

From the REIT Manager's due diligence, it is not aware of any breach of warranties under the Share Purchase Agreement or of any litigation whereby any Target Group Company is a defendant as at the Latest Practicable Date.

## **2.6 Termination**

The Share Purchase Agreement provides each party to the Share Purchase Agreement with the right to terminate the Share Purchase Agreement by notice in writing to the other party if:

- (a) any Condition has not been satisfied (or waived) on or before the Completion Date; or
- (b) the respective obligations of the other party in respect of Completion are not complied with by the other party on the Completion Date.

In the event of such termination, the Share Purchase Agreement will terminate (save for certain provisions in respect of confidentiality which shall remain binding as between the parties).

No party shall have any claims against the other in the event that the Share Purchase Agreement is terminated pursuant to (a) above, in which case the Vendor shall on-demand return the Deposits to the Purchaser. In the event that the Share Purchase Agreement is terminated by the Purchaser pursuant to (b) above, the Vendor shall on-demand: (i) return the Deposits to the Purchaser; and (ii) additionally pay to the Purchaser an amount equivalent to the aggregate of (A) the Deposits; (B) fees payable to the WI Insurer and fees payable to the insurance broker; and (C) all legal and other professional fees payable by the Purchaser in connection with the Acquisition, subject to certain caps, as liquidated damages. In the event that the Share Purchase Agreement is terminated by the Vendor pursuant to (b) above, the Deposits shall be forfeited to the Vendor and the Purchaser shall additionally pay to the Vendor an amount equivalent to the aggregate of (i) all agency fees payable in relation to the Acquisition and (ii) all legal and other professional fees payable by the Vendor in connection with the Acquisition, subject to certain caps, as liquidated damages. As an alternative to (but not a cumulative remedy of) receiving the liquidated damages to which either party is entitled pursuant to the above, any party may elect to seek specific performance and other remedies necessary for enforcing specific performance.

## **2.7 Rental Support**

Subject to Completion taking place, the Vendor has undertaken to provide rental support to the Purchaser during the Rental Support Period commencing from and including the Completion Date up to but excluding the third anniversary of the Completion Date in accordance with the following:

- (a) The Rental Support Amount shall be retained by the Escrow Agent free from encumbrances;
- (b) In the event that the Rental Income in respect of the relevant Rental Support Period is less than the agreed Rental Income in respect of such Rental Support Period, the Vendor and the Purchaser shall, within 15 Business Days following the preparation and delivery of the Rental Support Certificate in respect of the relevant Rental Support Period, give joint written instructions to the Escrow Agent to release to the Purchaser such amount that is equal to such shortfall (the “**Rental Support Payment**”) from the Rental Support Amount;
- (c) The Vendor’s obligations in respect of the aggregate amount of rental support for the relevant Rental Support Period shall not in any event exceed the Rental Support Amount of HK\$20,000,000, and the Vendor shall not have any further obligation in respect of the rental support if and when the entire amount of the Rental Support Amount has been released in accordance with paragraph (b) above;



- (d) On or before the last Business Day of February of the calendar year following each Rental Support Period, the Purchaser shall procure that the Purchaser's accountants prepare and deliver to the Vendor a copy of the Rental Support Certificate, together with such other supporting documents as the Vendor may reasonably request, for review by the Vendor;
- (e) The Rental Support Certificate shall be prepared in accordance with the accounting policies, principles, practices, evaluation rules, procedures, methods and bases used in the preparation of the audited accounts of the Target Group, subject to certain adjustments agreed between the Purchaser and the Vendor;
- (f) If the Rental Income in respect of any Rental Support Period (determined by reference to the relevant Rental Support Certificate) is equal to or greater than the agreed Rental Income for the relevant Rental Support Period, the Vendor is not required to make any Rental Support Payment to the Purchaser for the relevant Rental Support Period and the Purchaser is not required to account to the Vendor for any such surplus; and
- (g) In the event that, following determination of the Rental Support Certificate in respect of the Rental Support Period ending on the third anniversary of Completion Date and the release of the Rental Support Payment (if any) in respect of such Rental Support Period in accordance with paragraph (b) above, there shall be any remaining amount in the Rental Support Amount, the Vendor and the Purchaser shall, within 10 Business Days, give joint written instructions to the Escrow Agent to release such remaining amount to the Vendor.

The agreed Rental Income for each of the following periods (each a "**Rental Support Period**") is as follows:

- (a) in respect of the period from the Completion Date to 31 December 2016 (both dates inclusive), an amount equal to HK\$63,000,000 prorated by reference to the actual number of days from Completion Date up to and including 31 December 2016 divided by the total number of days from 1 January 2016 to 31 December 2016 (both dates inclusive);

- (b) in respect of the period from 1 January 2017 to 31 December 2017 (both dates inclusive), the sum of:
  - (i) an amount equal to HK\$63,000,000 prorated by reference to the actual number of days from 1 January 2017 up to but excluding the first anniversary of Completion Date divided by the total number of days in this Rental Support Period; plus
  - (ii) an amount equal to HK\$66,000,000 prorated by reference to the actual number of days from and including the first anniversary of Completion Date up to and including 31 December 2017 divided by the total number of days in this Rental Support Period;
  
- (c) in respect of the period from 1 January 2018 to 31 December 2018 (both dates inclusive), the sum of:
  - (i) an amount equal to HK\$66,000,000 prorated by reference to the actual number of days from 1 January 2018 up to but excluding the second anniversary of Completion Date divided by the total number of days in this Rental Support Period; plus
  - (ii) an amount equal to HK\$70,000,000 prorated by reference to the actual number of days from and including the second anniversary of Completion Date up to and including 31 December 2018 divided by the total number of days in this Rental Support Period; and
  
- (d) in respect of the period from 1 January 2019 to the third anniversary of Completion Date (both dates inclusive), an amount equal to HK\$70,000,000 prorated by reference to the actual number of days from 1 January 2019 up to but excluding the third anniversary of Completion Date divided by the total number of days from 1 January 2019 to 31 December 2019 (both dates inclusive).

The abovementioned agreed Rental Income amounts were determined by the Vendor and the Purchaser after taking into consideration: (a) the transacted rent for the Target Property tenancies commenced in 2016; (b) the market rent being charged for similar tenancies in the Kwun Tong district; and (c) the forecast of the rental market in Kwun Tong based on the Market Consultant's Report.

There is no sub-cap on the Rental Support Amount payable in respect of any individual Rental Support Period.

Based on the current market conditions and tenancy profile of the Target Property, the Rental Support Amount is not expected to be reached by the end of the final Rental Support Period.

**Unitholders should note that the Rental Support Amount of HK\$20,000,000 effectively serves as a cap on the liability of the Vendor in respect of rental support, and that, once the full amount of the Rental Support Amount has been made, the Vendor will have no further liability in respect of rental support under the Share Purchase Agreement.**

Details of the Rental Support Payments (including the quantum of such payments) will be announced by the REIT Manager as soon as practicable after such payments have been determined, and will be disclosed in Prosperity REIT's interim and annual reports.

## **2.8 Release of Holdback Amount**

On Completion, the Purchaser shall pay, or procure the payment of, the Holdback Amount to the Escrow Agent for credit to a bank account in the name of the Escrow Agent (the "**Holdback Escrow Account**") in accordance with the terms of the escrow agreement.

The Purchaser shall be entitled to claim from the Holdback Escrow Account for all claims against the Vendor, which are subject to the limitations set forth in the Share Purchase Agreement.

On the date falling on the fourth anniversary of the Completion Date (the "**Holdback Amount Release Date**"), pursuant to the terms of an irrevocable payment instruction jointly signed by the Purchaser and the Vendor, the Vendor shall be entitled to receive payment from the Holdback Escrow Account any remaining amount of the Holdback Amount, less the aggregate amount (the "**Unsatisfied Amounts Claimed**") of any and all claims made by the Purchaser against the Vendor under the Share Purchase Agreement:

- (a) the liability and quantum of which have been agreed between the Vendor and the Purchaser or for which it has been otherwise finally determined that the Vendor is liable, but which have not yet been paid to the Purchaser prior to or on the Holdback Amount Release Date; and
- (b) which the Purchaser has not withdrawn and which have neither been agreed between the Vendor and the Purchaser nor finally determined prior to or on the Holdback Amount Release Date.

In the event that the Purchaser makes any claim against the Vendor prior to or on the Holdback Amount Release Date, an amount equal to each individual claim, or if more than one such claim shall be made, the aggregate amount of such claims shall be retained in the Holdback Escrow Account (to the extent funds are available in the Holdback Escrow Account) pending such claim(s) being agreed between the Vendor and the Purchaser or being finally determined, provided that if at any time after the Holdback Amount Release Date the remaining amount of the Holdback Amount exceeds the then Unsatisfied Amounts Claimed, the excess shall be paid to the Vendor from such remaining amount.

## 2.9 WI Insurance

The Purchaser has procured a warranty and indemnity insurance policy (the “**WI Insurance Policy**”) with a reputable insurance provider carrying financial strength ratings of A (Standard & Poor), A2 (Moody’s) and A (AM Best) (the “**WI Insurer**”) on and with effect from the date of the Share Purchase Agreement to further protect itself in respect of claims relating to warranties and indemnities under the Share Purchase Agreement, but subject to certain exclusions as stated in the WI Insurance Policy. The REIT Manager considers: (i) such exclusions are in line with market practice and not material; and (ii) the WI Insurance Policy to be fair and reasonable, on normal commercial terms (for policies of a similar size and nature) after arm’s length negotiations, and in the interests of Prosperity REIT and the Unitholders as a whole.

The maximum aggregate liability of the WI Insurer under the WI Insurance Policy will not exceed HK\$187,500,000 (representing 10% of the Consideration (prior to the Adjustment)) and will be subject to a *de minimis* claim threshold of HK\$100,000 (being 0.0053% of the Consideration (prior to the Adjustment)). Amounts shall only be recoverable from the WI Insurer if the aggregate amount recoverable in respect of all claims exceeds HK\$18,750,000 (being 1% of the Consideration (prior to the Adjustment)), and the WI Insurer will only be liable for claims over and above such threshold. Amounts below such threshold can be claimed against the Vendor, subject to the Vendor’s limitations of liability under the Share Purchase Agreement. Notice of any claim must be given to the WI Insurer within 7 years from Completion (for claims relating to title, authority and tax) or within 2 years from Completion (for other claims). The REIT Manager considers the premium payable for the WI Insurance Policy to be in line with market rates, and such premium will be equally shared between the Purchaser and the Vendor.

Taking into consideration: (1) the abovementioned warranty and indemnity coverage from the Vendor (including the Vendor's limitation cap, thresholds and period with respect to claims, and the sale of the Target Property on an "as-is" basis) which the REIT Manager considers to be fair and reasonable, on normal commercial terms (for independent private equity vendors) after arm's length negotiations and the best terms available to the Purchaser in the circumstances, and are in the interests of Prosperity REIT and the Unitholders as a whole; (2) the Vendor being a subsidiary of a private equity fund and there being no guarantee in respect of the Vendor's obligations under the Share Purchase Agreement; (3) the WI Insurance Policy and terms thereof (having regard to the limitations and exclusions therein); (4) the Holdback Amount being paid into the Holdback Escrow Account; and (5) the satisfactory results of the REIT Manager's due diligence review in respect of the Target Property and the Target Group, the REIT Manager is satisfied that the interests of Prosperity REIT and the Unitholders as a whole in respect of potential claims are adequately and sufficiently protected.

