Harbour Centre Development Limited

Stock Code: 51

ANNUAL REPORT 2007

Contents

Corporate Information

BOARD OF DIRECTORS

G. W. J. Li *(Chairman)*
T. Y. Ng
H. M. V. de Lacy Staunton
M. T. P. Sze
M. K. Tan
C. K. H. Wong

SECRETARY

W. W. S. Chan, *F.C.I.S.*

REGISTERED OFFICE

16th Floor, Ocean Centre,
Harbour City, Canton Road,
Kowloon,
Hong Kong

REGISTRARS

Tricor Tengis Limited
26th Floor,
Tesbury Centre,
28 Queen's Road East, Wanchai,
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

AUDITORS

KPMG

Bolstered by healthy growth in tourist arrivals, the Hong Kong hotel market performed satisfactorily in 2007. During the year, retailers were also riding on the economic boom, on the back of escalating local buying sentiment, resulting in a strong property leasing market.

Since September 2007, the Company ("HCDL") has embarked on a substantial business initiative in taking on property investments in China and has succeeded in acquiring several sites in four different cities – Changzhou, Suzhou, Chongqing and Hangzhou in the Mainland China either solely or through joint ventures. With these acquisitions, HCDL Group's total developable area in China as at the end of 2007 has reached about 26 million square feet. Details of the acquisitions are covered under Segment Review. On 5 February 2008, HCDL has proposed a 1-for-2 rights issue to raise HK$2 billion, which will be applied by the Group to meet its capital requirements arising from the initiative of expanding into properties in the People's Republic of China ("PRC").

The Group's turnover in 2007 was HK$671.1 million (2006: HK$920.9 million). The drop in turnover was mainly due to the lack of property sale with the majority of units (72 units) of Victoria Road, a residential project in Kennedy Town, almost sold out in 2006. However, with an increase in profit from sale of investment, operating profit rose by 58% to HK$613.7 million. Net profit attributable to shareholders, including a revaluation surplus of investment properties of HK$163.6 million, grew by 51% to HK$638.4 million. Earnings per share were HK$2.03 (2006: HK$1.34).

HOTEL OPERATIONS

Visitor arrivals in 2007 surged by 12% to over 28 million in 2007. This supported the satisfactory performance of the Hotel segment. Average room rate at the Marco Polo Hongkong Hotel registered a 6% year-on-year growth while average room occupancy was maintained at 88% during 2007.

PROPERTY INVESTMENT

The Group's commercial areas in the Marco Polo Hongkong Hotel and Star House performed satisfactorily. Favourable retail revenue growth was recorded in 2007.

PROPERTY DEVELOPMENT

All units (total of 73 units) at the 60 Victoria Road residential development in Kennedy Town, which was completed in August 2006, were sold as at 31 December 2007.

PROSPECTS

The near-term outlook for the tourism and hotel industry in Hong Kong remained promising. In a bid to stay competitive in the marketplace, the hotel manager will keep optimising the performance of the Group's hotel. The Group is upbeat about the outlook for the economy of China and will continue to seek investment opportunities in the Mainland. The recently acquired projects in China will serve to improve the recurrent income base of the Group in the near future.

Gonzaga W.J. Li
Chairman

Hong Kong, 11 March 2008

Financial Highlights

	2007 ***HK$ Million***	2006 *HK$ Million*
Results		
Turnover	**671.1**	920.9
Operating profit	**613.7**	389.5
Profit before attributable revaluation surplus	**503.4**	344.9
Profit attributable to equity shareholders	**638.4**	422.7
Earnings per share	**HK$2.03**	HK$1.34
Dividends per share	**29.0¢**	29.0¢
Financial position		
Total assets	**8,438.0**	5,168.8
Net debt/(cash)*	**1,274.1**	(1,840.2)
Shareholders' equity	**5,748.1**	4,778.0
Total equity	**5,945.1**	4,778.0
Net asset value per share	**HK$18.25**	HK$15.17
Net debt to shareholders' equity	**22.2%**	N/A
Net debt to total equity	**21.4%**	N/A

	Profit attributable to shareholders *HK$ Million*	**Shareholders' equity** *HK$ Million*	**Earnings per share** *HK$*	**Dividends per share** *HK¢*	**Distribution cover** *Times*
2003	169.4	4,686.6	0.54	17.0	3.16
2004#	371.7	3,505.6	1.18	17.0	6.94
2005#	517.1	4,096.3	1.64	17.0	9.66
2006	422.7	4,778.0	1.34	29.0	4.63
2007	638.4	5,748.1	2.03	29.0	6.99

* *Cash includes pledged bank deposits*

\# *Restated*

SEGMENT REVIEW

Total revenue of the Hotel Segment grew by 2% to HK$438.3 million while total operating profit of the Segment dropped by 4% to HK$147.7 million. Marginal increase in turnover was mainly due to single-digit growth in average room rates being partially offset by a loss of Beverage and Food income resulting from the closure of Grippes during renovation. Increase in depreciation arising from renovation of the sixth floor of the Marco Polo Hongkong Hotel ("MPHK Hotel") during 2007 attributed to a decrease of operating profit of the Segment. On the back of strong demand for hotel rooms during trade fairs and exhibitions, a 6% year-on-year growth in average room rate was recorded during 2007. Average occupancy was maintained at 88%.

With favourable rental growth on a robust leasing market, property investment revenue and operating profit grew by 6% and 5% to HK$127.6 million and HK$109.6 million respectively. The retail space of MPHK was virtually fully let, while the Star House retail units were 59% leased during 2007, which was attributable to revamp of certain areas for better tenant mix.

The Group's investment properties, comprising the office and retail areas in MPHK and the Star House units, were revalued by an independent valuer at 31 December 2007. Net revaluation surplus after deferred tax was HK$135.0 million during the year (2006: HK$77.8 million).

On property sale, all of the 73 residential units of the 60 Victoria Road project have been sold as at the end of 2007.

New Acquisitions

On the back of continuous year on year GDP growth, strong accumulation of wealth and high saving rates, as well as wide spreading of China's urbanisation, the Group is upbeat about the outlook of property investment and development in China. With strong financial resources including cash and listed securities, the Group has embarked on a substantial business initiative in earmarking for suitable property investment opportunities in China since 2007, in addition to its investments in MPHK and the Star House units.

The Group, since September 2007, has solely or through joint ventures with strong local property companies, acquired five excellent sites in the cities of Changzhou, Suzhou, Chongqing and Hangzhou. These investments, which the Group believes, will broaden the asset and earnings base of, and will be beneficial to the Group and its shareholders as a whole. With these acquisitions, the total developable area attributable to the Group in China as at the end of 2007 has reached about 26 million square feet. With rosy outlook for the economy in China, the Group continues to seek good investment opportunities in the Mainland in the near future.

In September 2007, the Group acquired a land lot in Jiangbei City（江北區）of Jiangbei District（江北城）, Chongqing, through a joint-venture company at a land auction for RMB2.54 billion. The Group and the China Overseas Group will jointly develop the land, on a 55:45 ownership basis. The land lot has a total site area of about one million square feet and offers plot-ratio GFA of 2.5 million square feet attributable to the Group. It will be developed into a high-end residential project. Development completion is scheduled in 2012.

Following the acquisition of the Chongqing site, the Group succeeded in acquiring two land parcels on Xinghu Jie（星湖街）and Xiandai Da Dao（現代大道）in Suzhou Industrial Park（蘇州園區）respectively for a total of RMB3.073 billion, at a public auction, through a joint-venture company in early October 2007. The Group and Zhong Xin Suzhou Industrial will jointly develop the sites, on an 80:20 ownership basis. The parcels command a total site area of about 5,650,000 square feet and offer plot-ratio GFA of 13.5 million square feet attributable to the Group. A skyscraper landmark which will be the tallest building in Suzhou will be built at the site of Xinghu Jie（星湖街）.

In mid October 2007, the Group entered into an agreement with Greentown China Holdings Limited for the joint development of a land parcel in Hangzhou. The Group and Greentown China Holdings Limited will take respectively 40% and 60% stake in the joint-venture company. The site is superbly situated in the new Hangzhou Central Business District（錢江新城）and frontal to the Qingtang Jiang（錢塘江）. The land parcel, at a total consideration of RMB3.49 billion, boasts a total site area of about 906,921 square feet and offers plot-ratio GFA of 3.2 million square feet of which 1.28 million square feet is attributable to the Group. The plan is to develop the site into a commercial, hotel and residential complex. Development completion is scheduled in 2012.

