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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**

## **FINAL RESULTS ANNOUNCEMENT FOR THE YEAR ENDED 31 DECEMBER 2013**

Prosperity Real Estate Investment Trust (“**Prosperity REIT**”) is a real estate investment trust incorporated by a trust deed entered into on 29 November 2005, as amended by the first supplemental deed dated 12 December 2005, the second supplemental deed dated 15 May 2007, the third supplemental deed dated 14 May 2008, the fourth supplemental deed dated 23 July 2010 and the fifth supplemental deed dated 29 December 2011 (collectively, the “**Trust Deed**”) between ARA Asset Management (Prosperity) Limited, as the manager of Prosperity REIT (the “**REIT Manager**”), and HSBC Institutional Trust Services (Asia) Limited, as the trustee of Prosperity REIT. Prosperity REIT was the first private sector real estate investment trust (“**REIT**”) to list on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) on 16 December 2005 (the “**Listing Date**”). As at 31 December 2013, Prosperity REIT owned a diverse portfolio of seven high-quality commercial properties in Hong Kong.

The REIT Manager is pleased to announce the audited consolidated results of Prosperity REIT and its subsidiaries for the year ended 31 December 2013 (the “**Reporting Year**”) together with comparative figures for the corresponding year in 2012 as follows:

**Performance Highlights**

	<b><u>Year ended</u></b> <b><u>31 Dec 2013</u></b>	<b><u>Year ended</u></b> <b><u>31 Dec 2012</u></b>	<b><u>Percentage change</u></b> <b><u>Increase/(Decrease)</u></b>
<b>Distribution per unit</b> <b>(“DPU”)</b>	HK\$0.1495	HK\$0.1354	10.4%

<b><u>Key financial figures</u></b>	<b><u>As at 31 Dec 2013</u></b>	<b><u>As at 31 Dec 2012</u></b>	<b><u>Percentage change</u></b> <b><u>Increase/(Decrease)</u></b>
<b>Net asset value per unit</b>	HK\$4.57	HK\$4.24	7.8%
<b>Property valuation</b>	HK\$8,518 million	HK\$7,952 million	7.1%
<b>Gearing ratio *</b>	20.9%	22.4%	(1.5%) <sup>1</sup>

<b><u>Operation data</u></b>	<b><u>Year ended</u></b> <b><u>31 Dec 2013</u></b>	<b><u>Year ended</u></b> <b><u>31 Dec 2012</u></b>	<b><u>Percentage change</u></b> <b><u>Increase/(Decrease)</u></b>
<b>Revenue</b>	HK\$341.9 million	HK\$308.4 million	10.9%
<b>Net property income</b>	HK\$266.9 million	HK\$239.5 million	11.4%
<b>Average effective unit rent</b>	HK\$19.03 per sq. ft.	HK\$16.94 per sq. ft.	12.3%
<b>Occupancy rate</b> <i>(as at 31 Dec)</i>	98.9%	98.5%	0.4% <sup>1</sup>
<b>Rental reversion rate</b>	34.9%	36.1%	(1.2%) <sup>1</sup>
<b>Cost-to-revenue ratio</b>	21.9%	22.3%	(0.4%) <sup>1</sup>

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

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<sup>1</sup> Absolute change

## **Distribution**

It is the policy of the REIT Manager to distribute to unitholders of Prosperity REIT an amount equal to 100% of Prosperity REIT's annual distributable income for the financial year ended 31 December 2013. Pursuant to the Trust Deed, Prosperity REIT is required to ensure that the total amount distributed to unitholders shall be no less than 90% of Prosperity REIT's annual distributable income for each financial year.

## **Business Overview**

Prosperity REIT enjoyed another prosperous year and recorded strong results in the Reporting Year.

Despite the slower overall rental growth in the office market, rental levels in Hong Kong's decentralized areas maintained a competitive edge, prompting companies to continue shifting into these areas. As our portfolio focuses on this market, in particular Kowloon East, the trend had a favourable effect on Prosperity REIT's results.

Distributable income for the Reporting Year rose 11.9% from the previous year, mainly due to increased rental revenue and stable finance costs. The valuation of our property portfolio rose mildly by 7.1% year-on-year (“YoY”) to HK\$8,518 million. As at 31 December 2013, the net asset value per unit was HK\$4.57, a YoY increase of 7.8%.

I am pleased to announce a total distribution per unit (“DPU”) of HK\$0.1495 to our unitholders. That is equal to a 10.4% YoY increase, and it represents an attractive distribution yield of 6.6%<sup>2</sup>.

## **Market Review**

Sentiment was dampened during the Reporting Year on concerns that the US Federal Reserve's tapering programme would lead to higher interest rates, as well as the HKSAR Government's property market cooling measures. But the stock market had started to stabilize in the second half of the year after the US Federal Reserve officials reiterated their intention to keep short-term interest rates low.