## **2.10 Arm's Length Terms**

The Share Purchase Agreement and WI Insurance Policy have been entered into, or shall be entered into, by the parties thereto on normal commercial terms (including in respect of those terms relating to limitation of liability) following arm's length negotiations.

## **2.11 Due Diligence Review**

The REIT Manager has conducted, and is satisfied with the results of, due diligence in respect of the Target Property and the Target Group, and no material irregularities have been noted. Such due diligence has been carried out in accordance with the relevant provisions of the REIT Code and the REIT Manager's compliance manual. Immediately upon Completion, Prosperity REIT will hold good marketable legal and beneficial title in the Target Property.

## **2.12 Fees and Charges**

The estimated total fees and charges payable by Prosperity REIT in relation to the Acquisition (being the Acquisition Fee and Other Acquisition Fees and Expenses as described in section 2.14 of this announcement headed "Additional costs payable in relation to the Acquisition") is approximately HK\$55.6 million. Accordingly, the total costs of the Acquisition (being the Consideration plus the Other Acquisition Fees and Expenses) is estimated to amount to approximately HK\$1,930.6 million subject to the Adjustment as described in section 2.2 of this announcement headed "Consideration". Such total cost of the Acquisition represents approximately 26.1% of Prosperity REIT's unaudited NAV of HK\$7,398.3 million as at 30 June 2016 and 25.8% of such NAV of HK\$7,493.3 million as enlarged by the Acquisition.

### **2.13 Fees payable by Prosperity REIT to the REIT Manager in relation to the Acquisition**

On Completion, the REIT Manager will be entitled under Clause 14.2.1(i) of the Trust Deed to receive an acquisition fee of HK\$18,750,000, which is equal to 1.0% of the acquisition price for the Target Property (the “**Acquisition Fee**”). The Acquisition Fee shall be based on the Consideration payable prior to the Adjustment (being HK\$1,875,000,000), resulting in an Acquisition Fee equal to HK\$18,750,000.

Pursuant to the Trust Deed, the REIT Manager may elect to receive the Acquisition Fee in the form of cash or, with the prior approval of the Unitholders by an Ordinary Resolution, entirely in the form of Units or partly in cash and partly in the form of Units. When paid in the form of Units (the “**Acquisition Fee Units**”), the REIT Manager shall be entitled to receive such number of Units as may be purchased for the relevant amount of the Acquisition Fee, at an issue price that is equal to the highest of the average closing price of Units in the 10 trading days of the Hong Kong Stock Exchange immediately prior to the earliest of the following events: (a) the entry into of the Share Purchase Agreement; (b) the announcement in respect of the Acquisition; and (c) the completion of the Acquisition. The REIT Manager has elected to receive the Acquisition Fee entirely in the form of Acquisition Fee Units so as to preserve the distributable income available for distribution to all Unitholders following the Acquisition. The Acquisition Fee Units will, upon issuance, rank *pari passu* in all respects with the then existing Units, and accordingly, will carry an entitlement to distributions for the six months ending 31 December 2016 (assuming the Acquisition Fee Units are issued before the record date for such distribution). The Acquisition Fee Unit issue price (and consequentially, the number of Acquisition Fee Units issued) is calculated by reference to a cum-distribution average market price, in accordance with the above formula specified in the Trust Deed.

In this regard, the REIT Manager intends to seek Unitholders’ approval at the EGM to receive the Acquisition Fee entirely in the form of Units. For illustration purposes, based on the average closing price of Units in the 10 trading days on the Hong Kong Stock Exchange immediately prior to the Latest Practicable Date (being HK\$3.512), the REIT Manager would receive 5,338,838 Acquisition Fee Units. As soon as practicable after the issuance of Acquisition Fee Units, the REIT Manager will issue an announcement setting out the number of the Acquisition Fee Units issued to the REIT Manager and the date of such issuance.

## **2.14 Additional costs payable in relation to the Acquisition**

Prosperity REIT incurred or is expected to incur other estimated fees and expenses in connection with the Acquisition (including advisory fees, professional fees, origination fees and expenses, stamp duty and the one-half share of the WI Insurance Policy premium borne by the Purchaser) amounting to approximately HK\$37.8 million (the “**Other Acquisition Fees and Expenses**”). The Other Acquisition Fees and Expenses are one-off transaction expenses of a non-recurring nature in connection with the Acquisition.

## **2.15 Ongoing fees and charges payable to the REIT Manager and the Trustee in relation to the Properties following Completion**

After Completion:

- (a) the REIT Manager will be entitled under the Trust Deed to receive from the Deposited Property, management fees attributable to the Properties comprising:
  - (i) a base fee of 0.4% per annum of the value of the Properties as calculated and adjusted in accordance with the Trust Deed; and
  - (ii) a variable fee of 3.0% per annum of the Net Property Income as shown in the latest published annual financial statements of Prosperity REIT (before deduction therefrom of the variable fee) attributable to the Properties; and
- (b) the Trustee will receive a trustee fee currently no more than 0.05% per annum of the value of the Properties calculated and adjusted in accordance with the Trust Deed, subject to a minimum amount of HK\$50,000 per month.

The REIT Manager and the Trustee will be entitled to such fees attributable to the Target Property in the future for so long as the Target Property continues to form part of the Deposited Property. Other than as mentioned in paragraph (b) above, no other fees are payable to the Trustee in respect of the Acquisition.

### **3. REASONS FOR AND BENEFITS OF THE ACQUISITION**

The REIT Manager believes that the key benefits of the Acquisition are that:

#### **(1) Yield Accretive Acquisition**

The Acquisition is expected to be yield accretive and improve the earnings of Prosperity REIT and DPU to existing Unitholders. Based on the pro forma financials as set out in section 5 of this announcement headed “Financial Effects of the Acquisition”, if the Acquisition was completed on 1 January 2016 and based on the other assumptions in section 5, Prosperity REIT’s pro forma DPU would have increased by 3.6% from HK\$0.0906 to HK\$0.0939 for the six months ended 30 June 2016, due to the stable income produced from the Target Property.

#### **(2) Quality Asset Located in a Strategic Location**

The Target Property is a commercial building located in Kwun Tong district of Kowloon East in Hong Kong. It enjoys excellent accessibility as it is close to the Eastern Cross Harbour Tunnel, public bus stops with 18 bus lines and the Kwun Tong MTR Station is just a minute’s walk away. The first floor of the Target Property where the retail tenants are located is directly linked to a pedestrian overhead bridge. The bridge connects to both sides of the main street, Kwun Tong Road. The Target Property is also in close proximity to the largest shopping mall in the area.

According to the Market Consultant’s Report, Kwun Tong district is currently undergoing a major transformation to be the new commercial centre of Hong Kong. In 2011, the Chief Executive of Hong Kong had announced to expedite the transformation of Kwun Tong district into a vibrant and alternative CBD to support Hong Kong’s long term economic development. Kwun Tong district is also expected to see upgrades in its transportation infrastructure, such as the Shatin-Central-Link, Central-Kowloon Link, East Kowloon Line and Environmentally Friendly Linkage System. These infrastructure upgrades are expected to provide more convenient access to the Kowloon district and bring about a greater traffic flow.



Also of significant note is the Kwun Tong Town Centre project which is an urban regeneration of the old retail and residential area of Yue Man Square in Kwun Tong. The large-scale redevelopment project is undertaken by the Urban Renewal Authority, and aims to develop a modern community with residential, leisure and iconic commercial development. The project is on-going and is expected to increase the population and footfall in the area in the long term, and consequently, uplift the retail environment of the Kwun Tong District and support the district's retail property rental growth. Furthermore, a steady flow of overseas visitors is also expected upon the gradual maturing of Kai Tak Cruise Terminal as well as the improving linkage to the former Kai Tak Runway area. The abovementioned factors may benefit Prosperity REIT should the Target Property be partially or fully converted for retail use in the future. In line with its management strategy, the REIT Manager will explore and assess any such opportunities should they arise.

### **(3) Positive Outlook with Strong Rental Upside Potential**

In the past five years, multi-national corporations have expanded their presence in Kwun Tong as the district is maturing with more high specification Grade-A office supply. According to the Market Consultant's Report, there has been a rapid absorption of the office space in the Kwun Tong district since 2010 with a vacancy of a low 3.8% recorded as of first half of 2016. Supply levels in traditional CBD and other business districts in Hong Kong will remain relatively limited. Striding towards a second CBD, it is expected that a magnet draw effect will be fostered and a larger tenant pool will be built in Kwun Tong. Kowloon East is an option for corporations looking for high specification buildings at a conveniently accessible location. Grade-A office rentals in Kwun Tong are therefore expected to record an annual growth of 2% to 4% in the long term.

### **(4) Market Diversification**

The Acquisition of the Target Property will diversify the tenant base of Prosperity REIT's portfolio in the Kowloon East district, which currently includes Prosperity Place (commercial use), Prosperity Center (industrial and office use), 9 Chong Yip Street (office use) and will include, upon Completion, the Target Property (retail and office use). The broadened tenant base will reinforce Prosperity REIT's stable income stream in the long term. Prosperity REIT can also tap into the retail upsides in a fast growing district.

## **(5) Operating Synergies**

Prosperity REIT will benefit from the increased portfolio size that will create a stronger platform to spread fixed operating costs over a larger portfolio, thus achieving greater operating synergies and economies of scale in operation. Operating synergies can be achieved through the established property management teams carrying out leasing and building management functions for Prosperity REIT's three existing properties in the Kowloon East district.

## **4. FINANCING OF THE ACQUISITION**

### **4.1 Overview**

The Consideration (being HK\$1,875,000,000 prior to the Adjustment) will be financed by drawing down on the New Facilities in full. The Other Acquisition Fees and Expenses will be financed by internal cash and drawing down on the New Facilities.

The Acquisition Fee will be paid to the REIT Manager in the form of Acquisition Fee Units, subject to Independent Unitholders' approval at the EGM in respect of the same.

### **4.2 New Facilities**

On 12 September 2016, Vital Vision Enterprises Limited (as borrower), a wholly-owned subsidiary of Prosperity REIT entered into a mandate letter with the Mandated Lead Arranger for the provision of unsecured term loan facilities up to an aggregate amount of HK\$1,950,000,000 (the "**New Facilities**") to finance the Acquisition. The New Facilities will bear interest at a margin of 0.905% per annum over HIBOR, and will mature and become repayable in 4 years from the date on which the New Facilities are drawn down.

The Trustee will provide an unconditional and irrevocable guarantee in favour of the lenders in respect of the New Facilities. The New Facilities are intended to be drawn down in full at Completion and will be used to finance the payment of the Consideration.

The terms and conditions of the New Facilities described in this announcement are indicative only, and may be subject to change, depending on the market conditions at the time the New Facilities are finalised and the relevant loan agreement(s) are signed, and do not represent the complete set of the actual terms and conditions. The actual terms and conditions of the New Facilities may differ from, or may comprise additional or fewer terms and conditions as compared with, the indicative terms and conditions described in this announcement. To the extent that there are any material changes to the indicative terms and conditions described in this announcement, the REIT Manager will issue an announcement to provide details of such changes.