The Group's fifth site was acquired in December 2007 at a public auction for RMB1.47 billion. Ideally located in the prime area of Xinbei District（新北區）, Changzhou City（常州市）, the land parcel (comprising three adjacent sites No.01-No.03) envisages a total site area of about 4.4 million square feet and offers a plot ratio GFA of 8.7 million square feet. Planning is underway to develop the site into a residential and hotel project. The parcel is just 5 km away from the city centre, in the vicinity of China Changzhou Dinosaur Land（中華恐龍園）theme park and Xin Qu Park（新區公園）and boasts superb air-sea-land transportation links including Changzhou Civil Aviation Airport and Huning Express Railway. The project is scheduled for completion in 2012.

FINANCIAL REVIEW

(I) Review of results for the year ended 31 December 2007

Turnover

The Group's turnover for the year ended 31 December 2007 was HK$671.1 million (2006: HK$920.9 million). The decrease in turnover was due mainly to reduction in property sale during the year under review.

Hotel Segment recorded a total revenue of HK$438.3 million (2006: HK$431.1 million), with only a marginal growth of 2% due to the closure of a restaurant in Marco Polo Hongkong Hotel ("MPHK Hotel") for renovation since November 2006 until December 2007 resulting in the reduction in food and beverage income by 9%. Room revenue managed to report a 6% year-on-year growth as higher room rates were achieved during the year under review.

Property investment revenue was up by 6% to HK$127.6 million (2006: HK$120.2 million) as retail rental income generated from MPHK Hotel's retail areas continued to grow steadily. This increase was mitigated by a decrease in rental income arising from a revamp for better tenant mix of certain areas on the moving out of a major tenant from the Star House units.

Property Development Segment was down by 98% to HK$6.7 million (2006: HK$278.3 million) as 72 residential units at 60 Victoria Road were sold in 2006 with the remaining one unit sold during the year under review.

Investment Segment's interest and dividend income derived from the Group's surplus cash and investment increased by 8% to HK$98.5 million (2006: HK$91.3 million).

Operating Profit

The Group's consolidated operating profit rose by 58% or HK$224.2 million to HK$613.7 million (2006: HK$389.5 million). The profit improvement was mainly attributable to the Investment Segment, which increased its operating profit by 158% to HK$355.8 million, mainly contributed from profit on disposal of certain listed investment. Hotel segment's profit decreased by 4% to HK$147.7 million and Property Investment segment reported operating profit growth of 5% to HK$109.6 million.

Finance Costs

Net finance costs for the year was HK$8.3 million (2006: Nil). The increase was due to borrowing requirement for the Group's property investments in China. The Group's average effective borrowing rate was 3.7% p.a..

Increase in Fair Value of Investment Properties

The Group's investment properties were revalued as at 31 December 2007, resulting in a surplus of HK$163.6 million (2006: HK$94.3 million). The net surplus after deferred tax was HK$135.0 million (2006: HK$77.8 million) and recorded in the profit and loss account.

Share of Results after Tax of an Associate and Jointly Controlled Entities

Share of results after tax of an associate and jointly controlled entities decreased by HK$2.3 million (2006: HK$6.2 million), reflecting lower property sales undertaken by the associate in 2007.

Taxation

The taxation charge for the year increased by HK$67.3 million to HK$134.6 million (2006: HK$67.3 million) as a result of the increase in operating profit during the year.

Minority Interests

Minority interests for the year was HK$0.1 million (2006: Nil), primarily due to minority interest's shareholdings of a company engaging in PRC property development project.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the year ended 31 December 2007 amounted to HK$638.4 million (2006: HK$422.7 million), representing an increase of HK$215.7 million or 51%. Earnings per share were HK$2.03 (2006: HK$1.34).

Excluding the net investment property surplus of HK$135.0 million (2006: HK$77.8 million), the Group's net profit for year was HK$503.4 million, representing an increase of 46% over last year. The favourable results were mainly due to the increase in investment income.

(II) Liquidity and Financial Resources

Shareholders' Equity

As at 31 December 2007, the Group's shareholders' equity was HK$5,748.1 million, equivalent to HK$18.25 per share (31 December 2006: HK$15.17 per share).

The Group's hotel property is stated at cost less accumulated depreciation according to the prevailing Hong Kong Financial Reporting Standards. Restating the hotel property based on the valuation carried out by an independent valuer would give rise a revaluation surplus of HK$2,653.0 million and increase the Group's shareholders' equity to HK$8,401.1 million, equivalent to HK$26.67 per share.

Debt and Gearing

As at 31 December 2007, the Group had a net debt of HK$1,274.1 million, versus a net cash of HK$1,840.2 million as at 31 December 2006. The change was mainly caused by the cash outflows for the new acquisitions during 2007 of sites in China for development.

As at 31 December 2007, the Group maintained a portfolio of investments primarily consisting of blue chip securities, with an aggregate market value of HK$2,516.6 million (2006: HK$1,490.0 million). The favourable performance of the portfolio was in line with the stock markets.

Commitments

As at 31 December 2007, the Group committed to properties under development in China, both by the Group and through jointly controlled entities, of a total amount of HK$19,058.1 million, including land cost of HK$5,092.1 million payable by installments in 2008 and 2009. The developments will be executed by stages in the forthcoming years and funded by internal financial resources, including proceeds from property pre-sales, bank loans and the proceeds from the rights issue as mentioned hereunder.

Finance and Availability of Facilities

As at 31 December 2007, the Group's available loan facilities amounted to HK$2,500.0 million of which HK$1,858.9 million was drawn. HK$1,100.0 million of these loans was secured by available-for-sale investments with carrying value of HK$2,003.6 million.

Subsequent to 31 December 2007, the Group has obtained additional committed banking facilities amounting to HK$1,200.0 million, which was secured by the Group's hotel property.

As at 31 December 2007, the Group had exposure to foreign exchange rate fluctuations from expenditures in respect of the newly acquired China projects, which will be denominated in RMB. RMB borrowings will be sourced to finance the development cost of the China projects apart from their land cost. The Group also entered into certain forward exchange contracts primarily for management of its foreign currency assets and related interest rate exposures. The outstanding contracts were marked to market value in accordance with the accounting standard at the balance sheet date and reported a net liability of HK$106.5 million. The Group has no other significant exposure to foreign exchange fluctuations except for those mentioned above.

Rights Issue

On 5 February 2008, the Company announced that it proposed to issue 157,500,000 new ordinary shares of HK$0.50 each by way of a rights issue in the proportion of one rights share for every two existing ordinary shares then held by qualifying shareholders at a subscription price of HK$12.80 per rights share ("Rights Issue"). The net proceeds from the Rights Issue of approximately HK$2,000.0 million will be used by the Group to meet its capital requirements arising from the initiative of expanding into properties in the PRC.

(III) Human Resources

The Group has approximately 490 employees working at the Group's hotel. Employees are remunerated according to the nature of the job and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Total staff costs for year ended 31 December 2007 amounted to HK$104.2 million (2006: HK$105.1 million).

(A) CORPORATE GOVERNANCE PRACTICES

During the financial year ended 31 December 2007, all the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Code") were met by the Company, with the exception of one deviation as set out under section (D) below. The application of the relevant principles, and the reasons for the abovementioned deviation from a Code provision, are stated in the following sections.

(B) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors of the Company who were in office during the financial year ended 31 December 2007, they have confirmed that they have complied with the Model Code during the financial year.

(C) BOARD OF DIRECTORS

(I) Composition of the Board, number of Board meetings and Directors' attendance

The Company's Board has a balance of skills and experience and a balanced composition of executive and non-executive directors. Four Board meetings were held during the financial year ended 31 December 2007. The composition of the Board and attendance of the Directors are set out below:

Directors	Attendance at Meetings
Chairman	
Mr. Gonzaga W. J. Li	4
Non-executive Director	
Mr. T. Y. Ng	1
Independent Non-executive Directors	
Mr. Brian S. Forsgate *(retired on 9 May 2007)*	0
Mr. H. M. V. de Lacy Staunton	3
Mr. Michael T. P. Sze *(appointed on 9 May 2007)*	2
Mr. M. K. Tan	2

Each Director of the Company has been appointed on the strength of his calibre, experience and stature, and his potential to contribute to the proper guidance of the Group and its businesses. Apart from formal meetings, matters requiring Board approval were arranged by means of circulation of written resolutions.