Despite the challenges, the strategic location of Prosperity REIT's properties enabled us to benefit from Kowloon East's transformation into a more maturing business district. With Hong Kong's positive economic prospects propelling demand for limited office space in Hong Kong's decentralized districts, we are well-positioned to further benefit from the office decentralization trend with our efforts in asset enhancement works to achieve higher rental

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<sup>2</sup> Based on Prosperity REIT's closing unit price of HK\$2.26 as at 31 December 2013

rates.

### **Operational Review**

Prosperity REIT recorded positive results throughout the Reporting Year. The rental reversion rate was 34.9%, while the occupancy rate of our portfolio remains at an optimal level of 98.9%.

Prosperity REIT also bolstered its performance through proactive leasing strategies and good tenant relations. Asset enhancement works remained a crucial growth driver for Prosperity REIT. The recent transformation of Prosperity Place from an industrial/office building into a commercial building with zero waiver fee allowed us to bring in higher rent paying retail tenants, pushing up both the property value and revenue. The progress has been satisfactory.

### **Prospects**

Since our listing in 2005, Prosperity REIT has delivered stable distributions to our unitholders. We have also managed our portfolio with a high degree of professionalism. Our aim has always been to build a sustainable business by continuously enhancing our assets.

On 15 December 2013, Prosperity REIT announced its proposed acquisition of 9 Chong Yip Street, a Grade A office building in Kwun Tong. The acquisition was approved in an Extraordinary General Meeting held on 15 January 2014, and was completed on 22 January 2014. After completion of the acquisition, the gross rentable area of Prosperity REIT's portfolio was enlarged by 11.2% to 1,352,174 sq. ft.. We firmly believe that this yield-accretive acquisition will create operating synergies in our portfolio and thereby achieve economies of scale. It strengthens our presence in the Kowloon East district and diversifies the tenant base of Prosperity REIT's portfolio to achieve a more stable income stream.

Barring unforeseen circumstances, we are confident that the acquisition will bring additional distributable income to our unitholders in the coming year. Backed by our continuous prudent and proactive management approach for optimizing returns, we are committed to delivering to unitholders stable revenue in the coming years.

Despite there are signs of economic recovery in Europe and the United States, the global picture is still uncertain. We remain cautiously optimistic in Hong Kong's economy in the year ahead, and will prudently avail ourselves of the opportunities it offers.

### **Acknowledgements**

I would like to conclude this statement by thanking my fellow Board members, our management team, staff members, service providers and business partners for the

contributions they have made to Prosperity REIT's success.

I would also like to express my deep gratitude to you, our unitholders, for your continuing support and confidence in us throughout the year.

**Chiu Kwok Hung, Justin**

*Chairman*

**ARA Asset Management (Prosperity) Limited**

**as manager of Prosperity REIT**

Hong Kong, 4 March 2014

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operations Review

As at 31 December 2013, Prosperity REIT owned a diverse portfolio of seven properties in the decentralized business districts of Hong Kong, comprising all, or a portion of, two Grade A office buildings, two commercial buildings, two industrial/office buildings and one industrial building. As at 31 December 2013, the total gross rentable area was 1,215,579 sq. ft., with a total of 430 car park spaces.

Information about the properties in the portfolio, as at 31 December 2013, was as follows:

	Location	Gross rentable area <i>Sq. ft.</i>	No. of car park spaces	Valuation <i>HK\$ Million</i>	Occupancy rate
<b>Grade A Office</b>					
The Metropolis Tower	Hung Hom	271,418	98	2,943	97.6%
Prosperity Millennia Plaza	North Point	217,955	43	1,725	99.1%
<b>Commercial</b>					
Harbourfront Landmark (portion)	Hung Hom	77,021	–	461	100.0%
Prosperity Place	Kwun Tong	240,000	83	1,402	99.3%
<b>Industrial/Office</b>					
Trendy Centre	Lai Chi Kok	173,764	79	912	99.2%
Prosperity Center (portion)	Kwun Tong	149,253	105	786	99.2%
<b>Industrial</b>					
New Treasure Centre (portion)	San Po Kong	86,168	22	289	100.0%
<b>Total</b>		<b>1,215,579</b>	<b>430</b>	<b>8,518</b>	<b>98.9%</b>

With the REIT Manager's professional management expertise, Prosperity REIT was able to attain organic growth in the Reporting Year. A high occupancy rate of 98.9% was recorded

as at 31 December 2013, reflecting the effectiveness of the leasing strategies employed. As a result of increased revenue, coupled with efficient streamlining of operations, the cost-to-revenue ratio was maintained at a relatively low level of 21.9%.