### **4.3 Expected Gearing Ratio**

Based on the pro forma consolidated statement of financial position of the Enlarged Group as set out in Appendix 3 to the Prosperity REIT Circular headed “Unaudited Pro Forma Financial Information of the Enlarged Group”, the REIT Manager expects the Gearing Ratio of Prosperity REIT will increase from 26.5% (as at 30 June 2016) to approximately 37.1% as a result of the Acquisition and financing thereof. Such Gearing Ratio is below the 45% limit permitted under the REIT Code.

## **5. FINANCIAL EFFECTS OF THE ACQUISITION**

### **5.1 Pro Forma Financial Effects of the Acquisition**

The pro forma financial effects of the Acquisition on DPU and NAV below are strictly for illustrative purposes and were prepared based on:

- (a) the unaudited consolidated financial statements of Prosperity REIT for the six months ended 30 June 2016; and
- (b) the audited financial statements of the Target Group for the six months ended 30 June 2016 as set out in Appendix 2 to the Prosperity REIT Circular headed “Accountants’ Report of the Target Group”,

and assuming:

- (i) Prosperity REIT had acquired the Target Property on 30 June 2016 (for the purposes of the unaudited pro forma consolidated statement of financial position of the Enlarged Group) and 1 January 2016 (for the purposes of the unaudited pro forma consolidated statement of profit or loss and comprehensive income of the Enlarged Group), respectively and that it was valued at the Consideration on such dates;

- (ii) the Consideration was HK\$1,875,000,000 and an Adjustment of HK\$11,488,000 was made;
- (iii) the Consideration and Other Acquisition Fees and Expenses were funded by the New Facilities and internal cash;
- (iv) In relation to the unaudited pro forma consolidated statement of financial position of the Enlarged Group, 5,896,226 Acquisition Fee Units were issued to the REIT Manager in satisfaction of the Acquisition Fee at HK\$3.18, being the closing market price per unit on the Hong Kong Stock Exchange as at 30 June 2016; and
- (v) In relation to the unaudited pro forma consolidated statement of profit or loss and comprehensive income of the Enlarged Group, 6,720,430 Acquisition Fee Units were issued to the REIT Manager in satisfaction of the Acquisition Fee at HK\$2.79, being the closing market price per unit on the Hong Kong Stock Exchange immediately prior to 1 January 2016.

The REIT Manager considers the above assumptions to be appropriate and reasonable as at the date of this announcement. However, Unitholders should consider the information outlined below in light of such assumptions and make their own assessment of the future performance of Prosperity REIT.

Based on the pro forma financial effects of the Acquisition as stated in this section as well as Appendix 3 to the Prosperity REIT Circular headed “Unaudited Pro Forma Financial Information of the Enlarged Group” which provides a more detailed illustration of the financial effects of the Acquisition, the REIT Manager does not foresee any material adverse impact on the financial position of Prosperity REIT as a result of the Acquisition.

**Unitholders should note that the financial effects of the Acquisition is on a pro forma basis and is subject to the assumptions set out in Appendix 3 to the Prosperity REIT Circular headed “Unaudited Pro Forma Financial Information of the Enlarged Group”. Accordingly, they do not represent the actual financial position of Prosperity REIT as a result of the Acquisition in the future.**

## 5.2 Pro Forma DPU

The pro forma financial effects of the Acquisition on the DPU for the six months ended 30 June 2016, as if the Acquisition was completed on 1 January 2016, and Prosperity REIT had held and operated the Target Property through to 30 June 2016, are as follows:

|                                 | <b>Before the<br/>Acquisition</b> | <b>After the<br/>Acquisition</b> |
|---------------------------------|-----------------------------------|----------------------------------|
| Distributable Income (HK\$'000) | 131,372 <sup>(1)</sup>            | 136,912 <sup>(2)</sup>           |
| Issued Units ('000)             | 1,449,734 <sup>(3)</sup>          | 1,457,643 <sup>(4)</sup>         |
| DPU (HK\$)                      | 0.0906 <sup>(5)</sup>             | 0.0939 <sup>(6)</sup>            |

Notes:

- (1) Based on unaudited statements of Prosperity REIT for the six months ended 30 June 2016.
- (2) The financial effects of the Enlarged Group is based on: (i) the unaudited financial statements of Prosperity REIT and the audited financial statements of the Target Group for the six months ended 30 June 2016; and (ii) assuming the Acquisition was completed and the borrowings in the amount of HK\$1,875,000,000 were drawn down on 1 January 2016.
- (3) Number of Units in issue as at 30 June 2016 plus the number of Units to be issued after the relevant distribution period to the REIT Manager as manager's fee for its service in the second quarter of 2016.
- (4) Includes: (i) 6,720,430 new Acquisition Fee Units at an assumed issue price of HK\$2.79 per Unit; and (ii) 1,188,555 new Units issued as part payment of the REIT Manager's management fee for the Target Property for the six months ended 30 June 2016 at an assumed issued price of HK\$3.18 per Unit.
- (5) Actual DPU of Prosperity REIT for the six months ended 30 June 2016 as stated in Prosperity REIT's 2016 interim report.
- (6) Computed based on the distributable income of the Enlarged Group for the six months ended 30 June 2016 over the number of Units issued and issuable by the Enlarged Group as at 30 June 2016.

### 5.3 Pro Forma NAV attributable to Unitholders per Unit

The pro forma financial effects of the Acquisition on the NAV attributable to Unitholders per Unit as at 30 June 2016, as if the Acquisition was completed on 30 June 2016, are as follows:

|  | <b>Before the<br/>Acquisition</b> | <b>After the<br/>Acquisition</b> |
|--|-----------------------------------|----------------------------------|
| NAV attributable to Unitholders ( <i>HK\$'000</i> )      | 7,398,285 <sup>(1)</sup>          | 7,493,294 <sup>(2)</sup>         |
| Issued Units ( <i>'000</i> )                             | 1,445,972 <sup>(3)</sup>          | 1,451,868 <sup>(4)</sup>         |
| NAV attributable to Unitholders per Unit ( <i>HK\$</i> ) | 5.12                              | 5.16                             |

*Notes:*

- (1) *Based on the unaudited interim consolidated balance sheet of Prosperity REIT as at 30 June 2016.*
- (2) *The financial effects of the Enlarged Group is based on: (i) the unaudited financial position of Prosperity REIT and the audited financial position of the Target Group as at 30 June 2016; and (ii) assuming the Acquisition was completed and the borrowings in the amount of HK\$1,875,000,000 were drawn down on 30 June 2016.*
- (3) *Number of Units in issue as at 30 June 2016.*
- (4) *Includes: (i) 5,896,226 new Acquisition Fee Units at an assumed issue price of HK\$3.18 per Unit.*

## 5.4 Pro Forma Capitalisation

The following table sets forth the pro forma capitalisation of Prosperity REIT as at 30 June 2016, as if Prosperity REIT had completed the Acquisition and the borrowings in the amount of HK\$1,875,000,000 were drawn down on 30 June 2016.

|   | <b>Actual</b><br><i>(HK\$'000)</i> | <b>After the</b><br><b>Acquisition</b><br><i>(HK\$'000)</i> |
|---|------------------------------------|---|
| <b>Short-term debt:</b>                       |                                    |   |
| Unsecured term loan                           | 380,000                            | 380,000   |
| <b>Long-term debt:</b>                        |                                    |   |
| Secured term loans                            | 2,474,000                          | 2,474,000   |
| Unsecured term loan                           | —                                  | 1,875,000   |
|   | <u>2,474,000</u>                   | <u>4,349,000</u>  |
| <b>Total long-term debt</b>                   | <u>2,474,000</u>                   | <u>4,349,000</u>  |
| <b>Total debt:</b>                            | 2,854,000                          | 4,729,000   |
| Bank facility origination fees                | <u>(34,356)</u>                    | <u>(59,331)</u>   |
|   | 2,819,644                          | 4,669,669   |
| <b>Net assets attributable to Unitholders</b> | <u>7,398,285</u>                   | <u>7,493,294</u>  |
| <b>Total capitalisation</b>                   | <u>10,217,929</u>                  | <u>12,162,963</u>   |

## 6. EXISTING CONTINUING CONNECTED PARTY TRANSACTIONS

The REIT Manager has applied to the SFC for a modification of the 2016 Extended Waiver from strict compliance with the disclosure and independent unitholders' approval requirements under Chapter 8 of the REIT Code, in respect of the Existing Continuing Connected Party Transactions. The REIT Manager is seeking Independent Unitholders' approval for the Waiver Modification, details of which are set out below in this section 6.

## 6.1 Connected Persons of Prosperity REIT

The Prosperity REIT Group has entered or will enter into continuing transactions (which will constitute continuing connected party transactions within the meaning of the REIT Code) with the following Connected Persons:

### 6.1.1 CK Property Connected Persons Group

For the purpose of the REIT Code, CK Property is a Significant Holder (that is, a holder of 10% or more of the outstanding Units) of Prosperity REIT, and is therefore a Connected Person of Prosperity REIT under paragraph 8.1(d) of the REIT Code.

Any person who is connected to CK Property as described in paragraphs 8.1(e), (f) or (g) of the REIT Code is also a Connected Person of Prosperity REIT, and these persons include: (i) any director, senior executive or officer of CK Property; (ii) any associate (as defined in the REIT Code) of CK Property or of any director, senior executive or officer of CK Property; and (iii) any controlling entity, holding company, subsidiary or associated company (as defined in the REIT Code) of CK Property (collectively, and together with CK Property, the “**CK Property Connected Persons Group**”). The scope of the CK Property Connected Persons Group is the same as that under the 2016 Extended Waiver.

### 6.1.2 Manager Group

The REIT Manager is a Connected Person of Prosperity REIT under paragraph 8.1(a) of the REIT Code.

Any person who is connected to the REIT Manager as described in paragraphs 8.1(e), (f) or (g) of the REIT Code is also a Connected Person of Prosperity REIT, and these persons include: (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 (collectively, and together with the REIT Manager, the “**Manager Group**”). The scope of the Manager Group is the same as that under the 2016 Extended Waiver.



## 6.2 Existing Waivers in respect of Chapter 8 of the REIT Code

### 6.2.1 Existing waivers in relation to continuing connected party transactions

As disclosed in the Offering Circular, the REIT Manager applied for the Initial Waiver, and the SFC granted the Initial 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 and 3 June 2015.

As disclosed in the 2016 Waiver Extension Circular, the REIT Manager applied to the SFC for a further extension so that the 2016 Extended Waiver applies for the three financial years ending 31 December 2019 (the “**New CPT Waiver Period**”). The REIT Manager also proposed Existing Annual Caps for the New CPT Waiver Period. The SFC granted the 2016 Extended Waiver on 6 May 2016. For further details of the Existing Annual Caps covered under the 2016 Extended Waiver, please refer to section 2.4 of the 2016 Waiver Extension Circular.

### 6.2.2 Continuing Transactions with the CK Property Connected Persons Group and/or the Manager Group

On 6 May 2016, the REIT Manager applied for and the SFC granted the 2016 Extended Waiver, subject to certain terms and conditions, from strict compliance with the disclosure and unitholders’ approval requirements under Chapter 8 of the REIT Code in respect of certain continuing connected party transactions that are referred to in the 2016 Waiver Extension Circular (the “**Existing Continuing Connected Party Transactions**”). Such 2016 Extended Waiver is due to expire on 31 December 2019.