(C) BOARD OF DIRECTORS *(Continued)*

(II) Operation of the Board

The Company is headed by an effective Board which takes decisions objectively in the interests of the Company. The Company's management has closely monitored changes to regulations that affect its corporate affairs and businesses, and changes to accounting standards, and adopted appropriate reporting format in its interim report, annual report and other related documents to present a balanced, clear and comprehensible assessment of the Group's performance, position and prospects. Where these changes are pertinent to the Company or Directors' disclosure obligations, the Directors are either briefed during Board meetings or issued with regular updates and materials to keep them abreast of their responsibilities and of the conduct, business activities and development of the Group. Newly appointed Directors receive briefings and orientation on their legal and other responsibilities as a Director and the role of the Board. The Company has also provided appropriate information in a timely manner to the Directors to enable them to make an informed decision and to discharge their duties and responsibilities as Directors of the Company.

There is a clear division of responsibilities between the Board and the management. Decisions on important matters are specifically reserved to the Board while decisions on the Group's general operations are delegated to the management. Important matters include those affecting the Group's strategic policies, major investment and funding decisions and major commitments relating to the Group's operations.

(D) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Gonzaga W. J. Li serves as the Chairman and also as the *de facto* chief executive officer of the Company. This is a deviation from the Code provision with respect to the roles of Chairman and Chief Executive Officer to be performed by different individuals. Such deviation is deemed appropriate as it is considered to be more efficient to have one single person to be the Chairman of the Company as well as to discharge the executive functions of a chief executive officer. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals with a substantial number thereof being independent Non-executive Directors.

(E) NON-EXECUTIVE DIRECTORS

All those existing Directors of the Company who do not hold any executive office of the Company have their respective terms of appointment coming to an end normally three years after their appointment to the Board or (in the case of Directors who were re-elected to the Board at previous Annual General Meetings) their last re-election as Directors.

(F) REMUNERATION OF DIRECTORS

The Company has set up a Remuneration Committee consisting of the Chairman of the Company and two other independent Non-executive Directors.

One Remuneration Committee meeting was held during the financial year ended 31 December 2007. Attendance of the Members is set out below:

Members	Attendance at Meeting
Mr. Gonzaga W. J. Li, *Chairman*	1
Mr. Brian S. Forsgate *(retired on 9 May 2007)*	0
Mr. Michael T. P. Sze *(appointed on 9 May 2007)*	1
Mr. M. K. Tan	1

The terms of reference of the Remuneration Committee are aligned with the provisions set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules. Given below are the main duties of the Remuneration Committee:

(a) to consider the Company's policy and structure for all remuneration of Directors and senior management;

(b) to determine the specific remuneration packages of all executive Directors and senior management;

(c) to review performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(d) to review the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment; and

(e) to review compensation arrangements relating to dismissal or removal of Directors for misconduct.

The work performed by the Remuneration Committee for the financial year ended 31 December 2007 is summarised below:

(a) review of the Company's policy and structure for all remuneration of Directors and senior management;

(b) consideration of the emoluments for all Directors and senior management; and

(c) review of the level of fees for Directors and Audit Committee Members.

(F) REMUNERATION OF DIRECTORS *(Continued)*

The basis of determining the emoluments payable to its Directors and senior management by the Company is by reference to the level of emoluments normally paid by a listed company in Hong Kong to directors and senior executives of comparable calibre and job responsibilities so as to ensure a fair and competitive remuneration package as is fit and appropriate. The basis of determining the Directors' fees, currently at the rate of HK$30,000 per annum (proposed to be increased to HK$40,000 per annum with retroactive effect from 1 January 2007) per Director, payable to Directors of the Company, and the Audit Committee Members' fees, currently at the rate of HK$10,000 per annum (proposed to be increased to HK$15,000 per annum with retroactive effect from 1 January 2007) per member, payable to those Directors of the Company who are also members of the Audit Committee of the Company is by reference to the level of fees of similar nature normally paid by a listed company in Hong Kong to its directors.

(G) NOMINATION OF DIRECTORS

The Company does not have a nomination committee as the role and function of such committee are performed by the Board.

The Board is responsible for the formulation of nomination policies, making recommendations to Shareholders on Directors standing for re-election, providing sufficient biographical details of Directors to enable Shareholders to make an informed decision on the re-election, and where necessary, nominating Directors to fill casual vacancies. The Chairman from time to time reviews the composition of the Board with particular regard to ensuring that there is an appropriate number of Directors on the Board independent of management. He also identifies and nominates qualified individuals for appointment as new Directors of the Company. New Directors of the Company will be appointed by Board. Any and all new Directors are subject to retirement from the Board at the Annual General Meeting of the Company immediately following his or her appointment and may stand for re-election at the Annual General Meeting.

(H) AUDITORS' REMUNERATION

The fees in relation to the audit and other services for the year 2007 provided by KPMG, the external auditors of the Company, amounted to HK$0.6 million and HK$0.4 million respectively.

(I) AUDIT COMMITTEE

The Audit Committee of the Company consists of one Non-executive Director and two independent Non-executive Directors.

All Members have sufficient experience in reviewing audited financial statements as aided by the auditors of the Group whenever required.

Two Audit Committee meetings were held during the financial year ended 31 December 2007. Attendance of the Members is set out below:

Members	**Attendance at Meetings**
Mr. M. K. Tan, *Chairman (elected Chairman on 9 May 2007)*	1
Mr. Brian S. Forsgate *(retired on 9 May 2007)*	1
Mr. Michael T. P. Sze *(appointed on 9 May 2007)*	0
Mr. T. Y. Ng	2

(i) The terms of reference of the Audit Committee are aligned with the recommendations set out in "A Guide for Effective Audit Committees" issued by the Hong Kong Institute of Certified Public Accountants. Given below are the main duties of Audit Committee:

(a) to consider the appointment of the external auditors and any questions of resignation or dismissal;

(b) to discuss with the external auditors before the audit commences, the nature and scope of the audit;

(c) to review the half-year and annual financial statements before submission to the Board, focusing particularly on:

(i) any changes in accounting policies and practices;

(ii) major judgmental areas;

(iii) significant adjustments resulting from the audit;

(iv) the going concern assumption;

(v) compliance with accounting standards; and

(vi) compliance with stock exchange and legal requirements.

(d) to discuss problems and reservations arising from the audits, and any matters the external auditors may wish to discuss (in the absence of management where necessary); and

(e) to review the audit programme, and ensure co-ordination with external auditors, of the internal audit function;

(I) AUDIT COMMITTEE *(Continued)*

(ii) The work performed by the Audit Committee for the financial year ended 31 December 2007 is summarised below:

(a) approval of the remuneration and terms of engagement of the external auditors;

(b) review of the external auditors' independence and objectivity and the effectiveness of audit process in accordance with applicable standards;

(c) review of the half-year and annual financial statements before submission to the Board, with particular consideration of the points mentioned in paragraph (i)(c) above regarding the duties of the Audit Committee;

(d) discussion with the external auditors before the audit commences, the nature and scope of the audit;

(e) review of the audit programme and co-ordination between the external auditors and the internal audit function;

(f) review of the Group's financial controls, internal control and risk management systems; and

(g) meeting with the external auditors without executive Board members present.

(J) INTERNAL CONTROL

The Directors are ultimately responsible for the internal control system of the Group and, through the Audit Committee, have reviewed the effectiveness of the system. The internal control system comprises a well-defined organisational structure with specified limits of authority in place. Areas of responsibility of each business and operational units are also clearly defined to ensure effective checks and balances.

Procedures have been designed for safeguarding assets against unauthorised use or disposition, maintenance of proper accounting records, assurance of the reliability of financial information for internal use or publication and compliance with relevant legislation and regulations. Such procedures are designed to manage risks of failure in operational systems and can provide reasonable assurance against material errors, losses or fraud.

The internal audit function monitors compliance with policies and standards and the effectiveness of internal control structures across the whole Group. The head of Internal Audit Department reports to the Audit Committee. A full set of internal audit reports will also be provided to the external auditors.

(J) INTERNAL CONTROL *(Continued)*

A review of the effectiveness of the Group's internal control system and procedures covering all controls, including financial, operational and compliance and risk management, was conducted by the Audit Committee and subsequently reported to the Board during the year 2007. Based on the result of the review, in respect of the year ended 31 December 2007, the Directors considered that the internal control system and procedures of the Group were effective and adequate.