	<b>Occupancy rate (%)</b>	<b>Occupancy rate (%)</b>	<b>Percentage change<sup>3</sup> Increase/(Decrease)</b>
	<i>As at</i>	<i>As at</i>	
<b>Grade A Office</b>	<i>31 Dec 2013</i>	<i>31 Dec 2012</i>	
The Metropolis Tower	97.6	97.9	(0.3%)
Prosperity Millennia Plaza	99.1	99.6	(0.5%)
<b>Commercial</b>			
Harbourfront Landmark (portion)	100.0	100.0	-
Prosperity Place	99.3	96.1	3.2%
<b>Industrial/Office</b>			
Trendy Centre	99.2	99.2	-
Prosperity Center (portion)	99.2	100.0	(0.8%)
<b>Industrial</b>			
New Treasure Centre (portion)	100.0	98.5	1.5%
<b>Portfolio</b>	<b>98.9</b>	<b>98.5</b>	<b>0.4%</b>

### **Investment Review**

The REIT Manager will continue to implement its acquisition strategy prudently and assess acquisition targets in accordance with established investment criteria, including the potential to enhance asset value, organic growth prospects and synergies with existing properties in the portfolio. In January 2014, Prosperity REIT completed the acquisition of the 9 Chong Yip Street, Kwun Tong. This HK\$1,010 million acquisition was fully funded by debt, thus expected to be yield accretive and bring additional DPU to unitholders. With the enlarged portfolio, Prosperity REIT will further broaden its tenant base and enhance the economies of scale in operation.

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<sup>3</sup> Absolute change

### **Asset Enhancement**

It is an established strategy of the REIT Manager to provide premium rentable space in order to achieve sustainable rental growth. To this end, large-scale asset enhancement initiatives have been planned and executed on a continuous basis. During the Reporting Year, a number of asset enhancement works were carried out at Prosperity Place and Trendy Centre. Asset enhancement initiatives will continue in 2014 across the entire portfolio, with prudently planned payback periods.

#### **Prosperity Place**

Prosperity Place is located in the Kwun Tong district of Kowloon East, an area which has recently experienced tremendous growth as a new commercial hub. The special waiver to convert Prosperity Place from industrial/office use to commercial use was executed in the fourth quarter of 2012. The relevant additions and alterations works for obtaining approval for the special waiver had also been completed in the first quarter of 2013. In order to further uplift the commercial image of Prosperity Place, installation of a green wall at the ground floor lobby, replacement of the lift controller system for one cargo lift, installation of the Elevator Management System (EMS), renovation of the passenger lift lobbies and common corridors on selected floors, replacement of the concrete parapet wall on 3/F flat roof with a tempered glass wall, and the renovation of the lift lobbies on the car park floors had been carried out and completed. These works have upgraded the building's image and attracted more high quality commercial tenants.

#### **Trendy Centre**

Situated on Castle Peak Road in Lai Chi Kok, Trendy Centre is located in the heart of Kowloon's garment and fashion wholesaling district. In order to enhance the working environment of our tenants and increase competitiveness of the building, renovation works for the common washrooms and cargo lift lobbies on typical floors were completed in 2013.

### **Financial Review**

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

	<b>Turnover</b> <i>HK\$'000</i>	<b>Rental related income</b> <i>HK\$'000</i>	<b>Revenue</b> <i>HK\$'000</i>	<b>Net property income</b> <i>HK\$'000</i>
<b>Grade A Office</b>				
The Metropolis Tower	93,884	19,870	113,754	91,409
Prosperity Millennia Plaza	60,097	12,690	72,787	58,363
<b>Commercial</b>				
Harbourfront Landmark (portion)	16,392	5,802	22,194	16,942
Prosperity Place	49,226	435	49,661	37,254
<b>Industrial/Office</b>				
Trendy Centre	33,749	6,160	39,909	30,103
Prosperity Center (portion)	27,952	3,029	30,981	23,431
<b>Industrial</b>				
New Treasure Centre (portion)	10,940	1,657	12,597	9,429
<b>Total</b>	<b>292,240</b>	<b>49,643</b>	<b>341,883</b>	<b>266,931</b>

### Revenue

During the Reporting Year, revenue improved to HK\$341.9 million, being HK\$33.5 million or 10.9% higher than that of 2012.

The revenue comprised HK\$292.2 million of rental and car park income, plus HK\$49.7 million of rental related income. Rental and car park income was HK\$31.1 million or 11.9% above that of 2012.

### Net Property Income

For the Reporting Year, the net property income was HK\$266.9 million, exceeding that of 2012 by HK\$27.4 million or 11.4%. The growth was mainly attributable to the strong rental reversion rate of 34.9% and the resilient performance of the leasing market in the decentralized districts. The cost-to-revenue ratio was reduced to 21.9%.

### Distributable Income

The annual distributable income of Prosperity REIT to unitholders for the Reporting Year, amounted to HK\$209.1 million, representing a total DPU of HK\$0.1495. The distributable income for the Reporting Year is calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial year, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) including a finance cost of HK\$10.1 million (equivalent to HK\$0.0072 per unit), which have been recorded in the consolidated statement of profit or loss and other comprehensive income for the Reporting Year.

The distributable income for the half year from 1 July 2013 to 31 December 2013 is HK\$105.5 million, equivalent to a DPU of HK\$0.0751. The interim DPU from 1 January 2013 to 30 June 2013 was HK\$0.0744, and the total DPU for the Reporting Year is HK\$0.1495, which represents a distribution yield of 6.6%<sup>4</sup>. The DPU increased 10.4% YoY mainly due to the increase in net property income, as a result of the strong rental reversion rate and the resilient performance of the leasing market in the decentralized districts during the Reporting Year.