The 2016 Extended Waiver covers the New CPT Waiver Period, the Existing Annual Caps and the following categories of continuing connected party transactions:

- (a) Leasing or licensing transactions entered into by the Prosperity REIT Group with members of the CK Property Connected Persons Group (the “**CK Property Connected Persons Group Leases/Licences**”);
- (b) Leasing or licensing transactions entered into by the Prosperity REIT Group with members of the Manager Group (the “**Manager Group Leases/Licences**” and together with the CK Property Connected Persons Group Leases/Licences, the “**CKP/Manager Group Leases/Licences**”); and

- (c) Property management arrangements, third party services and other operational transactions in respect of Prosperity REIT and its assets and operations entered into by the Prosperity REIT Group and members of the CK Property Connected Persons Group (the “**Property Management Transactions**”).

### **6.3 Reasons for Modification of 2016 Extended Waiver**

If the Acquisition is completed, the engagement of the existing manager of the Target Property will be terminated on or prior to Completion at the cost of the Vendor, and it is intended that the Property Manager will be responsible for the operation, maintenance, management and marketing of the Target Property. This is in line with Prosperity REIT’s strategy to have all the Properties managed by the Property Manager. To effect this, the Target Subsidiary, the REIT Manager and the Property Manager will enter into the Deed of Ratification and Accession at Completion, which will bind the Property Manager to manage the Target Property pursuant to and in accordance with the terms of the Property Management Agreement. As the Property Manager is a Connected Person of Prosperity REIT, the arrangements under the Deed of Ratification and Accession (as more particularly described in section 6.4.2 of this announcement headed “Expenditure Transactions”) will constitute a continuing connected party transaction falling within the scope of the 2016 Extended Waiver. The current annual caps in respect of the Property Management Transactions can presently accommodate the payment of fees to the Property Manager under the Deed of Ratification and Accession, although the REIT Manager considers the remaining buffer going forward to be insufficient. The REIT Manager considers that it will be unduly burdensome and not in the best 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 such transactions on each and every occasion when they arise. The REIT Manager therefore proposes to increase the Existing Annual Caps for property management arrangements, third party services and other operational transactions for the financial years ending 31 December 2017, 2018 and 2019.

Other than in respect of the Deed of Ratification and Accession, the REIT Manager has no current plans to enter into any new transactions in respect of the Target Property on or after Completion which would fall within the scope of the 2016 Extended Waiver. However, if new CKP/Manager Group Leases/Licences will be entered into in respect of the Target Property before 31 December 2019, these will fall within the scope of the 2016 Extended Waiver subject to the relevant annual caps.

In accordance with its terms, the terms and conditions of the 2016 Extended Waiver may be modified from time to time, provided that the conditions below are complied with:

- (i) the due approval of Independent Unitholders is obtained by way of an Ordinary Resolution passed in a general meeting of Unitholders;
- (ii) 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
- (iii) 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 (i) above is obtained.

Accordingly, the REIT Manager would like to take the opportunity of the EGM for Independent Unitholders to approve modifications to the 2016 Extended Waiver (the “**Waiver Modification**” and the resulting modified waiver being the “**Modified CPT Waiver**”) so as to set new annual monetary limit to accommodate the Property Management Transactions for the financial years ending 31 December 2017, 31 December 2018 and 31 December 2019 (the “**Proposed Caps**”) as described in section 6.5 of this announcement headed “Proposed Caps” below.

The Proposed Caps increase the Existing Annual Caps for the Property Management Transactions set in the 2016 Extended Waiver, so that going forward, the annual caps will be sufficient to accommodate additional Property Management Transactions. As none of the Target Property tenants are presently Connected Persons, the REIT Manager considers the Existing Annual Caps under the 2016 Extended Waiver for the financial years ending 31 December 2017, 2018 and 2019 for the leasing/licensing transactions to still be sufficient, and accordingly, does not propose any amendment to such Existing Annual Caps.

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

The proposed Waiver Modification is subject to Completion and the approval of the SFC. In the event that the EGM Resolution regarding the Waiver Modification is not approved by the Independent Unitholders, the 2016 Extended Waiver will continue to apply for the remainder of its duration, and will not affect the Acquisition.

## **6.4 Existing Continuing Connected Party Transactions**

The Existing Continuing Connected Party Transactions are connected party transactions entered into or to be entered into between the Prosperity REIT Group on the one hand, and the CK Property Connected Persons Group and/or the Manager Group (as the case may be) on the other hand. The two categories of the Existing Continuing Connected Party Transactions are as follows:

### *6.4.1 Revenue Transactions*

#### (1) Leasing/Licensing Transactions

As part of the Prosperity REIT Group's ordinary and usual course of business, each Property Company which is a direct owner of a Property (including, upon Completion, the Target Subsidiary), is either already a party to, or may from time to time enter into, CKP/Manager Group Leases/Licences in respect of its properties.

All the CKP/Manager Group Leases/Licences subsisting are on normal arm's length commercial terms and at market levels. The details of the subsisting CKP/Manager Group Leases/Licences in respect of the Existing Properties are set out in Prosperity REIT's latest interim report.

### *6.4.2 Expenditure Transactions*

Prosperity REIT and members of the CK Property Connected Persons Group have entered into various continuing connected party transactions relating to the Property Management Transactions. This has resulted and may in the future result in expenditures being paid by Prosperity REIT to the CK Property Connected Persons Group, comprising the following:

#### (1) 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 an indirect wholly-owned subsidiary of CK Property.

The parties to the Property Management Agreement intend to extend the scope of property management services under the Property Management Agreement so as to include the Target Property. Accordingly, the Target Subsidiary, the REIT Manager and the Property Manager will enter into the Deed of Ratification and Accession at Completion. Pursuant to the Deed of Ratification and Accession, the operation, maintenance, management and marketing of the Target Property will also be managed by the Property Manager, subject to the overall management by the REIT Manager pursuant to and in accordance with the terms of the Property Management Agreement.

Under the Property Management Agreement, the Property Manager is entitled to a fee of 3% per annum of the gross property revenue (being the Gross Revenue less car park revenues and charge-out collections including the air-conditioning charges, management fees, promotional charges, Government rates, Government rents, utilities charges, cleaning and other charges payable by the tenants and licencees of the Properties) for the provision of property and lease management services. In addition, the Property Manager is also entitled to commission of: (a) one month's base rent for securing a tenancy of three years or more; (b) one-half month's base rent for securing a tenancy of less than three years; (c) one-half month's base rent for securing a renewal of tenancy irrespective of duration of the renewal term; and (d) 10% of the total licence fee for securing a licence for a duration of less than 12 months. For further details regarding the Property Management Agreement, please refer to the section headed "Material Agreements and Other Documents Relating to Prosperity REIT – Property Management Agreement" of the Offering Circular.

## (2) Third Party Services

Under the Property Management Agreement, the Property Manager, as agent for the relevant Property Companies, 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 properties held by Prosperity REIT. Some of these third party service providers are and may be members of the CK Property Connected Persons Group. In consideration for such services, Prosperity REIT will pay fees to such contractors. The anticipated amounts of these fees will form part of the Existing Continuing Connected Party Transactions.

It is the current intention of the parties that after Completion, the Property Manager, as agent for the Target Subsidiary, will enter into contracts with such third party service providers which may include members of the CK Property Connected Persons Group in respect of the provision of property management-related services in connection with the Target Property. Those third party service providers may include those companies who have been providing such services in respect of the Target Property.

## 6.5 Proposed Caps

In any relevant financial year, the annual value of the Existing Continuing Connected Party Transactions shall not exceed the respective annual monetary limits stated in the table below. Set out below are the historical transaction amounts of the Existing Continuing Connected Party Transactions in respect of the CK Property Connected Persons Group Leases/Licences for each of the financial years ended 31 December 2013, 2014 and 2015 and the seven months ended 31 July 2016.

As noted above, the reason for the Waiver Modification is to increase the Existing Annual Caps for the Property Management Transactions, in light of the Deed of Ratification and Accession to be signed at Completion. As none of the Target Property tenants are presently Connected Persons, the REIT Manager considers the Existing Annual Caps under the 2016 Extended Waiver for the financial years ending 31 December 2017, 2018 and 2019 for the leasing/licensing transactions to still be sufficient, and accordingly, does not propose any amendment to such Existing Annual Caps.

| Categories of Continuing Connected Party Transactions |                                     | Historical transaction amounts           |  |  |                                    | Proposed Caps                             |   |   |
|---|-------------------------------------|--|--|--|------------------------------------|---|---|---|
|   |                                     | For the financial year ended 31 December | For the financial year ended 31 December | For the financial year ended 31 December | For the seven months ended 31 July | For the financial year ending 31 December | For the financial year ending 31 December | For the financial year ending 31 December |
|   | Connected Person                    | 2013                                     | 2014                                     | 2015                                     | 2016                               | 2017                                      | 2018                                      | 2019                                      |
|   |                                     | (HK\$)                                   | (HK\$)                                   | (HK\$)                                   | (HK\$) <sup>(1)</sup>              | (HK\$)                                    | (HK\$)                                    | (HK\$)                                    |
| <b>I. Revenue</b>                                     |                                     |  |  |  |                                    |   |   |   |
| Leasing/licensing transactions                        | CK Property Connected Persons Group | 1,540,380                                | 2,199,675                                | 2,245,958                                | 1,593,139                          | -   | -   | -   |
| Annual Cap <sup>(2)</sup>                             |                                     | 51,800,000                               | 33,000,000                               | 33,000,000                               | 33,000,000                         | 33,000,000                                | 33,000,000                                | 33,000,000                                |
| Leasing/licensing transactions                        | Manager Group                       | 0  | 0  | 0  | 0                                  | -   | -   | -   |
| Annual Cap <sup>(2)</sup>                             |                                     | 5,100,000                                | 5,100,000                                | 5,100,000                                | 5,100,000                          | 5,100,000                                 | 5,100,000                                 | 5,100,000                                 |
| <b>II. Expenditure</b>                                |                                     |  |  |  |                                    |   |   |   |
| Property Management Transactions                      | CK Property Connected Persons Group | 18,942,517                               | 22,962,416                               | 24,826,055                               | 14,838,891                         | -   | -   | -   |
| Annual Cap  |                                     | 32,300,000                               | 32,300,000                               | 33,900,000                               | 35,600,000                         | 42,400,000                                | 44,600,000                                | 46,900,000                                |

Notes:

- (1) As at the Latest Practicable Date, only figures up to 31 July 2016 are available.
- (2) The Proposed Caps for the financial years ending 31 December 2017, 31 December 2018 and 31 December 2019 for CKP/Manager Group Leases/Licences are the same as the Existing Annual Caps. No change is proposed in respect of these annual caps for CKP/Manager Group Leases/Licences pursuant to the Modified CPT Waiver.

The Proposed Caps in respect of the Property Management Transactions for the three financial years ending 31 December 2019 has been determined based on:

- (a) the sum of the highest annual transaction amounts for the financial years between the date on which Prosperity REIT was listed in Hong Kong (i.e. 16 December 2005) to 31 December 2015 incurred for each of the Existing Properties in respect of each category of the Property Management Transactions, which was HK\$25,781,594;
- (b) the increment factor of 38.1% built on top of the abovementioned sum of highest annual transaction amounts to mainly cater for the anticipated increase in the fees from the Property Management Transactions as a result of the increase of gross revenue generated from the Existing Properties (including that generated from the possible additional CK Property Connected Persons Group Leases/Licences and possible Manager Group Leases/Licences) during the New CPT Waiver Period;
- (c) the anticipated increase in the fees from the Property Management Transactions in respect of the Target Property as a result of the Acquisition; and
- (d) a buffer of 5%, which takes into account the inflation, and the possible increase in costs and wages.