(K) DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for the financial year ended 31 December 2007, which give a true and fair view of the affairs of the Company and of the Group and of the Group's results and cash flow for the year then ended and in compliance with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

In preparing the financial statements for the financial year ended 31 December 2007:

(i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;

(ii) prudent and reasonable judgements and estimates are made; and

(iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.

(L) COMMUNICATION WITH SHAREHOLDERS

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performances and activities. Annual and interim reports are printed and sent to all shareholders. As a standard part of the investor relations programme to maintain a constant dialogue on the Group's performance and objectives, senior executives hold regular briefings and attend conferences with institutional investors and financial analysts.

The Company encourages its shareholders to attend Annual General Meetings to ensure a high level of accountability and to stay informed of the Group's strategy and goals.

The Company keeps shareholders informed of the procedure for voting by poll in all circulars to shareholders which are from time to time despatched to shareholders together with notices of general meetings of the Company.

(M) SHAREHOLDERS' RIGHTS TO CONVENE AN EXTRAORDINARY GENERAL MEETING

Pursuant to the Hong Kong Companies Ordinance, on requisition of one or more shareholders in aggregate holding not less than 5% of the paid-up capital of the Company carrying the right to vote at general meetings, the Directors of the Company must convene an extraordinary general meeting.

The Directors have pleasure in submitting their Report and the Audited Financial Statements for the financial year ended 31 December 2007.

PRINCIPAL ACTIVITIES AND OPERATIONS

The principal activity of the Company is investment holding and those of its principal subsidiaries, associates and jointly controlled entities are set out on pages 87 and 88.

An analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the financial year is set out in Note 1 to the Financial Statements on pages 35 to 37.

RESULTS, APPROPRIATIONS AND RESERVES

The results of the Group for the financial year ended 31 December 2007 are set out in the Consolidated Profit and Loss Account on page 29.

Appropriations of profits and movements in reserves during the financial year are set out in Note 25 to the Financial Statements on pages 63 and 64.

DIVIDENDS

An interim dividend of 5.0 cents per share was paid on 15 October 2007. The Directors now recommend the payment on 23 May 2008 of a final dividend of 24 cents per share in respect of the financial year ended 31 December 2007, payable to shareholders on record as at 16 May 2008. This recommendation has been disclosed in the Financial Statements.

FIXED ASSETS

Movements in fixed assets during the financial year are set out in Note 9 to the Financial Statements on pages 43 to 45.

DONATIONS

The Group made donations during the financial year totalling HK$3,605,000.

DIRECTORS

The Directors of the Company during the financial year were Mr. G. W. J. Li, Mr. B. S. Forsgate (retired on 9 May 2007), Mr. T. Y. Ng, Mr. H. M. V. de Lacy Staunton, Mr. Michael T. P. Sze (appointed on 9 May 2007) and Mr. M. K. Tan.

Subsequent to the financial year end, Mr. Clement K. H. Wong was appointed a Director of the Company with effect from 1 February 2008.

Messrs H. M. V. de Lacy Staunton, Michael T. P. Sze, M. K. Tan and Clement K. H. Wong are due to retire from the Board at the forthcoming Annual General Meeting. Being eligible, they offer themselves for re-election. None of the retiring Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

INTERESTS IN CONTRACTS

No contract of significance in relation to the Company's business to which the Company, its subsidiaries or its ultimate holding company or any subsidiary of that ultimate holding company was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during the financial year.

MANAGEMENT CONTRACTS

No contracts for the management and administration of the whole or any substantial part of any business of the Company were entered into or existed during the financial year.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the financial year was the Company, its subsidiaries or its ultimate holding company or any subsidiary of that ultimate holding company a party to any arrangement to enable the Directors of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the financial year.

AUDITORS

The Financial Statements now presented have been audited by KPMG, Certified Public Accountants, who retire and being eligible, offer themselves for re-appointment.

By Order of the Board
Wilson W. S. Chan
Company Secretary

Hong Kong, 11 March 2008

SUPPLEMENTARY CORPORATE INFORMATION

(A) Biographical Details of Directors and Senior Managers

(I) Directors

Gonzaga Wei Jen LI, *Chairman (Age: 78)*

Mr. Li was appointed a Director of the Company in 1980 and became Chairman in 1989. He serves as the Chairman of the Company's Remuneration Committee as well. He is also the senior deputy chairman of the Company's holding company, namely, The Wharf (Holdings) Limited ("Wharf"), the senior deputy chairman of Wheelock and Company Limited ("Wheelock"), and also the chief executive officer and a director of Wharf China Limited. He is also a director of Wheelock Properties Limited ("WPL") and Joyce Boutique Holdings Limited ("Joyce").

Tze Yuen NG, *Director (Age: 60)*

Mr. Ng has been a Director of the Company since 1994 and serves as a member of the Company's Audit Committee. He is also a director of Wharf, Joyce and WPL, and also the managing director of Wharf Estates China Limited ("WECL"), a wholly-owned subsidiary of Wharf. He is an associate member of both the Hong Kong Institute of Certified Public Accountants and the Chartered Institute of Management Accountants.

Hugh Maurice Victor de LACY STAUNTON, *Director (Age: 72)*

Mr. de Lacy Staunton has been an independent Non-executive Director of the Company since 2001. He was formerly a director of The Cross-Harbour (Holdings) Limited. He is a member of the investment sub-committee of The Community Chest and an advisor to The Bradbury Charitable Foundation.

Michael Tsai Ping SZE, *Director (Age: 62)*

Mr. Sze was appointed an independent Non-executive Director of the Company in May 2007. He also serves as a member of the Company's Audit Committee and Remuneration Committee. Mr. Sze has over 30 years of experience in the financial and securities field. He graduated with a Master of Laws (LLM) Degree from the University of Hong Kong. He is currently a member of Disciplinary Appeals Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). He was a former council member, member of the Main Board Listing Committee of the Stock Exchange, member of the Cash Market Consultative Panel of Hong Kong Exchanges & Clearing Limited and member of Securities and Futures Commission Appeals Panel. Mr. Sze is a non-executive director of Burwill Holdings Limited and an independent non-executive director of GOME Electrical Appliances Holdings Limited, Greentown China Holdings Limited, C Y Foundation Group Limited and Walker Group Holdings Limited, all of which are listed on the Stock Exchange. Mr. Sze is a fellow of the Institute of Chartered Accountants in England and Wales, the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants. He is also a fellow of the Hong Kong Institute of Directors Limited.

SUPPLEMENTARY CORPORATE INFORMATION *(Continued)*

(A) Biographical Details of Directors and Senior Managers *(Continued)*

(I) Directors (Continued)

Man Kou TAN, *Director (Age: 72)*

Mr. Tan was appointed a Director of the Company in September 2004 and has since been an independent Non-executive Director. He also serves as a member of the Company's Audit Committee and Remuneration Committee. He was a consultant of Deloitte Touche Tohmatsu, Hong Kong and has over 30 years of public accounting experience. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. Furthermore, he was a member of the Chinese People's Political Consultative Conference and a member of the Selection Committee of the Hong Kong Special Administrative Region. For community services, Mr. Tan has been a member, the honorary treasurer, and the chairman of the Hong Kong Housing Society for more than 20 years. He formerly was also a member of the Airport Consultative Committee.

Clement Kam Hung WONG, *Director (Age: 52)*

Mr. Wong was appointed a Director of the Company in February 2008. He joined Wheelock group in 1982. He has been in continuous employment of the Wheelock group and of the Wharf group since 1982, and has been involved in various property-related responsibilities of the Wheelock group and Wharf group. He is currently an executive director of Wharf Estates Development Limited and WECL, both being wholly-owned subsidiaries of Wharf, and is presently responsible for overseeing the planning, development and construction in respect of all property projects of the Wheelock group and Wharf group, including those of the Group, in both China and Hong Kong. Mr. Wong graduated from The University of Hong Kong with a Degree of Bachelor of Science in Engineering. He is also a member of The Hong Kong Institution of Engineers as well as The Chartered Institution of Building Services Engineers, UK and also a chartered engineer of the Engineering Council UK.

Notes:

(1) Wheelock, Wharf, WF Investment Partners Limited and Wharf Estates Limited (of which Mr. G. W. J. Li and/or Mr. T. Y. Ng is/are director(s)) have interests in the share capital of the Company discloseable to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO").

(2) The Company confirms that it has received written confirmation from each of the independent Non-executive Directors confirming their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange, and considers them independent.