The distribution for the half year from 1 July 2013 to 31 December 2013 will be paid on Friday, 4 April 2014.

### Liquidity and Financing

As at 31 December 2013, Prosperity REIT had facilities in aggregate of HK\$2,200 million, comprising a HK\$1,770 million term loan facility and a HK\$430 million revolving credit facility, each for a term of five years expiring on 16 August 2015. The whole term loan facility was fully drawn on 16 December 2010 and revolving credit facility of HK\$25 million was drawn as at 31 December 2013. The term loan is repayable in five years from 16 August 2010 and will mature and become repayable on 16 August 2015. The revolving credit facility will be repaid on each maturity date and can be redrawn upon maturity.

The term loan facility and the revolving credit facility bear interest at a variable rate. In order to hedge against interest rate fluctuations under the term loan, Prosperity REIT through its wholly-owned finance company entered into a plain vanilla interest rate swap agreement to fix the interest rate of 80% of the term loan, being HK\$1,416 million, for a period from 16 December 2010 to 16 June 2015 at the swap rate of 1.335%, excluding the spread of 0.81%.

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<sup>4</sup> Based on Prosperity REIT's closing unit price of HK\$2.26 as at 31 December 2013

The total borrowings of Prosperity REIT, excluding the origination fees, as a percentage of Prosperity REIT's gross assets was 20.9% as at 31 December 2013, whereas the gross liability of Prosperity REIT as a percentage of Prosperity REIT's gross assets was 25.9% as at 31 December 2013.

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

Subsequent to the end of the Reporting Year, in order to partly finance the acquisition of 9 Chong Yip Street, Kwun Tong (which was completed on 22 January 2014), Prosperity REIT's wholly-owned subsidiary entered into facility agreements on 16 January 2014 with Standard Chartered Bank (Hong Kong) Limited in an aggregate amount of HK\$784 million, which comprise:

- (i) a HK\$404 million secured term loan, which bears interest at a margin of 1.45% per annum over HIBOR, and will mature and become repayable 5 years from 16 January 2014;
- (ii) an unsecured loan of HK\$380 million, which bears interest at a margin of 1.50% per annum over HIBOR, and will mature and become repayable 3 years from 16 January 2014;

(collectively, the “**New Facilities**”).

The New Facilities were fully drawn on 22 January 2014.

### Investment Properties and Property Valuation

For the Reporting Year, Prosperity REIT's portfolio recorded an investment property revaluation gain of HK\$550.6 million, based on a professional valuation performed by an independent valuer, Colliers International (Hong Kong) Limited. The movements of fair values are tabulated below:

	31 Dec 2013	31 Dec 2012
	HK\$' 000	HK\$' 000
Fair value at the beginning of the year	7,952,000	6,991,000
Additional expenditure	15,409	13,280
Increase in fair value of investment properties	550,591	947,720
Fair value at the end of the year	<u>8,518,000</u>	<u>7,952,000</u>

### Charges on Assets

As at 31 December 2013, certain investment properties of Prosperity REIT, with an aggregate carrying value of HK\$8,444 million, were pledged to secure bank loan facilities of a Prosperity REIT's finance company.

Prosperity REIT and its subsidiaries have provided guarantees for the loan facilities of HK\$2,200 million, comprising a HK\$1,770 million term loan facility and a HK\$430 million revolving credit facility.

### **EMPLOYEES**

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

### **REPURCHASE, SALE OR REDEMPTION OF UNITS**

During the Reporting Year, other than the disposal of 10,951,000 units of Prosperity REIT by the REIT Manager which the REIT Manager had received as payment of its management fee, there was no repurchase, sale or redemption of the units of Prosperity REIT by Prosperity REIT or its subsidiaries.

### **CORPORATE GOVERNANCE**

The REIT Manager was established for the purpose of managing Prosperity REIT. The REIT Manager is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the REIT Manager emphasize a quality board of directors, sound internal control, transparency and accountability to all unitholders. The REIT Manager has adopted its compliance manual (the "**Compliance Manual**") for use

in relation to the management and operation of Prosperity REIT, which sets out the key processes, systems and measures, and certain corporate governance policies and procedures to be applied for compliance with all applicable regulations and legislation. A summary of the key components of the corporate governance policies that have been adopted and complied with by the REIT Manager and Prosperity REIT will be set out in the Annual Report of Prosperity REIT for the Reporting Year. During the Reporting Year, both the REIT Manager and Prosperity REIT have in material terms complied with the provisions of the Compliance Manual.