## **6.6 Historical transaction amounts**

The annual value of the Existing Continuing Connected Party Transactions entered into between the Prosperity REIT Group on the one hand, and the CK Property 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 Existing Continuing Connected Party Transactions of Prosperity REIT for the year ended 31 December 2013 is disclosed in the annual report of Prosperity REIT for the year ended 31 December 2013;
- (ii) the annual value of the Existing Continuing Connected Party Transactions of Prosperity REIT for the year ended 31 December 2014 is disclosed in the annual report of Prosperity REIT for the year ended 31 December 2014; and
- (iii) the annual value of the Existing Continuing Connected Party Transactions of Prosperity REIT for the year ended 31 December 2015 is disclosed in the annual report of Prosperity REIT for the year ended 31 December 2015.



## 6.7 Waiver Conditions

The REIT Manager undertakes that it will continue to comply with the waiver conditions of the 2016 Extended Waiver, subject to the proposed revisions to the annual monetary limits described above. The waiver conditions of the Modified CPT Waiver will be as follows:

### *6.7.1 Due approval by Independent Unitholders*

The due approval by the Independent Unitholders, and adoption of the EGM Resolution in respect of the Waiver Modification as set out in the EGM Notice, without material amendments thereto.

### *6.7.2 Modification or Extension*

The Modified CPT Waiver may be extended beyond the New CPT Waiver Period, and/or the terms and conditions of the Modified CPT 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 will be issued to Unitholders in accordance with Chapter 10 of the REIT Code; and
- (c) Extension period – any extension of the period of the Modified CPT 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 (a) is obtained.

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

### *6.7.3 Annual caps*

The annual value of the Existing Continuing Connected Party Transactions shall not exceed the respective annual monetary limits stated in section 6.5 of this announcement headed “Proposed Caps”.

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.

### *6.7.4 Disclosure in Interim and Annual Reports*

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

### *6.7.5 Auditors’ Review Procedures*

In respect of each relevant financial year, the REIT Manager will engage and agree with the auditors of Prosperity REIT to perform certain review procedures on the Existing 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 Existing Continuing Connected Party Transactions:

- (a) have received the approval of the board of directors of the REIT Manager (including the independent non-executive Directors);
- (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.

#### *6.7.6 Review by the Independent Non-Executive Directors of the REIT Manager*

The independent non-executive Directors of the REIT Manager will review the relevant Existing 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.

#### *6.7.7 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.

#### *6.7.8 Notification to the SFC*

The REIT Manager will promptly notify the SFC and publish an announcement if it knows or has reason to believe that the auditors and/or the independent non-executive Directors will not be able to confirm the matters set out in sections 6.7.5 and 6.7.6 of this announcement headed "Auditors' Review Procedures" and "Review by the Independent Non-Executive Directors of the REIT Manager" respectively.

### *6.7.9 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 Proposed Caps set out in the 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 Proposed Caps 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 above shall continue to apply to the relevant transactions, save that the relevant increased annual cap amounts shall apply.

## **6.8 8.14 of the REIT Code**

The REIT Manager shall comply with all requirements under 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 Existing Continuing Connected Party Transactions shall be disclosed in the interim and annual reports of Prosperity REIT in the relevant financial year as required under 8.14 of the REIT Code. The independent non-executive Directors shall review the Existing 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.

## **6.9 Opinion of the Board**

The Board (including all the independent non-executive Directors) confirms that for purposes of the REIT Code:

- (1) in its opinion, the Modified CPT Waiver, the Proposed Caps and the basis for the Modified CPT Waiver and the Proposed Caps are fair and reasonable so far as the Independent Unitholders are concerned and are in the best interests of Prosperity REIT and the Independent Unitholders, as well as the Unitholders as a whole;
- (2) in its opinion, each of the Existing Continuing Connected Party Transactions subsisting as at the Latest Practicable Date: (i) has been entered into in the ordinary and usual course of business of Prosperity REIT and is consistent with the investment objectives and strategy of Prosperity REIT; (ii) has been entered into on terms which are normal commercial terms at arm's length; and (iii) is fair and reasonable so far as the Independent Unitholders are concerned and are in the best interests of Prosperity REIT, the Independent Unitholders, as well as the Unitholders as a whole; and
- (3) in its opinion, that each of the Existing Continuing Connected Party Transactions to be entered into after the Latest Practicable Date (including the transaction resulting from the execution of the Deed of Ratification and Accession): (i) will be entered into in the ordinary and usual course of business of Prosperity REIT and will be consistent with the investment objectives and strategy of Prosperity REIT; (ii) will be entered into on terms which are normal commercial terms at arm's length; and (iii) will be fair and reasonable so far as the Independent Unitholders are concerned and will be in the best interests of Prosperity REIT, the Independent Unitholders, as well as the Unitholders as a whole.

## **6.10 Opinion of the Experts and Advisers**

### *6.10.1 Opinion of the Independent Financial Adviser*

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 the Prosperity REIT Circular.

### *6.10.2 Opinion of the Independent Board Committee*

For details on the opinion of the Independent Board Committee, please refer to the Letter from the Independent Board Committee contained in the Prosperity REIT Circular.

### *6.10.3 Opinion of the Principal Valuer*

For details on the opinion of the Principal Valuer, please refer to section 8.11 of the Prosperity REIT Circular headed “Opinion of the Principal Valuer”.

### *6.10.4 Opinion of the Trustee*

For details on the opinion of the Trustee, please refer to section 10.4 of the Prosperity REIT Circular headed “Trustee”.

## **7. IMPLICATIONS UNDER THE REIT CODE AND THE TRUST DEED**

### **7.1 Independence of Counterparties**

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, the Vendor, the Target Group Companies and their respective ultimate beneficial owners, the Escrow Agent, the Vendor’s Solicitors, Pricewaterhouse Coopers, the Mandated Lead Arranger, the WI Insurer and the tenants under the current tenancies of the Target Property, are independent third parties (and not Connected Persons) of Prosperity REIT.

### **7.2 Major Acquisition**

As the net profit (after deducting all charges except taxation and excluding extraordinary items) attributable to the Target Property represents approximately 38.9% of the profit before taxation and transactions with Unitholders, the Acquisition also constitutes a major acquisition by Prosperity REIT under the relevant Hong Kong rules and regulations and requires Unitholders’ approval by way of an Ordinary Resolution under the REIT Code and the Trust Deed.

### **7.3 Issuance of the Acquisition Fee Units**

Pursuant to the Trust Deed, the REIT Manager may elect to receive the Acquisition Fee in the form of cash or, with the prior approval of Unitholders by an Ordinary Resolution, entirely in the form of Units or partly in cash and partly in the form of Units.

So as to preserve the distributable income available for distribution to all Unitholders following the Acquisition, the REIT Manager is seeking Independent Unitholders' approval at the EGM to receive the Acquisition Fee entirely in the form of Units.

Please refer to the section 2.13 of this announcement headed "Fees payable by Prosperity REIT to the REIT Manager in relation to the Acquisition" for further details regarding the payment of Acquisition Fee in the form of Units.

### **7.4 Waiver Modification**

The Board proposes to seek Independent Unitholders' approval for the Waiver Modification by way of an Ordinary Resolution, which will increase the Existing Annual Caps for Property Management Transactions for the financial years ending 31 December 2017, 2018 and 2019.

Please refer to section 6.4 of this announcement headed "Existing Continuing Connected Party Transactions" for further details regarding the Waiver Modification. Details of the relevant connected party transactions will be disclosed in Prosperity REIT's semi-annual and annual reports, as required under paragraph 8.14 of the REIT Code.

### **7.5 Ordinary Resolutions**

The REIT Manager takes the view that the Acquisition and the issuance of the Acquisition Fee Units are linked to each other and part and parcel of a significant proposal, as the issuance of the Acquisition Fee Units only arises from the consummation of the Acquisition and will not be required but for the entering into of the agreements underlying the Acquisition, and accordingly the EGM Resolutions in respect of the same will be inter-conditional.

The Acquisition will not be conditional on the Waiver Modification, although the Waiver Modification will be conditional on the Acquisition.

Please refer to the EGM Notice for the proposed EGM Resolutions in relation to the Transaction Matters Requiring Approval. As soon as practicable after the EGM, the REIT Manager will issue an announcement setting out the results of the EGM, including whether the proposed EGM Resolutions have been passed.

## 7.6 Restrictions on Voting

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 to 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.

### *7.6.1 EGM Resolution in respect of the Acquisition*

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 no Unitholder has a material interest which is different from that of all other Unitholders in respect of the Ordinary Resolution to approve the Acquisition. Accordingly, no Unitholder shall be required to abstain from voting at the EGM Resolution in respect of the Acquisition. As stated in section 7.5 of this announcement headed "Ordinary Resolutions", the EGM Resolution in respect of the Acquisition is conditional upon the EGM Resolution in respect of the issuance of the Acquisition Fee Units being passed.

### *7.6.2 EGM Resolution in respect of the issuance of the Acquisition Fee Units*

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 no Unitholder (other than ARA, the REIT Manager and the controlling entities, holding companies, subsidiaries or associated companies (as defined in the REIT Code) of the REIT Manager) has a material interest which is different from that of all other Unitholders in respect of the Ordinary Resolution to approve the issuance of the Acquisition Fee Units having regard to the rationale for issuing the Acquisition Fee Units being to preserve the distributable income available for distribution to all Unitholders following the Acquisition. Accordingly, no Unitholder (other than ARA, the REIT Manager and the controlling entities, holding companies, subsidiaries or associated companies (as defined in the REIT Code) of the REIT Manager) shall be required to abstain from voting at the EGM Resolution in respect of the issuance of the Acquisition Fee Units. ARA has agreed to abstain, and will procure that any controlling entity,



holding company, subsidiary or associated company (as defined in the REIT Code) of the REIT Manager will abstain from voting on this EGM Resolution. The REIT Manager has also agreed to abstain from voting on this EGM Resolution.

As the EGM Resolutions in respect of the issuance of the Acquisition Fee Units and Acquisition are inter-conditional, if the EGM Resolution in respect of the issuance of the Acquisition Fee Units is not passed, the Acquisition will not take place and hence, no Acquisition Fee (whether in the form of cash or Acquisition Fee Units) will be payable.

### *7.6.3 EGM Resolution in respect of the Waiver Modification*

Members of the CK Property Connected Persons Group and the Manager Group are parties to one or more of the Existing Continuing Connected Party Transactions, and as such, have a material interest which is different from that of all other Unitholders in the EGM Resolution in respect of the Waiver Modification. Accordingly, pursuant to the REIT Code and the Trust Deed:

- (a) the REIT Manager shall ensure that CK Property abstain, and ensure that CK Property procure each member of the CK Property Connected Persons Group to abstain, from voting on the EGM Resolution in respect of the Waiver Modification, except pursuant to a proxy where a specific direction by an Independent Unitholder as to voting is given; and
- (b) ARA (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 EGM Resolution in respect of the Waiver Modification, except pursuant to a proxy where a specific direction by an Independent Unitholder as to voting is given.

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 Unitholders are required to abstain from voting at the EGM in respect of the EGM Resolution relating to the Waiver Modification.