SUPPLEMENTARY CORPORATE INFORMATION *(Continued)*

(A) Biographical Details of Directors and Senior Managers *(Continued)*

(II) Senior Managers

During the year, the senior management responsibilities of the Group were vested with the Chairman in conjunction with the Group's Hotel Manager, namely, Marco Polo Hotels Management Limited, and the Group's Commercial Section Manager, namely, Harbour City Estates Limited.

(B) Directors' Interests in Shares

At 31 December 2007, Directors of the Company had the following beneficial interests, all being long positions, in the share capitals of the Company, the Company's parent company, namely, Wharf, Wharf's parent company, namely, Wheelock, two fellow subsidiaries, namely, i-CABLE Communications Limited ("i-CABLE") and WPL, and the percentages which the relevant shares represented to the issued share capitals of the five companies respectively are also set out below:

Names of Directors	Number of Shares (percentage of issued capital)	Nature of Interest
The Company		
Mr. Michael T. P. Sze	25,000 (0.0079%)	Family interest
Wheelock		
Mr. Gonzaga W. J. Li	1,486,491 (0.0732%)	Personal interest
Mr. T. Y. Ng	70,000 (0.0034%)	Personal interest
Wharf		
Mr. Gonzaga W. J. Li *(Note)*	686,549 (0.0280%)	Personal interest
Mr. T. Y. Ng *(Note)*	178,016 (0.0073%)	Personal interest
Mr. Michael T. P. Sze *(Note)*	44,533 (0.0018%)	Family interest
i-CABLE		
Mr. Gonzaga W. J. Li	68,655 (0.0034%)	Personal interest
Mr. T. Y. Ng	17,801 (0.0009%)	Personal interest
WPL		
Mr. Gonzaga W. J. Li	2,900 (0.0001%)	Personal interest

Note: Subsequent to the financial year end, Mr. Gonzaga W. J. Li, Mr. T. Y. Ng and Mr. Michael T. P. Sze fully subscribed for their pro rata rights entitlements under a 1-for-8 rights issue by Wharf and they were accordingly allotted 85,818 shares, 22,252 shares and 5,566 shares of Wharf on January 16, 2008 respectively. Consequently Mr. Li, Mr. Ng and Mr. Sze were interested in 772,367 shares, 200,268 shares and 50,099 shares of Wharf respectively following such allotment.

SUPPLEMENTARY CORPORATE INFORMATION *(Continued)*

(B) Directors' Interests in Shares *(Continued)*

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the Securities and Futures Ordinance ("SFO") in respect of information required to be notified to the Company and the Stock Exchange by the Directors and/or Chief Executive of the Company pursuant to the SFO or to the Model Code, there were no interests, both long and short positions, held during the financial year by any of the Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), nor had there been any exercises during the financial year of any rights to subscribe for any shares, underlying shares or debentures of the Company.

(C) Substantial Shareholders' Interests

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company as at (i) 31 December 2007, and (ii) 25 March 2008, being the date of allotment of rights shares under a 1-for-2 rights issue by the Company, respectively, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at such dates as recorded in the register kept by the Company under section 336 of the SFO (the "Register") and the percentages which the shares represented to the issued share capital of the Company:

		Number of Ordinary Shares (percentage of issued capital)	
Names		**As at 31 December 2007**	**As at 25 March 2008**
(i)	Upfront International Limited	210,379,500 (66.79%)	332,496,131 (70.37%)
(ii)	Wharf Estates Limited	210,379,500 (66.79%)	332,496,131 (70.37%)
(iii)	The Wharf (Holdings) Limited	210,379,500 (66.79%)	332,496,131 (70.37%)
(iv)	WF Investment Partners Limited	210,379,500 (66.79%)	332,496,131 (70.37%)
(v)	Wheelock and Company Limited	210,379,500 (66.79%)	332,496,131 (70.37%)
(vi)	HSBC Trustee (Guernsey) Limited	210,379,500 (66.79%)	332,496,131 (70.37%)
(vii)	Harson Investment Limited	25,357,500 (8.05%)	38,036,250 (8.05%)

Note: For the avoidance of doubt and double counting, it should be noted that duplication occurs in respect of the shareholdings stated against parties (i) to (vi) above in that they represent the same block of shares.

All the interests stated above represented long positions and as at 31 December 2007, there were no short position interests recorded in the Register.

SUPPLEMENTARY CORPORATE INFORMATION *(Continued)*

(D) Directors' Interests in Competing Business

Set out below is information disclosed pursuant to paragraph 8.10 of the Listing Rules of the Stock Exchange:

Two Directors of the Company, namely, Messrs. G. W. J. Li and T. Y. Ng, being also directors of the Company's parent company, namely, Wharf, and/or subsidiaries of Wharf, are considered as having an interest in Wharf under paragraph 8.10 of the Listing Rules.

Ownership of property for letting and ownership of hotels by wholly-owned subsidiaries of Wharf constitute competing businesses to the Group.

The commercial premises at Harbour City, being in the vicinity of The Marco Polo Hongkong Hotel, owned by the Wharf group for rental purposes are considered as competing with the commercial premises in The Marco Polo Hongkong Hotel owned by the Group. In view of the Wharf group's extensive experience and expertise in property letting and management, the Group has appointed a subsidiary of Wharf (the "Agents") as the agent for a term up to 31 May 2008 for the letting, reletting, management, licensing and re-licensing of the commercial premises in The Marco Polo Hongkong Hotel.

Two hotels, namely, The Gateway and The Prince, owned by wholly-owned subsidiaries of Wharf are also considered as competing businesses of The Marco Polo Hongkong Hotel owned by the Group. In view of the Wharf group's expertise and very good track record in the management and operation of hotels throughout the Asia Pacific region, the Group has engaged a wholly-owned subsidiary (the "Operator") of Wharf to act as manager to operate, direct, manage and supervise The Marco Polo Hongkong Hotel. The Operator is also responsible for the operation of two hotels in Hong Kong, namely, The Gateway and The Prince, and some other hotels in the Asia Pacific region. The Operator has agreed, *inter alia*, to operate The Marco Polo Hongkong Hotel as a first class hotel, failing which, the Group has the right to unilaterally terminate the engagement of the Operator.

For safeguarding the interests of the Group, the independent Non-executive Directors and the Audit Committee of the Company would on a regular basis review the business and operational results of the Group to ensure, *inter alia*, that the Group's hotel and property leasing and management businesses are and continue to be run on the basis that they are independent of, and at arm's length from, those of the Wharf group.

SUPPLEMENTARY CORPORATE INFORMATION *(Continued)*

(E) Major Customers and Suppliers

For the year ended 31 December 2007:

(i) the aggregate amount of purchases (not including purchases of items which are of a capital nature) attributable to the Group's five largest suppliers represented less than 30% of the Group's total purchases; and

(ii) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover.

(F) Bank Loans, Overdrafts and Other Borrowings

Particulars of all such bank loans, overdrafts and/or other borrowings of the Company and of the Group as at 31 December 2007 which are repayable on demand or within a period not exceeding one year are set out in Note 20 to the Financial Statements on page 56. Those which would fall due for repayment after a period of one year are particularised in Note 20 to the Financial Statements on page 56.

(G) Interest Capitalised

No interest was capitalised by the Group during the financial year.

(H) Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules throughout the year ended 31 December 2007.

SUPPLEMENTARY CORPORATE INFORMATION *(Continued)*

(I) Disclosure regarding Continuing Connected Transactions

Set out below is information in relation to continuing connected transactions involving the Company and/or its subsidiaries, which was substantially disclosed in the press announcements of the Company dated 23 December 2004 and 2 April 2007 and was required under the Listing Rules to be disclosed in the Annual Report and Financial Statements of the Company:

(I) Tenancy Agreement with the Wharf group

On 23 December 2004, a tenancy agreement (the "Agreement") in respect of Shop OT G64, Ground Floor, Ocean Terminal, Harbour City (the "Premises") for the period from 10 January 2005 to 9 January 2008 was entered into by The Hongkong Hotel Limited ("HHL"), a wholly-owned subsidiary of the Company, as the tenant with the landlord, namely, Wharf Realty Limited ("WRL"), which is a wholly-owned subsidiary of The Wharf (Holdings) Limited ("Wharf").

The aggregate rental paid by HHL to WRL for the year ended 31 December 2007 amounted to HK$1.26 million. There is a right for either party to early terminate the tenancy at any time after the expiry of the first 12 months of the term by serving on the other party a 3-month prior written notice without payment of any compensation by either party.