### **CLOSURE OF REGISTER OF UNITHOLDERS**

The register of unitholders will be closed from Tuesday, 25 March 2014 to Friday, 28 March 2014, both days inclusive, during which period no transfer of units will be effected. In order to qualify for the distribution, all unit certificates with completed transfer forms must be lodged with Prosperity REIT's unit registrar, Computershare Hong Kong Investor Services Limited at Shops 1712–16, 17/F., Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on Monday, 24 March 2014. The payment date of the final distribution will be on Friday, 4 April 2014.

### **REVIEW OF FINAL RESULTS**

The final results of Prosperity REIT for the Reporting Year have been reviewed by the Audit Committee and the Disclosures Committee of the REIT Manager.

### **PUBLIC FLOAT**

As far as the REIT Manager is aware, more than 25% of the issued units of Prosperity REIT were held in public hands as at 31 December 2013.

### **ISSUANCE OF ANNUAL REPORT**

The Annual Report of Prosperity REIT for the Reporting Year will be dispatched or sent to unitholders on or before Wednesday, 30 April 2014.

### **ANNUAL GENERAL MEETING**

It is proposed that the annual general meeting of Prosperity REIT will be held on Friday, 9 May 2014. Notice of the annual general meeting will be published and issued to unitholders in due course.

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

*For the year ended 31 December 2013*

	<i>Notes</i>	<i>2013</i> <i>HK\$'000</i>	<i>2012</i> <i>HK\$'000</i>
Revenue	3	341,883	308,366
Property management fees		(7,836)	(6,948)
Property operating expenses		(67,116)	(61,947)
Total property operating expenses		<u>(74,952)</u>	<u>(68,895)</u>
<b>Net property income</b>		266,931	239,471
Interest income		25	84
Manager's fee		(41,353)	(36,837)
Trust and other expenses		(9,834)	(7,060)
Increase in fair value of investment properties		550,591	947,720
Finance costs	5	<u>(41,967)</u>	<u>(43,590)</u>
<b>Profit before taxation and transactions with unitholders</b>		724,393	1,099,788
Taxation	6	<u>(28,664)</u>	<u>(25,073)</u>
<b>Profit for the year, before transactions with unitholders</b>		695,729	1,074,715
Distribution to unitholders		<u>(209,056)</u>	<u>(186,868)</u>
<b>Profit for the year, after transactions with unitholders</b>		486,673	887,847
<b>Other comprehensive income – Items that may be reclassified subsequently to profit or loss:</b>			
Change in fair value of cashflow hedge		<u>15,035</u>	<u>(10,881)</u>
<b>Total comprehensive income for the year, after transactions with unitholders</b>		<u>501,708</u>	<u>876,966</u>
<b>Income available for distribution to unitholders</b>		<u>209,056</u>	<u>186,868</u>
<b>Basic earnings per unit (HK\$)</b>	7	<u>0.50</u>	<u>0.78</u>

## DISTRIBUTION STATEMENT

For the year ended 31 December 2013

	2013	2012
	HK\$'000	HK\$'000
<b>Profit for the year, before transactions with unitholders</b>	695,729	1,074,715
<b>Adjustments:</b>		
Manager's fee	41,283	36,774
Increase in fair value of investment properties	(550,591)	(947,720)
Finance costs	10,126	10,153
Deferred tax	12,509	12,946
	<hr/>	<hr/>
<b>Income available for distribution (note (i))</b>	<b>209,056</b>	<b>186,868</b>
	<hr/>	<hr/>
<b>Distributions to unitholders:</b>		
HK\$0.0744 (2012: HK\$0.0660) per unit for the six months ended 30 June (note (ii))	103,568	90,844
HK\$0.0751 (2012: HK\$0.0694) per unit for the six months ended 31 December (note (iii))	105,488	96,024
	<hr/>	<hr/>
	<b>209,056</b>	<b>186,868</b>
	<hr/>	<hr/>
<b>Total distribution per unit (HK\$)</b>	<b>0.1495</b>	<b>0.1354</b>
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Notes:

- (i) In accordance with the Trust Deed, Prosperity REIT is required to distribute to unitholders not less than 90% of its distributable income for each financial period and it is the REIT Manager's stated policy to distribute 100% of the distributable income. Pursuant to the Trust Deed, distributable income is defined as the amount calculated by the REIT Manager as representing the consolidated profit after tax of Prosperity REIT and its subsidiaries for the relevant financial year, as adjusted to eliminate the effects of certain Adjustments (as defined in the Trust Deed) which have been recorded in the consolidated statement of profit or loss and other comprehensive income for the relevant financial year.