## **7.7 Purchaser has Discretion**

Given the Acquisition is dependent on the satisfaction of the Conditions, for the avoidance of doubt, Unitholders should note that the Purchaser has the discretion, after consultation with and taking instructions from the REIT Manager, to not proceed with the Acquisition if any of the Conditions shall not have been fulfilled prior to the Completion Date.

## **7.8 Waiver applications made to the SFC in respect of Chapter 8 of the REIT Code in relation to the Existing Continuing Connected Party Transactions**

The REIT Manager applied to the SFC for a modification of the 2016 Extended Waiver from strict compliance with the disclosure and unitholders' approval requirements under Chapter 8 of the REIT Code, in respect of the Existing Continuing Connected Party Transactions, subject to Completion taking place, and subject to various conditions under the waiver. For further details regarding the Waiver Modification, please refer to section 6.3 of this announcement headed "Reasons for Modification of the 2016 Extended Waiver".

## **7.9 Submissions made to the SFC in respect of 7.5(d) of the REIT Code in relation to layers of SPVs**

7.5(d) of the REIT Code provides that a scheme shall have no more than two layers of SPVs. As indicated in the note to 7.5(d) of the REIT Code, the SFC has the discretion to allow a scheme to have additional layer(s) of SPVs if justified by the particular circumstances.

As set out in section 1.2 of this announcement headed "Current and Expected Holding Structure", the current holding structure of the Target Property involves two layers of SPVs. For the purposes of acquiring the Target Property in the manner that it has historically been held, and for facilitating future group reorganisation and disposal of property interests through ultimate or intermediate holding companies to achieve savings in transaction costs, Prosperity REIT intends to acquire the Target Company through a newly-incorporated SPV (being the Purchaser). Acquiring the Target Company in such manner would, following Completion, cause Prosperity REIT to hold the Target Property through three layers of SPVs. Accordingly, the REIT Manager has made a submission in respect of 7.5(d) of the REIT Code to the SFC for the use of three layers of SPVs for holding the Target Property, subject to the condition that there will be no change to the maximum number of three layers of SPVs used by Prosperity REIT for holding the Target Property without the further approval of the SFC.

## 8. DISCLOSURE OF INTERESTS IN UNITS

### Unit Capital

The total number of issued units as at the Latest Practicable Date was 1,449,733,936 Units.

### Holdings of Significant Holders

As at the Latest Practicable Date, each of the following persons was considered a “Significant Holder”, and hence a Connected Person of Prosperity REIT, for the purpose of the REIT Code:

| Name   | As at the Latest Practicable Date |   | As at                           |
|--|-----------------------------------|---|---------------------------------|
|  | Number of Units                   | Percentage of Unitholdings <sup>(3)</sup> | 30 June 2016<br>Number of Units |
| Total Win Group Limited <sup>(1)</sup>         | 176,328,129                       | 12.16%                                    | 176,328,129                     |
| Wide Option Investments Limited <sup>(1)</sup> | 98,883,559                        | 6.82%                                     | 98,883,559                      |
| HKSCC Nominees Limited <sup>(2)</sup>          | 1,054,361,113                     | 72.73%                                    | 1,049,620,667                   |

Notes:

(1) *Total Win Group Limited (“Total Win”) was a connected person of Prosperity REIT as it was a Significant Holder of Prosperity REIT as at the Latest Practicable Date. Total Win was an indirect wholly-owned subsidiary of CK Property, which was therefore deemed to hold 176,328,129 units held by Total Win as at the Latest Practicable Date.*

*Wide Option Investments Limited (“Wide Option”) was a connected person of Prosperity REIT as it was an indirect wholly-owned subsidiary of CK Property, which was therefore deemed to hold 98,883,559 units held by Wide Option as at the Latest Practicable Date.*

*Therefore, CK Property was deemed to hold 275,211,688 units as at the Latest Practicable Date, of which 176,328,129 units were held by Total Win and 98,883,559 units were held by Wide Option.*

(2) *HKSCC Nominees Limited was a connected person of Prosperity REIT as it was a Significant Holder of Prosperity REIT as at the Latest Practicable Date. So far as the REIT Manager is aware of, HKSCC Nominees Limited held such units as a nominee.*

(3) *The total number of issued Units as at the Latest Practicable Date was 1,449,733,936.*

Save as disclosed above, the REIT Manager is not aware of any other Significant Holders as at the Latest Practicable Date.

## **Interests of the REIT Manager, Directors and Chief Executive of the REIT Manager**

As at the Latest Practicable Date, the interests of the REIT Manager, Directors and chief executive of the REIT Manager in the Units as recorded in the Register of Interests maintained by the REIT Manager under clause 30.3 of the Trust Deed were as follows:

| Name                                      | Number of Units |                   | Percentage of Unitholdings <sup>(1)</sup> |
|---|-----------------|-------------------|---|
|   | Direct Interest | Indirect Interest |   |
| ARA Asset Management (Prosperity) Limited | 3,762,714       | –                 | 0.26%                                     |
| Lan Hong Tsung, David                     | 350,000         | –                 | 0.02%                                     |

*Notes:*

(1) *The total number of issued Units as at the Latest Practicable Date was 1,449,733,936.*

Save as disclosed above, none of the REIT Manager, the Directors and the chief executive of the REIT Manager is interested (or deemed to be interested) in Units, or held any short position in Units as at the Latest Practicable Date.

So far as is known to the Directors or chief executive of the REIT Manager, save as disclosed in this announcement, none of the Directors or chief executives of the REIT Manager had any interests or short positions in the Units of Prosperity REIT or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be disclosed to the REIT Manager and the Hong Kong Stock Exchange pursuant to Divisions 7, 8 and 9 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), which the Trust Deed, subject to certain exceptions, deems to apply to the Directors and chief executive of the REIT Manager, the REIT Manager and each Unitholder and all persons claiming through or under them.

## **9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents are available for inspection at no charge during normal business hours at the offices of the REIT Manager from 9:00 a.m. to 5:00 p.m. on Business Days, from the date of the Prosperity REIT Circular, up to and including the date falling three months after the date of the Prosperity REIT Circular:

- (a) the Share Purchase Agreement (and the attachments thereto, and all material contracts relating to the Acquisition mentioned in this announcement and the Prosperity REIT Circular);
- (b) the Accountants' Report of the Target Group from Deloitte Touche Tohmatsu as set out in Appendix 2 to the Prosperity REIT Circular;
- (c) the report on the unaudited pro forma financial information of the Enlarged Group from Deloitte Touche Tohmatsu as set out in Appendix 3 to the Prosperity REIT Circular;
- (d) the Letter from the Independent Board Committee;
- (e) the Letter from the Independent Financial Adviser;
- (f) the Independent Property Valuer's Property Valuation Report as set out in Appendix 4 to the Prosperity REIT Circular;
- (g) the Market Consultant's Report as set out in Appendix 5 to the Prosperity REIT Circular;
- (h) the Offering Circular;
- (i) the written consents referred to in section 6 headed "Experts and Consents" of Appendix 7 to the Prosperity REIT Circular headed "General Information";
- (j) this announcement;

- (k) the annual reports of Prosperity REIT for the 3 years ended 31 December 2015 and the interim report of Prosperity REIT for the six months ended 30 June 2016 referred to in Appendix 1 to the Prosperity REIT Circular headed “Financial Information of Prosperity REIT”; and
- (l) all material contracts disclosed under section 8 headed “Material Contracts” of Appendix 7 to the Prosperity REIT Circular headed “General Information”.

The Trust Deed will also be available for inspection free of charge at the registered office of the REIT Manager for so long as Prosperity REIT continues to be in existence.

## **10. GENERAL**

The Prosperity REIT Circular containing, among other things: (1) a letter from the Board to Unitholders containing details of, among other things, the Transaction Matters Requiring Approval; (2) a letter from the Independent Board Committee to Independent Unitholders in relation to the issuance of the Acquisition Fee Units and the Waiver Modification; (3) a letter from the Independent Financial Adviser containing its advice to the Independent Board Committee, the Independent Unitholders and the Trustee in relation to the issuance of the Acquisition Fee Units and the Waiver Modification; and (4) the EGM Notice, will be sent to the Unitholders as soon as practicable.

Unitholders who do not receive the Prosperity REIT Circular within a week from the date of this announcement may obtain a copy of the same from the Hong Kong Unit Registrar of Prosperity REIT, Computershare Hong Kong Investor Services Limited, 17M Floor, Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong.

## **11. NOTICE OF BOOK CLOSURE PERIOD**

In connection with the EGM, the Register of Unitholders will be closed from 8 October 2016 to 12 October 2016 (both days inclusive), during which period no transfers of Units will be effected, to determine which Unitholders will qualify to attend and vote at the EGM. For those Unitholders who are not already on the Register of Unitholders, in order to qualify to attend and vote at the EGM, all duly completed transfer of Units accompanied by the relevant Unit certificates must be lodged with the Unit Registrar of Prosperity REIT, Computershare Hong Kong Investor Services Limited, Rooms 1712–1716, 17/F., Hopewell Centre, 183 Queen’s Road East, Wan Chai, Hong Kong for registration by 4:30 p.m. on 7 October 2016.

## 12. INDICATIVE TIMETABLE

Please see below an indicative timetable showing the key dates of the relevant events for this Acquisition:

| <b>Event</b>   | <b>Date &amp; Time</b>            |
|--|-----------------------------------|
| Latest date and time for lodging transfers of Units to participate and vote in the EGM                                   | 7 October 2016 at 4:30 p.m.       |
| Book closure period (both days inclusive) to determine the eligibility of Unitholders to participate and vote in the EGM | 8 October 2016 to 12 October 2016 |
| Latest date and time for lodging proxy forms for the EGM   | 10 October 2016 at 2:30 p.m.*     |
| EGM Record Date  | 12 October 2016                   |
| Date and time of the EGM   | 12 October 2016 at 2:30 p.m.      |

\* Please note that 10 October 2016 is a public holiday in Hong Kong and Computershare Hong Kong Investor Services Limited's offices will not be open on that day for physical delivery of the proxy form. To be effective, all proxy appointments must be lodged with Computershare Hong Kong Investor Services Limited before the deadline.

If the approvals sought at the EGM in respect of the Acquisition and issuance of Acquisition Fee Units are obtained:

|   |   |
|---|---|
| Drawdown under the New Facilities and Completion of the Acquisition | 26 October 2016 or such other date as the Vendor and the Purchaser may agree in writing on which Completion takes place |
|---|---|

Further announcement(s) will be made by the REIT Manager in relation to the results of the EGM, drawdown under the New Facilities, Completion and payment of the Final Payment as soon as practicable after such events in accordance with applicable regulatory requirements.