As the Company is a 70.37%-owned subsidiary of Wharf, the transaction constitutes a continuing connected transaction for the Company under the Listing Rules. The Premises are presently leased by WRL to HHL for use as a function and banquet room ancillary to The Marco Polo Hongkong Hotel which is owned by HHL, for the purpose of generating satisfactory revenue to HHL.

(II) Operations Agreement with the Wharf group

On 2 April 2007, a conditional operations agreement (the "Operations Agreement") was entered into between HHL and Marco Polo Hotels Management Limited ("MPHML"), a wholly-owned subsidiary of Wharf, for the re-appointment of MPHML as the manager of Marco Polo Hongkong Hotel (the "Hotel") for a three-year period commencing from 1 January 2007 to supervise, direct, manage and control the operation of the Hotel for HHL, which is the owner of the Hotel.

MPHML is actively engaged in the management and operation of hotels throughout the Asia Pacific region. The Hotel has been under the management of MPHML or other hotel management subsidiary(ies) of the Wharf Group since 1986.

SUPPLEMENTARY CORPORATE INFORMATION *(Continued)*

(I) Disclosure regarding Continuing Connected Transactions *(Continued)*

(II) Operations Agreement with the Wharf group (Continued)

The management fees payable under the Operations Agreement are subject to annual cap amounts and the total amount of fees paid by HHL to MPHML for the year ended 31 December 2007 amounted to HK$34.8 million.

The purpose of the re-appointment of MPHML as the Hotel manager under the Operations Agreement is that HHL may continue to benefit from MPHML's expertise in the operation, direction, management and supervision of the Hotel.

As the Company is a 70.37%-owned subsidiary of Wharf, the Operations Agreement constitutes a continuing connected transaction for HCDL under the Listing Rules.

(III) Confirmation from Directors etc.

The Directors, including the independent Non-executive Directors, of the Company have reviewed the continuing connected transactions mentioned above (the "Transactions") and confirmed that the Transactions were entered into:

(a) by the Group in the ordinary and usual course of its business;

(b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms that are no less favourable than those available to or from (as appropriate) independent third parties; and

(c) in accordance with the relevant agreements governing such continuing connected transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Furthermore, the auditors of the Company have advised the following:

(1) the Transactions had been approved by the Company's Board of Directors;

(2) nothing came to the attention of the auditors of the Company that caused them to believe that the Transactions were not entered into in accordance with the terms of the related agreements governing the Transactions; or, where there was no agreement, on terms no less favourable than those for similar transactions undertaken by the Group with independent third parties where available; and

(3) The relevant cap amounts have not been exceeded during the year ended 31 December 2007.

TO THE SHAREHOLDERS OF HARBOUR CENTRE DEVELOPMENT LIMITED

(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Harbour Centre Development Limited (the "Company") set out on pages 29 to 88, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated profit and loss account, the consolidated statement of recognised income and expense and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007, and of the Group's profit and cash flows for the year ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

11 March 2008

For the year ended 31 December 2007

	Note	2007 HK$ Million	2006 HK$ Million (Restated)
Turnover	1	**671.1**	920.9
Other net income	3	**357.5**	48.7
Direct costs and operating expenses		**(347.8)**	(508.5)
Selling and marketing expenses		**(23.8)**	(41.7)
Depreciation and amortisation		**(34.9)**	(25.3)
Administrative and corporate expenses		**(8.4)**	(4.6)
Operating profit	2	**613.7**	389.5
Increase in fair value of investment properties		**163.6**	94.3
Finance costs	4	**(8.3)**	–
		769.0	483.8
Share of results after tax of:			
– associate		**4.4**	6.2
– jointly controlled entities		**(0.5)**	–
Profit before taxation		**772.9**	490.0
Taxation	5(b)	**(134.6)**	(67.3)
Profit for the year		**638.3**	422.7
Profit attributable to:			
Equity shareholders	6	**638.4**	422.7
Minority interests		**(0.1)**	–
		638.3	422.7
Dividends attributable to equity shareholders	7		
Interim dividend paid		**15.8**	15.8
Final dividend proposed		**113.4**	75.6
		129.2	91.4
Earnings per share	8	**HK$2.03**	HK$1.34

The notes and principal accounting policies on pages 35 to 88 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2007

	Note	2007 HK$ Million	2006 HK$ Million
Non-current assets			
Fixed assets	9		
Investment properties		**1,827.0**	1,663.0
Leasehold land		**15.2**	15.2
Other properties, plant and equipment		**104.9**	63.4
Interest in an associate	11	**0.8**	0.8
Interest in jointly controlled entities	12	**1,964.6**	–
Available-for-sale investments	13	**2,516.6**	1,490.0
Long term receivables	14	**1.7**	3.1
Employee benefits	15	**8.5**	6.7
		6,439.3	3,242.2
Current assets			
Inventories	16	**988.7**	7.6
Trade and other receivables	17	**425.2**	78.8
Bank deposits and cash		**132.4**	1,840.2
Pledged bank deposits	18	**452.4**	–
		1,998.7	1,926.6
Current liabilities			
Trade and other payables	19	**187.2**	140.5
Derivative financial liabilities	23(b)	**106.5**	–
Bank loans	20	**1,278.9**	–
Taxation payable	5(d)	**80.3**	22.6
		1,652.9	163.1
Net current assets		**345.8**	1,763.5
Total assets less current liabilities		**6,785.1**	5,005.7
Non-current liabilities			
Bank loans	20	**580.0**	–
Deferred income	21	**–**	0.8
Deferred taxation	22	**260.0**	226.9
		840.0	227.7
NET ASSETS		**5,945.1**	4,778.0
Capital and reserves			
Share capital	24	**157.5**	157.5
Reserves		**5,590.6**	4,620.5
Shareholders' equity	25(a)	**5,748.1**	4,778.0
Minority interests	25(a)	**197.0**	–
TOTAL EQUITY		**5,945.1**	4,778.0

The notes and principal accounting policies on pages 35 to 88 form part of these financial statements.

Gonzaga W. J. Li
Chairman

T. Y. Ng
Director

As at 31 December 2007

	Note	2007 HK$ Million	2006 HK$ Million
Current assets			
Amounts due from subsidiaries	10	**3,600.5**	–
Trade and other receivables		**0.2**	1.4
Taxation recoverable		**–**	0.4
Bank deposits and cash		**15.9**	1,833.9
		3,616.6	1,835.7
Current liabilities			
Amounts due to subsidiaries	10	**2,167.1**	840.0
Trade and other payables		**3.1**	0.4
Bank loan	20	**500.0**	–
		2,670.2	840.4
Net current assets		**946.4**	995.3
Non-current liabilities			
Deferred income	21	**–**	0.8
NET ASSETS		**946.4**	994.5
Capital and reserves			
Share capital	24	**157.5**	157.5
Reserves	25(b)	**788.9**	837.0
TOTAL EQUITY		**946.4**	994.5

The notes and principal accounting policies on pages 35 to 88 form part of these financial statements.

Gonzaga W. J. Li
Chairman

T. Y. Ng
Director

Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2007

	Note	**2007** ***HK$ Million***	2006 *HK$ Million*
Surplus on revaluation of available-for-sale investments	*25*	**482.9**	309.8
Revaluation reserve transferred (to)/from the consolidated profit and loss account upon disposal of available-for-sale investments	*25*	**(122.5)**	1.7
Transferred to the consolidated profit and loss account on impairment loss of available-for-sale investments	*25*	**19.9**	–
Exchange difference	*25*	**42.5**	–
Actuarial gains on defined benefit pension schemes	*25*	**0.3**	1.1
Net income recognised directly in equity		**423.1**	312.6
Profit for the year	*25*	**638.3**	422.7
Total recognised income for the year			
Attributable to equity shareholders		**1,061.5**	422.7
Attributable to minority interests		**(0.1)**	–
Total	*25*	**1,061.4**	735.3

The notes and principal accounting policies on pages 35 to 88 form part of these financial statements.