These adjustments for the current year include:

- (a) manager's fees paid/payable in units of HK\$41,283,000 (2012: HK\$36,774,000) out of the total manager's fee of HK\$41,353,000 (2012: HK\$36,837,000) (the differences of HK\$70,000 (2012: HK\$63,000) are paid in cash);
  - (b) increase in fair value of investment properties of HK\$550,591,000 (2012: HK\$947,720,000);
  - (c) adjustment in respect of the difference between the accounting finance cost of HK\$41,967,000 (2012: HK\$43,590,000) less cash finance cost of HK\$31,841,000 (2012: HK\$33,437,000); and
  - (d) deferred tax provision of HK\$12,509,000 (2012: HK\$12,946,000).
- (ii) The distribution per unit of HK\$0.0744 for the six months ended 30 June 2013 (six months ended 30 June 2012: HK\$0.0660) is calculated based on Prosperity REIT's income available for distribution of HK\$103,568,000 (six months ended 30 June 2012: HK\$90,844,000) over 1,391,683,715 units (30 June 2012: 1,375,762,318 units), representing units in issue as at 30 June 2013 plus the number of units issued after the distribution period to the REIT Manager as payment of base fee and variable fee in the second quarter of 2013. The distribution was paid to unitholders on 18 September 2013.
- (iii) The distribution per unit of HK\$0.0751 for the six months ended 31 December 2013 (six months ended 31 December 2012: HK\$0.0694) is calculated based on Prosperity REIT's income available for distribution of HK\$105,488,000 (six months ended 31 December 2012: HK\$96,024,000) over 1,405,349,897 units (31 December 2012: 1,383,838,170 units), representing units in issue as at 31 December 2013 plus the number of units to be issued after the distribution period to the REIT Manager as payment of base fee and variable fee in the last quarter of the relevant distribution year, and the number of units issued to the REIT Manager for the payment of acquisition fee of HK\$10,100,000 on 22 January 2014.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013 HK\$'000	2012 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Investment properties		8,518,000	7,952,000
<b>Current assets</b>			
Trade and other receivables	8	8,676	7,672
Bank balances and cash		58,096	44,305
Total current assets		66,772	51,977
<b>Total assets</b>		8,584,772	8,003,977
<b>Non-current liabilities, excluding net assets attributable to unitholders</b>			
Derivative financial instruments		17,024	32,059
Secured term loan	10	1,753,549	1,743,423
Deferred tax liabilities		145,232	132,723
Total non-current liabilities, excluding net assets attributable to unitholders		1,915,805	1,908,205
<b>Current liabilities</b>			
Trade and other payables	9	154,062	137,365
Amount due to related companies		8,778	10,245
Secured revolving loan	10	25,000	20,000
Provision for taxation		3,591	3,081
Manager's fee payable		10,646	9,875
Distribution payable		105,488	96,024
Total current liabilities		307,565	276,590
<b>Total liabilities, excluding net assets attributable to unitholders</b>		2,223,370	2,184,795
<b>Net assets attributable to unitholders</b>		6,361,402	5,819,182
<b>Units in issue ('000)</b>	11	1,396,178	1,379,867
<b>Net asset value per unit (HK\$) attributable to unitholders</b>	12	4.57	4.24

## Notes

### (1) General:

Prosperity REIT is a Hong Kong collective investment scheme authorised under section 104 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) and its units have been listed on the Stock Exchange since 16 December 2005. Prosperity REIT is governed by the Deed of Trust made between the REIT Manager and the Trustee, and the Code on Real Estate Investment Trusts (the “**REIT Code**”) issued by the Securities and Futures Commission of Hong Kong.

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

#### Application of new and revised Hong Kong Financial Reporting Standards (“**HKFRSs**”)

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) that are mandatorily effective for an accounting period that begins on or after 1 January 2013:

Amendments to HKFRSs	Annual Improvement to HKFRSs 2009 – 2011 Cycle
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (revised 2011)	Employee Benefits
HKAS 27 (revised 2011)	Separate Financial Statements

HKAS 28 (revised 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK(IFRIC)-Int20	Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and/or on the disclosures set out in these financial statements.

**New and revised standards on consolidation, joint arrangements, associates and disclosures**

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising HKFRS 10 Consolidated Financial Statements, HKFRS 11 Joint Arrangements, HKFRS 12 Disclosure of Interests in Other Entities, HKAS 27 (as revised in 2011) Separate Financial Statements and HKAS 28 (as revised in 2011) Investments in Associates and Joint Ventures. Subsequent to the issue of these standards, amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify transitional guidance on the first-time application of the standards.

In the current year, the Group has applied for the first time HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 28 (as revised in 2011) together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding the transitional guidance. HKAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The impact of the application of these standards on the Group is set out below.

**Impact of the application of HKFRS 10**

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements and HK(SIC) Int-12 Consolidation – Special Purpose Entities. HKFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over an investee, (b) it is exposed, or has rights, to

variable returns from its involvement with the investee, and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee. Some guidance included in HKFRS 10 that deals with whether or not an investor that owns less than 50% of the voting rights in an investee has control over the investee is relevant to the Group.

The application of these standards does not have significant impact on amounts reported in the financial statements.

### **HKFRS 13 Fair Value Measurement**

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of HKFRS 13 is broad; the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances.

HKFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In general, the disclosure requirements in HKFRS 13 are more extensive than those required in the current Standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures have been extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 requires prospective application from 1 January 2013. In addition,

specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the standard in comparative information provided for periods before the initial application of the Standard. Other than the additional disclosures, the application of HKFRS 13 does not have any material impact on the amounts recognised in the financial statements.