**The completion of the Acquisition is subject to and conditional upon satisfaction of certain conditions (as set out in section 2.4 of this announcement headed “Conditions Precedent”), which includes Independent Unitholders’ approval being obtained at the EGM, and accordingly, may or may not complete. Unitholders, as well as any prospective investors of Prosperity REIT, are advised to exercise caution when dealing in the Units.**

## **DEFINITIONS**

In this announcement, 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:

|   |   |
|---|---|
| <b>“2016 Extended Waiver”</b>           | the waiver extension granted by the SFC on 6 May 2016 in respect of certain continuing connected party transactions between Prosperity REIT and certain Connected Persons, details of which are further set out in the 2016 Waiver Extension Circular   |
| <b>“2016 Waiver Extension Circular”</b> | the circular dated 5 April 2016 issued by Prosperity REIT to Unitholders in relation to, among other things, the extension of continuing connected party transaction waiver and the proposed new annual caps  |
| <b>“Accountants’ Report”</b>            | the report dated 13 September 2016 from the Reporting Accountants regarding the Target Company, the text of which is set out in Appendix 2 to the Prosperity REIT Circular headed “Accountants’ Report of the Target Group”   |
| <b>“Acquisition”</b>                    | the proposed acquisition by the Purchaser from the Vendor of the Target Company Share, and the proposed assignment of the Shareholders’ Loan by the Vendor to the Purchaser, pursuant to the Share Purchase Agreement, as well as the entering into and performance of the Share Purchase Agreement |



|                                |   |
|--------------------------------|---|
| <b>“Acquisition Fee”</b>       | the acquisition fee that the REIT Manager is entitled to receive upon completion of the Acquisition, as more particularly described in section 2.13 of this announcement headed “Fees payable by Prosperity REIT to the REIT Manager in relation to the Acquisition”  |
| <b>“Acquisition Fee Units”</b> | has the meaning given to this term in section 2.13 of this announcement headed “Fees payable by Prosperity REIT to the REIT Manager in relation to the Acquisition”   |
| <b>“Adjustment”</b>            | the adjustment calculated by reference to the consolidated net asset value of the Target Group as at Completion as further described in section 2.2 of this announcement headed “Consideration”   |
| <b>“ANZ”</b>                   | Australia and New Zealand Banking Group Limited   |
| <b>“ANZ Loans”</b>             | means (a) the term loan facilities of up to HK\$776,500,000 granted by a group of lenders to the Target Subsidiary with ANZ as agent and security agent and (b) the term loan facilities of up to HK\$232,950,000 granted by a group of lenders to the Target Company with ANZ as agent and security agent, and secured by various security documents, which will be fully discharged on or prior to Completion |
| <b>“Appraised Value”</b>       | the value of the Target Property as at 31 July 2016 as appraised by the Independent Property Valuer, being HK\$1,985,000,000  |
| <b>“ARA”</b>                   | ARA Asset Management Limited  |
| <b>“Board”</b>                 | the board of Directors  |
| <b>“Business Day”</b>          | a day other than a Saturday or Sunday on which banks generally are open in Hong Kong for the transaction of general banking business  |
| <b>“BVI”</b>                   | British Virgin Islands  |

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| <b>“CK Property”</b>   | 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)   |
| <b>“CK Property Connected Persons Group”</b>                 | has the meaning given to this term in section 6.1.1 of this announcement headed “CK Property Connected Persons Group”  |
| <b>“CK Property Connected Persons Group Leases/Licences”</b> | has the meaning given to this term in section 6.2.2 of this announcement headed “Continuing Transactions with the CK Property Connected Persons Group and/or the Manager Group”  |
| <b>“CKP/Manager Group Leases/Licences”</b>                   | has the meaning given to this term in section 6.2.2 of this announcement headed “Continuing Transactions with the CK Property Connected Persons Group and/or the Manager Group”  |
| <b>“Completion”</b>  | completion of the Acquisition pursuant to the Share Purchase Agreement   |
| <b>“Completion Amount”</b>                                   | has the meaning given to this term in section 2.2 of this announcement headed “Consideration”  |
| <b>“Completion Date”</b>                                     | has the meaning given to this term in section 2.3 of this announcement headed “Completion”   |
| <b>“Completion Statement”</b>                                | the consolidated statement of financial position of the Target Group as at the close of business on the Completion Date, which will be drafted by the Vendor and agreed by the Purchaser or determined by Pricewaterhouse Coopers or such other auditors jointly appointed by the Vendor and the Purchaser |
| <b>“Conditions”</b>  | the conditions precedent to Completion, as more particularly described in section 2.4 of this announcement headed “Conditions Precedent”, and “ <b>Condition</b> ” means any one of them   |

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| <b>“Connected Person”</b>                   | has the meaning given to this term in the REIT Code  |
| <b>“Consideration”</b>                      | the purchase consideration payable by the Purchaser (out of the Deposited Property) for the Acquisition pursuant to the Share Purchase Agreement, which is agreed to be HK\$1,875,000,000, subject to the Adjustment   |
| <b>“Deed of Ratification and Accession”</b> | the deed of ratification and accession to be entered into between the Target Subsidiary, the REIT Manager and the Property Manager at Completion, pursuant to which, the operation, maintenance, management and marketing of the Target Property will be managed by the Property Manager subject to overall management by the REIT Manager pursuant to and in accordance with the terms of the Property Management Agreement |
| <b>“Deposited Property”</b>                 | the gross assets of Prosperity REIT, including the Existing Properties held in Prosperity REIT’s portfolio and, from and after Completion, the Target Property   |
| <b>“Deposits”</b>                           | has the meaning given to this term in section 2.2 of this announcement headed “Consideration”  |
| <b>“Directors”</b>                          | the directors of the REIT Manager  |
| <b>“DPU”</b>                                | distribution per unit  |
| <b>“EGM”</b>                                | the extraordinary general meeting of Unitholders convened by and referred to in the EGM Notice   |
| <b>“EGM Notice”</b>                         | the notice in respect of the EGM to consider and, if thought fit, approve the EGM Resolutions  |
| <b>“EGM Record Date”</b>                    | 12 October 2016, being the date by reference to which the eligibility of the Unitholders to participate in the EGM will be determined  |
| <b>“EGM Resolutions”</b>                    | the Ordinary Resolutions to be passed at the EGM, as set out in the EGM Notice and explained in this announcement, and <b>“EGM Resolution”</b> means any one of them   |

|   |   |
|---|---|
| <b>“Enlarged Group”</b>                                   | collectively, Prosperity REIT and, upon Completion, the Target Group  |
| <b>“Escrow Agent”</b>                                     | Wilkinson & Grist, a law firm with office in Hong Kong which, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, is an independent third party  |
| <b>“Existing Annual Caps”</b>                             | the annual monetary limits granted by the SFC under the 2016 Extended Waiver, as set out in the 2016 Waiver Extension Circular  |
| <b>“Existing Continuing Connected Party Transactions”</b> | has the meaning given to this term in section 6.2.2 of this announcement headed “Continuing Transactions with the CK Property Connected Persons Group and/or the Manager Group”   |
| <b>“Existing Properties”</b>                              | the eight properties currently 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 2015, and <b>“Existing Property”</b> means any one of them   |
| <b>“Existing Property Companies”</b>                      | each special purpose vehicle which is the direct or indirect owner of an Existing Property  |
| <b>“Final Payment”</b>                                    | has the meaning given to this term in section 2.2 of this announcement headed “Consideration”   |
| <b>“financial year”</b>                                   | a period of 12 months from 1 January to 31 December   |
| <b>“Gearing Ratio”</b>                                    | the aggregate borrowings of Prosperity REIT (as calculated under the Trust Deed) as a percentage of the total gross asset value of the Deposited Property (as calculated under the Trust Deed). Pursuant to the Trust Deed and in compliance with paragraph 7.9 of the REIT Code, the Gearing Ratio of Prosperity REIT shall not at any time exceed 45% |
| <b>“Government”</b>                                       | the Government of Hong Kong   |

**“Grade-A office”**

an office building that is professionally managed and maintained, attracts high-quality tenants and commands upper-tier rental rates consisting of a modern structure or structures that have been modernised to compete with newer buildings, high-quality finishes, a flexible lay-out, large floor plates, spacious lobbies and circulation areas, effective central air-conditioning and lifts zoned for passengers and deliveries of goods, with parking facilities normally available

**“Gross Floor Area”**

in respect of a Property, the gross floor area of that Property being the area contained within the external walls of the building measured at each floor level (including any floor below the level of the grounds), together with the area of each balcony in the building, which shall be calculated from the overall dimensions of the balcony (including the thickness of the sides thereof), and the thickness of external walls of the building excluding any floor space that is constructed or intended to be used solely for parking motor vehicles, loading or unloading of motor vehicles, or for refuse storage chambers, refuse storage and material recovery chambers, material recovery chambers, refuse storage and material recovery rooms, refuse chutes, refuse hopper rooms and other types of facilities provided to facilitate the separation of refuse, or for access facilities for telecommunications and broadcasting services, or occupied solely by machinery or equipment for any lift, air-conditioning or heating system or any similar service

**“Gross Rentable Area”**

in respect of a Property, that portion of the Gross Floor Area of the relevant Property determined by the Property Manager at any given time to be rentable

**“Gross Rental Income”**

consists of rental income due from tenancies but excludes turnover rent and rent from car parking spaces

**“Gross Revenue”**

all income accruing or resulting from the operation of real estate property for that financial year or part thereof, including but not limited to its base rental income, turnover rent, licence fees, charge-out collections (including the air-conditioning charges, management fees, promotional charges, Government rates, Government rents, utilities charges, cleaning and other charges payable by the tenants and licencees of the Properties) and other sums (after deduction for all rebates, refunds, credits or discounts and rebates for rent free periods) due from tenants, licencees and concessionaires, business interruption insurance payments, car park income, atrium income, interest income, advertising and other income attributable to the operation of such real estate property, but shall exclude the following:

- (i) proceeds derived or arising from the sale and/or disposal of the real estate property and/or the operating equipment, or any part thereof;
- (ii) all proceeds from insurances taken out (but excluding business interruption insurance payments which shall form part of Gross Revenue);
- (iii) all rental deposits and other refundable security deposits; and
- (iv) all goods and services or value added taxes (whether in force at present or in the future), charged to tenants, licencees and users of real estate property for the sale or supply of services or goods, which taxes are accountable by the Trustee or the relevant special purpose vehicles (as the case may be) to the tax authorities

**“Group Companies”**

Prosperity REIT and the companies or entities directly or indirectly held or controlled by Prosperity REIT, and **“Group Company”** means any one of them

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|--|--|
| <b>“HIBOR”</b>                         | the rate of interest offered on Hong Kong dollar loans by banks in the Hong Kong interbank market for a specified period ranging from overnight to one year  |
| <b>“HK\$”</b>                          | Hong Kong dollars, the lawful currency of Hong Kong  |
| <b>“Holdback Amount”</b>               | has the meaning given to this term in section 2.2 of this announcement headed “Consideration”  |
| <b>“Holdback Amount Release Date”</b>  | has the meaning given to this term in section 2.8 of this announcement headed “Release of Holdback Amount”   |
| <b>“Holdback Escrow Account”</b>       | has the meaning given to this term in section 2.8 of this announcement headed “Release of Holdback Amount”   |
| <b>“Hong Kong”</b>                     | The Hong Kong Special Administrative Region of the People’s Republic of China  |
| <b>“Hong Kong Stock Exchange”</b>      | The Stock Exchange of Hong Kong Limited  |
| <b>“Independent Board Committee”</b>   | the independent committee of the Board established to advise the Independent Unitholders on the issuance of the Acquisition Fee Units and the Waiver Modification, comprising Dr. Lan Hong Tsung, David, Mrs. Sng Sow-Mei (alias Poon Sow Mei) and Mr. Wong Kwai Lam, being all three of the independent non-executive Directors of the REIT Manager |
| <b>“Independent Financial Adviser”</b> | BOSC International Company Limited, a corporation licenced to carry out type 1 (dealing in securities), type 6 (advising on corporate finance) and type 9 (asset management) 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           |
| <b>“Independent Property Valuer”</b>   | Jones Lang LaSalle Limited   |