For the year ended 31 December 2007

	Note	2007 HK$ Million	2006 HK$ Million (Restated)
Cash (used in)/generated from operations	*(a)*	**(961.1)**	540.6
Interest received		**51.8**	60.8
Interest paid on bank loans		**(7.5)**	–
Dividends received from associates		**4.4**	20.0
Dividend income from listed investments		**47.4**	29.7
Hong Kong profits tax paid		**(43.8)**	(33.9)
Net cash (used in)/from operating activities		**(908.8)**	617.2
Investing activities			
Placing of pledged deposits		**(452.4)**	–
Purchase of fixed assets		**(76.8)**	(31.7)
Net decrease in interest in an associate		**7.7**	–
Net increase in interest in jointly controlled entities		**(1,957.2)**	–
Decrease/(increase) in long term receivables		**1.7**	(3.5)
Purchase of available-for-sale investments		**(1,788.1)**	(1,207.8)
Proceeds from sale of available-for-sale investments		**1,470.7**	1,000.0
Proceeds from forward foreign exchange contracts		**30.8**	–
Net cash used in investing activities		**(2,763.6)**	(243.0)
Financing activities			
Drawdown of new bank loans		**1,858.9**	–
Issue of shares by a subsidiary to minority interests		**197.1**	–
Dividends paid		**(91.4)**	(53.6)
Net cash generated from/(used in) financing activities		**1,964.6**	(53.6)
Net (decrease)/increase in cash and cash equivalents		**(1,707.8)**	320.6
Cash and cash equivalents at 1 January		**1,840.2**	1,519.6
Cash and cash equivalents at 31 December		**132.4**	1,840.2

Cash and cash equivalents represent bank deposits and cash.

The notes and principal accounting policies on pages 35 to 88 form part of these financial statements.

For the year ended 31 December 2007

(a) Reconciliation of operating profit to cash (used in)/generated from operations

	2007	2006
	HK$ Million	*HK$ Million* (Restated)
Operating profit	**613.7**	389.5
Depreciation and amortisation	**34.9**	25.3
Impairment loss on available-for-sale investments	**19.9**	–
Gain on disposal of available-for-sale investments	**(356.7)**	(47.9)
Release of deferred income	**(0.8)**	(0.8)
Dividend income from listed investments	**(47.9)**	(30.0)
Interest income	**(50.6)**	(61.3)
Increase in employee benefits	**(1.8)**	(1.2)
Decrease in property held for sale	**4.7**	230.8
Increase in property under development	**(985.3)**	–
(Increase)/decrease in hotel consumables	**(0.5)**	0.6
(Increase)/decrease in trade and other receivables	**(309.0)**	18.4
Increase in trade and other payables	**37.5**	7.1
Increase in derivative financial liabilities	**75.7**	–
Increase in amounts due to fellow subsidiaries (net)	**5.1**	10.1
Cash (used in)/generated from operations	**(961.1)**	540.6

1. SEGMENT REPORTING

(a) Business segments

(i) Revenue and results

	Revenue		Results	
	2007	2006	**2007**	2006
	HK$ Million	*HK$ Million*	***HK$ Million***	*HK$ Million*
		(Restated)		(Restated)
Hotel and restaurants	**438.3**	431.1	**147.7**	153.2
Property investment	**127.6**	120.2	**109.6**	104.3
Property development	**6.7**	278.3	**0.6**	(6.0)
Investments and others	**98.5**	91.3	**355.8**	138.0
	671.1	920.9	**613.7**	389.5
Increase in fair value of investment properties			**163.6**	94.3
Finance costs			**(8.3)**	–
			769.0	483.8
Associate			**4.4**	6.2
Property development			**4.4**	6.2
Jointly controlled entities			**(0.5)**	–
Property development			**(0.5)**	–
Profit before taxation			**772.9**	490.0

1. SEGMENT REPORTING *(Continued)*

(a) Business segments *(Continued)*

(ii) Assets and liabilities

	Assets		Liabilities	
	2007	2006	**2007**	2006
	HK$ Million	*HK$ Million*	***HK$ Million***	*HK$ Million*
Hotel and restaurants	**171.3**	132.1	**121.4**	82.0
Property investment	**1,871.1**	1,695.6	**21.4**	22.0
Property development	**3,278.9**	9.2	**5.0**	36.6
Investments and others	**2,531.9**	1,491.7	**145.9**	0.7
	7,853.2	3,328.6	**293.7**	141.3
Unallocated	**584.8**	1,840.2	**2,199.2**	249.5
Total assets/liabilities	**8,438.0**	5,168.8	**2,492.9**	390.8

Included in the property development segment is the Group's attributable interest in property development projects undertaken by an associate and jointly controlled entities, which totals HK$1,965.4 million (2006: HK$0.8 million).

(iii) Other information

	Capital expenditure		Increase in interest in jointly controlled entities		Depreciation and amortisation	
	2007	2006	**2007**	2006	**2007**	2006
	HK$ Million	*HK$ Million*	***HK$ Million***	*HK$ Million*	***HK$ Million***	*HK$ Million*
Hotel and restaurants	**76.4**	23.9	**–**	–	**34.9**	25.3
Property investment	**0.4**	7.8	**–**	–	**–**	–
Property development	**–**	–	**1,964.6**	–	**–**	–
Total	**76.8**	31.7	**1,964.6**	–	**34.9**	25.3

The Group has no significant non-cash expenses other than depreciation and amortisation.

1. SEGMENT REPORTING *(Continued)*

(b) Geographical segments

	Revenue		Operating Profit	
	2007	2006	**2007**	2006
	HK$ Million	*HK$ Million*	***HK$ Million***	*HK$ Million*
Hong Kong	**639.9**	896.0	**483.0**	364.8
Singapore	**30.9**	24.9	**130.7**	24.7
China	**0.3**	–	**–**	–
Turnover/operating profit	**671.1**	920.9	**613.7**	389.5

	Assets	
	2007	2006
	HK$ Million	*HK$ Million*
Hong Kong	**3,759.5**	4,071.5
Singapore	**1,292.2**	1,097.3
China	**3,386.3**	–
Total	**8,438.0**	5,168.8

	Capital expenditure		Increase in interest in jointly controlled entities	
	2007	2006	**2007**	2006
	HK$ Million	*HK$ Million*	***HK$ Million***	*HK$ Million*
Hong Kong	**76.8**	31.7	**–**	–
China	**–**	–	**1,964.6**	–
Total	**76.8**	31.7	**1,964.6**	–

No inter-segment revenue has been recorded during the current and prior year.

2. OPERATING PROFIT

(a) Operating profit is arrived:

	2007 **HK$ Million**	2006 HK$ Million
After charging:		
Cost of inventories sold	**32.0**	291.7
Depreciation and amortisation	**34.9**	25.3
Staff costs	**104.2**	105.1
Including:		
Contributions to defined contribution pension schemes (after deducting forfeiture of the Group's contribution of HK$0.4 million (2006: HK$0.4 million))	**3.5**	2.3
Defined benefit pension schemes	**(0.8)**	0.3
Total pension cost	**2.7**	2.6
Auditors' remuneration	**0.6**	0.6
Net foreign exchange loss *(Note)*	**74.2**	–
and crediting:		
Rental income less direct outgoings including contingent rentals HK$40.3 million (2006: HK$27.4 million)	**112.7**	107.9
Interest income on bank deposits	**50.6**	61.3
Dividend income from listed investments	**47.9**	30.0

Note:

During the year, total exchange gain arising from the translation of the net investments in China subsidiaries and jointly controlled entities amounted to HK$42.5 million (2006: HK$Nil) for the Group, which has been dealt with as an equity movement.

2. OPERATING PROFIT *(Continued)*

(b) Directors' emoluments

	Fees HK$000	Basic salaries, housing and other allowances and benefits in kind HK$000	Discretionary bonuses and/or performance related bonuses HK$000	Retirement scheme contributions HK$000	2007 Total HK$000	2006 Total HK$000
Executive director						
G. W. J. Li	40	780	–	–	**820**	810
Non-executive director						
T. Y. Ng	55	–	–	–	**55**	40
Independent non-executive directors						
Michael T. P Sze	36	–	–	–	**36**	–
H. M. V. de Lacy Staunton	40	–	–	–	**40**	30
M. K. Tan	55	–	–	–	**55**	40
Past directors						
B. S. Forsgate	19	–	–	–	**19**	40
	245	780	–	–	**1,025**	960
Total for 2006	180	780	–	–		960

For the year under review, total emoluments (including any reimbursement of expenses), being wholly in the form of Directors' fees, were paid/payable at the rate of HK$40,000 (2006: HK$30,000) per annum to each Independent Non-executive Director of the Company. Additional fees of HK$15,000 (2006: HK$10,000) per annum were paid to each audit committee member.