### **Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income**

The Group has applied the amendments to HKAS 1 Presentation of Items of Other Comprehensive Income for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income. Under the amendments to HKAS 1, the “statement of comprehensive income” is renamed as the “statement of profit or loss and other comprehensive income”. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 requires items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

### **New and revised HKFRSs issued but not effective**

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

HKFRS 9	Financial Instruments <sup>3</sup>
Amendment to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures <sup>3</sup>

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities <sup>1</sup>
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets <sup>1</sup>
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting <sup>1</sup>
HK(IFRIC) - Int 21	Levies <sup>1</sup>
Amendment to HKAS 19	Defined Benefit Plans: Employee Contribution <sup>2</sup>
Amendment to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle <sup>4</sup>
Amendment to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle <sup>2</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2014

<sup>2</sup> Effective for annual periods beginning on or after 1 July 2014

<sup>3</sup> Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

<sup>4</sup> Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

## **HKFRS 9 Financial Instruments**

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 was amended in 2010 to include the requirements for the classification and measurement of financial liabilities and for derecognition. HKFRS 9 was further amended in 2013 to include the new requirements for hedge accounting.

Key requirements of HKFRS 9 are described as follows:

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely

payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability.

The REIT Manager anticipates that the application of HKFRS 9 may not have significant impact on amounts reported in respect of the financial assets and financial liabilities.

#### **Amendments to HKFRS 10, HKFRS 12 and HKAS 27 Investment Entities**

The amendments to HKFRS define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its consolidated and separate financial statements.

To qualify as an investment entity, certain criteria have to be met. Specifically, an entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;
- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and
- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments to HKFRS 12 and HKAS 27 have been made to introduce new disclosure requirements for investment entities. The amendments to HKFRS 10, HKFRS 12 and HKAS 27 are effective for annual periods beginning on or after 1 January 2014, with early application permitted. The REIT Manager anticipates that the application of the amendments will have no effect on the Group as Prosperity REIT is not an investment entity.

(2) Significant Accounting Policies:

Basis of preparation of financial statements

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of Prosperity REIT.

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

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

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKFRS 17, and the measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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

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

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

#### Basis of consolidation

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

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

Prosperity REIT reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above. Consolidation of a subsidiary begins when Prosperity REIT obtains control over the subsidiary and ceases when Prosperity REIT loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date Prosperity REIT gains control until the date when Prosperity REIT ceases to control the subsidiary.

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

(3) Revenue:

	2013 HK\$'000	2012 HK\$'000
Gross rental from investment properties:		
Rental income	271,598	241,440
Car park income	20,642	19,680
	<u>292,240</u>	<u>261,120</u>
Rental related income	<u>49,643</u>	<u>47,246</u>
	<u>341,883</u>	<u>308,366</u>

(4) Segment information:

During the Reporting Year, Prosperity REIT invested in seven office, commercial, industrial/office and industrial buildings located in Hong Kong, namely The Metropolis Tower, Prosperity Millennia Plaza, a portion of Harbourfront Landmark, Prosperity Place, Trendy Centre, a portion of Prosperity Center and a portion of New Treasure Centre. These properties are the basis on which Prosperity REIT reports its segment information and is presented below:

**For the year ended 31 December 2013**

	The Metropolis Tower <i>HK\$'000</i>	Prosperity Millennia Plaza <i>HK\$'000</i>	Harbourfront Landmark (portion) <i>HK\$'000</i>	Prosperity Place <i>HK\$'000</i>	Trendy Centre <i>HK\$'000</i>	Prosperity Center (portion) <i>HK\$'000</i>	New Treasure Centre (portion) <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Segment revenue in Hong Kong	113,754	72,787	22,194	49,661	39,909	30,981	12,597	341,883
Segment profit	<u>91,409</u>	<u>58,363</u>	<u>16,942</u>	<u>37,254</u>	<u>30,103</u>	<u>23,431</u>	<u>9,429</u>	<u>266,931</u>
Interest income								25
Manager's fee								(41,353)
Trust and other expenses								(9,834)
Increase in fair value of investment properties								550,591
Finance costs								<u>(41,967)</u>
Profit before taxation and transactions with unitholders								<u>724,393</u>

## For the year ended 31 December 2012

	The Metropolis Tower	Prosperity Millennia Plaza	Harbourfront Landmark (portion)	Prosperity Place	Trendy Centre	Prosperity Center (portion)	New Treasure Centre (portion)	Consolidated
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Segment revenue in Hong Kong	102,634	64,596	20,866	43,544	37,058	27,901	11,767	308,366
Segment profit	81,943	50,789	16,225	32,836	28,177	20,934	8,567	239,471
Interest income								84
Manager's fee								(36,837)
Trust and other expenses								(7,060)
Increase in fair value of investment properties								947,720
Finance costs								(43,590)
Profit before taxation and transactions with unitholders								<u>1,099,788</u>