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|--|---|
| <b>“Independent Property Valuer’s Property Valuation Report”</b> | the valuation report dated 12 September 2016 issued by the Independent Property Valuer in respect of the Target Property, the text of which is set out in Appendix 4 to the Prosperity REIT Circular headed “Independent Property Valuer’s Property Valuation Report” |
| <b>“Independent Unitholders”</b>                                 | Unitholders other than those who have a material interest in the relevant transactions (which is different from that of all other Unitholders) being those Unitholders who are entitled to vote at the EGM  |
| <b>“Initial Payment”</b>   | has the meaning given to this term in section 2.2 of this announcement headed “Consideration”   |
| <b>“Initial Waiver”</b>  | the waiver from strict compliance with the requirements of Chapter 8 of the REIT Code granted by the SFC on 30 November 2005 in respect of certain connected party transactions of Prosperity REIT as more fully described in the Offering Circular                   |
| <b>“Latest Practicable Date”</b>                                 | 8 September 2016, being the latest practicable date prior to the printing of the Prosperity REIT Circular for the purpose of ascertaining certain information contained therein   |
| <b>“Manager Group”</b>   | has the meaning given to this term in section 6.1.2 of this announcement headed “Manager Group”   |
| <b>“Manager Group Leases/ Licences”</b>                          | has the meaning given to this term in section 6.2.2 of this announcement headed “Continuing Transactions with the CK Property Connected Persons Group and/or the Manager Group”   |
| <b>“Mandated Lead Arranger”</b>                                  | DBS Bank Ltd., being the mandated lead arranger under the New Facilities  |
| <b>“Market Consultant”</b>                                       | Knight Frank Petty Limited  |



|  |   |
|--|---|
| <b>“Market Consultant’s Report”</b>          | the letter dated 12 September 2016 from the Market Consultant, the form of which is set out in Appendix 5 to the Prosperity REIT Circular headed “Market Consultant’s Report”   |
| <b>“Modified CPT Waiver”</b>                 | the resulting modified 2016 Extended Waiver, if the proposed modifications to the 2016 Extended Waiver are approved by the Independent Unitholders at the EGM   |
| <b>“NAV”</b>                                 | net asset value   |
| <b>“Net Property Income”</b>                 | Gross Revenue less property operating expenses  |
| <b>“New CPT Waiver Period”</b>               | the extended waiver period in respect of the 2016 Extended Waiver, being three financial years ending on 31 December 2019   |
| <b>“New Facilities”</b>                      | a HK\$1,950,000,000 unsecured term loan facility to be made available to Vital Vision Enterprises Limited, a wholly-owned subsidiary of Prosperity REIT, details of which are further set out in section 4.2 of this announcement headed “New Facilities” |
| <b>“Offering Circular”</b>                   | the offering circular dated 5 December 2005 of Prosperity REIT in connection with the placing and public offering of Units on the Hong Kong Stock Exchange  |
| <b>“Ordinary Resolution”</b>                 | a resolution proposed and passed as such by a simple majority at a meeting of Unitholders duly convened under the provisions of the Trust Deed, where the votes shall be taken by way of poll   |
| <b>“Other Acquisition Fees and Expenses”</b> | has the meaning given to this term in section 2.14 of this announcement headed “Additional costs payable in relation to the Acquisition”  |
| <b>“Pro Forma Completion Statement”</b>      | the pro-forma consolidated statement of financial position of the Target Group as at the close of business on the Completion Date, to be agreed at least three Business Days prior to (but excluding) the Completion Date                                 |

|   |   |
|---|---|
| <b>“Properties”</b>                       | the Existing Properties and the Target Property, and <b>“Property”</b> means any one of them  |
| <b>“Property Companies”</b>               | the Existing Property Companies and the Target Subsidiary, and <b>“Property Company”</b> means any one of them  |
| <b>“Property Management Agreement”</b>    | the property management agreement dated 29 November 2005 entered into between the REIT Manager and the Property Manager, as amended by a supplemental property management agreement dated 8 November 2010 and the property management extension letters dated 1 December 2010 and 1 December 2015 |
| <b>“Property Management Transactions”</b> | has the meaning given to this term in section 6.2.2 of this announcement headed “Continuing Transactions with the CK Property Connected Persons Group and/or the Manager Group”   |
| <b>“Property Manager”</b>                 | Goodwell-Prosperity Property Services Limited, an indirect wholly-owned subsidiary of CK Property, a Connected Person of Prosperity REIT  |
| <b>“Proposed Caps”</b>                    | the annual monetary limits specified in section 6.5 of this announcement headed “Proposed Caps”   |
| <b>“Prosperity REIT”</b>                  | 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  |
| <b>“Prosperity REIT Circular”</b>         | the circular to be issued by the REIT Manager in respect of, among other things, the Transaction Matters Requiring Approval   |
| <b>“Prosperity REIT Group”</b>            | Prosperity REIT and companies or entities held or controlled by it  |

|                                     |   |
|-------------------------------------|---|
| <b>“Purchaser”</b>                  | Diamond Champ Enterprises Limited, a BVI business company incorporated under the laws of the BVI and a special purpose vehicle of Prosperity REIT wholly-owned by the Trustee and which will directly hold the Target Company Share and Shareholders’ Loan at Completion  |
| <b>“REIT”</b>                       | Real Estate Investment Trust  |
| <b>“REIT Code”</b>                  | the Code on Real Estate Investment Trusts published by the SFC as amended, supplemented or otherwise modified from time to time   |
| <b>“REIT Manager”</b>               | ARA Asset Management (Prosperity) Limited, a wholly-owned subsidiary of ARA, in its capacity as manager of Prosperity REIT  |
| <b>“Rental Income”</b>              | the gross aggregate amount of all rental, licence fees and other income from the leasing or licensing of the Target Property in respect of each Rental Support Period (excluding Government rent, rates, management fees and air-conditioning charges) reflected as “Rental Income” in the Rental Support Certificate |
| <b>“Rental Support Amount”</b>      | has the meaning given to this term in section 2.2 of this announcement headed “Consideration”   |
| <b>“Rental Support Certificate”</b> | the certificate prepared and delivered to the Vendor by the Purchaser’s accountants which sets out the Rental Income in respect of the latest Rental Support Period   |
| <b>“Rental Support Payment”</b>     | has the meaning given to this term the section 2.7 of this announcement headed “Rental Support”   |
| <b>“Rental Support Period”</b>      | has the meaning given to this term the section 2.7 of this announcement headed “Rental Support”   |
| <b>“Reporting Accountants”</b>      | Deloitte Touche Tohmatsu  |
| <b>“SFC”</b>                        | the Securities and Futures Commission of Hong Kong  |

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| <b>“SFO”</b>                      | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)   |
| <b>“Share Purchase Agreement”</b> | the agreement for the sale and purchase of all the issued shares in the capital of the Target Company dated 12 September 2016 entered into between the Vendor and the Purchaser, pursuant to which the Vendor agrees to: (i) sell to the Purchaser the Target Company Share; and (ii) assign the benefit of the Shareholders’ Loan to the Purchaser, with the rights attaching to it as at and from the Completion Date |
| <b>“Shareholders’ Loan”</b>       | all loans and other amounts (whether principal, interest or otherwise) owing by the Target Company to the Vendor as at Completion, the benefit of which is proposed to be acquired by the Purchaser at Completion   |
| <b>“Significant Holder”</b>       | has the meaning given to this term in the REIT Code   |
| <b>“SPV”</b>                      | special purpose vehicle   |
| <b>“sq.ft.”</b>                   | square feet   |
| <b>“Target Company”</b>           | Ultimate Joy International Limited, a BVI business company incorporated under the laws of the BVI and the direct owner of the Target Subsidiary, which in turn owns the Target Property   |
| <b>“Target Company Share”</b>     | one issued share of the Target Company, to which the entire amount of issued share capital of the Target Company is attributable  |
| <b>“Target Group”</b>             | collectively (1) the Target Company; and (2) the Target Subsidiary, and <b>“Target Group Company”</b> means any one of them   |

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| <b>“Target Group Adjusted NAV”</b>              | the total consolidated assets of the Target Group (other than the value of the Target Property and certain outstanding account receivables of the Target Group) minus total consolidated liabilities of the Target Group (other than the liability in respect of the Shareholders’ Loan and deferred tax liabilities) as at Completion as calculated in accordance with the Share Purchase Agreement |
| <b>“Target Property”</b>                        | the property which is described as ALL THAT piece or parcel of ground situate at Kwun Tong, Kowloon and registered at the Land Registry as KUN TONG INLAND LOT NO. 16 TOGETHER with the messuages erections and buildings thereon now known as NO. 410 KWUN TONG ROAD, KOWLOON, HONG KONG  |
| <b>“Target Subsidiary”</b>                      | Loyal Surplus Holdings Limited, a company incorporated under the laws of the BVI and a wholly-owned subsidiary of the Target Company which owns the Target Property  |
| <b>“Target Subsidiary Share”</b>                | one issued share of the Target Subsidiary, to which the entire amount of issued share capital of the Target Subsidiary is attributable   |
| <b>“Transaction Matters Requiring Approval”</b> | collectively: (1) the Acquisition; (2) the issuance of the Acquisition Fee Units; and (3) the Waiver Modification  |
| <b>“Trust Deed”</b>                             | 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  |
| <b>“Trustee”</b>                                | HSBC Institutional Trust Services (Asia) Limited, a company incorporated in Hong Kong, in its capacity as the trustee of Prosperity REIT. All references to the Trustee in this announcement are, as the context may require, to the Trustee acting on behalf of Prosperity REIT and on the instructions of the REIT Manager   |
| <b>“Unit”</b>                                   | one undivided unit in Prosperity REIT  |

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| <b>“Unit Registrar”</b>              | Computershare Hong Kong Investor Services Limited, in its capacity as the unit registrar of Prosperity REIT  |
| <b>“Unitholder”</b>                  | 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  |
| <b>“Unsatisfied Amounts Claimed”</b> | has the meaning given to this term in section 2.8 of this announcement headed “Release of Holdback Amount”   |
| <b>“Vendor”</b>                      | Ultra Champion Holdings Limited, a BVI business company incorporated under the laws of the BVI which, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, is an independent third party |
| <b>“Vendor’s Solicitors”</b>         | Mayer Brown JSM, a law firm with office in Hong Kong which, to the best of the knowledge, information and belief of the Directors, having made all reasonable enquiries, is an independent third party   |
| <b>“Waiver Modification”</b>         | the modification to the 2016 Extended Waiver to set new annual monetary limits for the Property Management Transactions for the financial years ending 31 December 2017, 31 December 2018 and 31 December 2019                                   |
| <b>“WI Insurance Policy”</b>         | the warranty and indemnity insurance policy procured by, and issued to, the Purchaser by the WI Insurer on the date of the Share Purchase Agreement, as more particularly described in section 2.9 of this announcement headed “WI Insurance”    |

**“WI Insurer”** has the meaning given to this term in section 2.9 of this announcement headed “WI Insurance”

**“%”** per cent or percentage

By order of the Board  
**ARA ASSET MANAGEMENT (PROSPERITY) LIMITED**  
**(as manager of Prosperity Real Estate Investment Trust)**  
**Wong Lai Hung, Mavis**  
*Executive Director and Chief Executive Officer*

Hong Kong, 12 September 2016

*The Directors of the REIT Manager as at the date of this announcement 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, Mavis 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.*