### (5) Finance costs:

	2013	2012
	HK\$'000	HK\$'000
Interest expense on		
Secured term loan	28,255	29,976
Equalisation of interest expense through cashflow hedges	13,457	13,401
	<u>41,712</u>	<u>43,377</u>
Secured revolving loan	255	213
	<u>41,967</u>	<u>43,590</u>

(6) Taxation:

	2013	2012
	HK\$'000	HK\$'000
Current tax	16,353	12,127
Over-provision in prior year	(198)	-
Deferred tax	12,509	12,946
	<u>28,664</u>	<u>25,073</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong profits tax is required for certain subsidiaries as these subsidiaries did not have any assessable profits or have tax losses brought forward to set off their assessable profits for the year. Deferred tax is provided on temporary differences using the current applicable rates.

- (7) The basic earnings per unit is calculated by dividing the profit for the year, before transactions with unitholders of HK\$695,729,000 (2012: HK\$1,074,715,000) by the weighted average of 1,391,911,584 (2012: 1,375,404,049) units in issue during the year, taking into account the units issuable as manager's fee for its service in the last quarter of the relevant distribution year. No diluted earnings per unit has been presented as there were no potential units in issue.

(8) Trade and other receivables:

	2013	2012
	HK\$'000	HK\$'000
Trade receivables	633	244
Deposit and prepayments	8,043	7,428
	<u>8,676</u>	<u>7,672</u>

Ageing analysis of the Group's trade receivables is as follows:

	2013	2012
	HK\$'000	HK\$'000
Current – 1 month	338	188
2 – 3 months	295	56
	<u>633</u>	<u>244</u>

(9) Trade and other payables:

	2013	2012
	HK\$'000	HK\$'000
Trade payables	914	723
Tenants' deposits		
- Outside parties	111,092	98,405
- Related parties	425	425
Rental received in advance		
- Outside parties	2,555	2,017
Other payables	39,076	35,795
	<u>154,062</u>	<u>137,365</u>

Ageing analysis of the Group's trade payables is as follows:

	2013	2012
	HK\$'000	HK\$'000
Current – 1 month	327	210
2 – 3 months	376	301
Over 3 months	211	212
	<u>914</u>	<u>723</u>

Tenants' deposits represent the deposits refundable to tenants upon termination or cancellation of operating lease arrangements and amounts outstanding for ongoing costs. The tenants' deposits are refundable to tenants within 45 days upon the termination of the tenancy agreement. The tenants' deposits to be settled after twelve months from the reporting period based on the lease terms amounted to HK\$71,636,000 (2012: HK\$29,338,000).

(10) Borrowings:

	2013	2012
	HK\$'000	HK\$'000
Secured term loan	1,770,000	1,770,000
Origination fees	(16,451)	(26,577)
	<u>1,753,549</u>	<u>1,743,423</u>
Secured revolving loan	25,000	20,000
	<u>1,778,549</u>	<u>1,763,423</u>
Carrying amount repayable:		
Within one year	25,000	20,000
Within a period of more than one year but not exceeding five years	1,753,549	1,743,423
	<u>1,778,549</u>	<u>1,763,423</u>

(11) Units in issue:

	Number of units	HK\$'000
Balance as at 1 January 2012	1,360,442,529	2,858,584
Payment of Manager's base fee and variable fee through issuance of new units during the year	<u>19,424,572</u>	<u>35,541</u>
Balance as at 31 December 2012	1,379,867,101	2,894,125
Payment of Manager's base fee and variable fee through issuance of new units during the year	<u>16,311,096</u>	<u>40,512</u>
Balance as at 31 December 2013	<u>1,396,178,197</u>	<u>2,934,637</u>

(12) The net asset value per unit is calculated based on the net assets attributable to unitholders excluding hedging reserve, amounting to HK\$17,024,000 (2012: HK\$32,059,000), and the total number of 1,396,178,197 units in issue as at 31 December 2013 (1,379,867,101 units in issue as at 31 December 2012).

(13) As at 31 December 2013, the Group's net current liabilities, defined as current assets less current liabilities, amounted to HK\$240,793,000 (2012: HK\$224,613,000) and the Group's total assets less current liabilities amounted to HK\$8,277,207,000 (2012: HK\$7,727,387,000).

(14) Event after the reporting period:

On 14 December 2013, the Group entered into a share purchase agreement with Cactus Holdings Limited, a subsidiary of Hutchison Whampoa Limited, for the acquisition of an office building located at 9 Chong Yip Street, Kwun Tong through the acquisition of a 100% of the issued share capital of Clifton Properties Limited, for a total cash consideration of HK\$1,010,000,000, which is partly financed by new borrowing facilities of HK\$784,000,000 and the remaining consideration is financed by drawing down on the existing revolving credit facility. The acquisition was completed after the unitholders' approval on 15 January 2014.

(15) The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the HKICPA.

(16) The results have been reviewed by the Disclosures Committee and the Audit Committee of the REIT Manager.

*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 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.*