2. OPERATING PROFIT *(Continued)*

(c) Emoluments of the highest paid employees

Set out below are analyses of the emoluments (excluding amounts, if any, paid or payable by way of commissions on sales generated by the employees concerned) for the year ended 31 December 2007 of the five highest paid employees of the Group, none of whom is a director of the Company. The aggregate of the emoluments in respect of the individuals are as follows:

	2007 **HK$ Million**	2006 HK$ Million
Basic salaries, housing allowances, and other allowances and benefits in kind	**4.8**	4.6
Retirement scheme contributions	**0.4**	0.3
Discretionary bonuses and/or performance-related bonuses	**1.0**	0.5
	6.2	5.4

The emoluments of the five highest paid individuals are within the following bands:

Bands *(in HK$)*	**2007** ***Number of individuals***	2006 *Number of individuals*
Not more than $1,000,000	**3**	1
$1,000,001 – $1,500,000	**1**	4
$1,500,001 – $2,000,000	**1**	–

3. OTHER NET INCOME

	2007 **HK$ Million**	2006 HK$ Million
Release of deferred income	**0.8**	0.8
Profit on disposal of available-for-sale investments (including HK$122.5 million (2006: HK$1.7 million) transferred from the investments revaluation reserve)	**356.7**	47.9
	357.5	48.7

4. FINANCE COSTS

	2007 **HK$ Million**	2006 HK$ Million
Interest on bank borrowings wholly repayable within five years	**6.2**	–
Other finance costs	**2.1**	–
	8.3	–

5. TAXATION

(a) The provision for Hong Kong profits tax is based on the profit for the year as adjusted for tax purposes at the rate of 17.5% (2006: 17.5%).

(b) Taxation in the consolidated profit and loss account represents:

	2007 **HK$ Million**	2006 HK$ Million
Current taxation		
Provision for Hong Kong profits tax for the year	**101.7**	47.6
Overprovision in respect of prior years	**(0.2)**	(0.2)
	101.5	47.4
Deferred taxation		
Origination and reversal of temporary differences	**4.5**	3.4
Change in fair value of investment properties	**28.6**	16.5
	33.1	19.9
Total tax charge	**134.6**	67.3

5. TAXATION *(Continued)*

(c) Reconciliation between the actual total tax charge and accounting profit at applicable tax rates:

	2007 **HK$ Million**	2006 HK$ Million
Profit before taxation	**772.9**	490.0
Notional tax on accounting profit calculated at applicable tax rates	**135.3**	85.8
Tax effect of non-deductible expenses	**20.3**	2.6
Tax effect of non-taxable revenue	**(21.4)**	(20.9)
Tax effect of unused tax losses not recognised	**0.7**	–
Prior-year tax loss utilised this year	**(0.1)**	–
Overprovision in respect of prior years	**(0.2)**	(0.2)
Actual total tax charge	**134.6**	67.3

(d) The taxation payable in the consolidated balance sheet is expected to be settled within one year.

(e) Share of an associate's tax for the year ended 31 December 2007 of HK$0.8 million (2006: HK$0.7 million) is included in the share of results after tax of an associate.

6. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders for the year is dealt with in the financial statements of the Company to the extent of HK$43.3 million (2006: HK$58.9 million).

7. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	2007 **HK$ Million**	2006 HK$ Million
Interim dividend declared and paid of 5.0 cents (2006: 5.0 cents) per share	**15.8**	15.8
Final dividend of 24.0 cents proposed after the balance sheet date (2006: 24.0 cents) per share	**113.4**	75.6
	129.2	91.4

(a) The amount of the proposed final dividend in respect of 2007 is based on 472.5 million shares to be (2006: 315.0 million shares) as enlarged by the rights issue launched and to be completed on 25 March 2008 by the Company. The proposed final dividends have not been recognised as liabilities at the balance sheet dates.

(b) The final dividend of HK$75.6 million for 2006 was approved and paid in 2007.

8. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year of HK$638.4 million (2006: HK$422.7 million) and on 315.0 million (2006: 315.0 million) ordinary shares in issue throughout the year ended 31 December 2007. For the year under review and the preceding year, there is no difference between the basic and diluted earnings per share.

9. FIXED ASSETS

	Group				
	Investment properties HK$ Million	**Hotel property** HK$ Million	**Other fixed assets** HK$ Million	**Leasehold land** HK$ Million	**Total** HK$ Million
Cost or valuation					
Balance at 1 January 2006	1,561.0	83.5	158.1	15.9	1,818.5
Additions	7.7	2.1	25.5	–	35.3
Disposals	–	–	(22.3)	–	(22.3)
Revaluation surplus	94.3	–	–	–	94.3
Balance at 31 December 2006 and at 1 January 2007	**1,663.0**	**85.6**	**161.3**	**15.9**	**1,925.8**
Additions	**0.4**	**13.3**	**63.1**	**–**	**76.8**
Disposals	**–**	**–**	**(3.2)**	**–**	**(3.2)**
Revaluation surplus	**163.6**	**–**	**–**	**–**	**163.6**
Balance at 31 December 2007	**1,827.0**	**98.9**	**221.2**	**15.9**	**2,163.0**

9. FIXED ASSETS *(Continued)*

	Group				
	Investment properties *HK$ Million*	Hotel property *HK$ Million*	Other fixed assets *HK$ Million*	Leasehold land *HK$ Million*	Total *HK$ Million*
Accumulated depreciation and amortisation					
Balance at 1 January 2006	–	61.3	119.3	0.6	181.2
Charge for the year	–	6.2	19.0	0.1	25.3
Written back on disposals	–	–	(22.3)	–	(22.3)
Balance at 31 December 2006 and at 1 January 2007	**–**	**67.5**	**116.0**	**0.7**	**184.2**
Charge for the year	**–**	**9.6**	**25.3**	**–**	**34.9**
Written back on disposals	**–**	**–**	**(3.2)**	**–**	**(3.2)**
Balance at 31 December 2007	**–**	**77.1**	**138.1**	**0.7**	**215.9**
Net book value					
At 31 December 2007	**1,827.0**	**21.8**	**83.1**	**15.2**	**1,947.1**
At 31 December 2006	1,663.0	18.1	45.3	15.2	1,741.6

The analysis of cost or valuation of the above assets is as follows:

	Investment properties	Hotel property	Other fixed assets	Leasehold land	Total
2007 valuation	**1,827.0**	**–**	**–**	**–**	**1,827.0**
Cost less provisions	**–**	**98.9**	**221.2**	**15.9**	**336.0**
	1,827.0	**98.9**	**221.2**	**15.9**	**2,163.0**
2006 valuation	1,663.0	–	–	–	1,663.0
Cost less provisions	–	85.6	161.3	15.9	262.8
	1,663.0	85.6	161.3	15.9	1,925.8

(a) Tenure of title to properties:

Long term lease held in Hong Kong

	Investment properties	Hotel property	Other fixed assets	Leasehold land	Total
Over 50 years	1,827.0	21.8	–	15.2	1,864.0

9. FIXED ASSETS *(Continued)*

(b) Properties revaluation

The Group's investment properties in Hong Kong have been revalued as at 31 December 2007 by Knight Frank Petty Limited, an independent firm of professional surveyors who have among their staff Fellows of the Hong Kong Institute of Surveyors with extensive experience in valuing properties in Hong Kong and the PRC. Knight Frank has valued the investment properties on a market value basis and has taken into account the net income of the respective properties and allowing for reversionary potential.

(c) The Group leases out its investment properties under operating leases which generally run for an initial period of two to four years. Lease payments may contain a contingent rent element which is based on various percentages of tenants' sales receipts.

(d) The Group's total future minimum lease income under non-cancellable operating leases is receivable as follows:

	2007	2006
	HK$ Million	*HK$ Million*
Within 1 year	**71.2**	68.6
After 1 year but within 5 years	**35.6**	65.9
	106.8	134.5

10. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts due from/to subsidiaries are unsecured, recoverable/repayable on demand and interest free.

Details of principal subsidiaries at 31 December 2007 are shown on pages 87 to 88.

11. INTEREST IN AN ASSOCIATE

	Group	
	2007	2006
	HK$ Million	*HK$ Million*
Share of net tangible assets	**0.8**	0.8
	0.8	0.8

Details of principal associate at 31 December 2007 are shown on page 88.

(a) Summary financial information on an associate:

	2007		2006	
		Attributable		Attributable
	Total	**interest**	Total	interest
	HK$ Million	***HK$ Million***	*HK$ Million*	*HK$ Million*
Assets	**249.6**	**49.9**	273.8	54.8
Liabilities	**(245.5)**	**(49.1)**	(270.0)	(54.0)
Equity	**4.1**	**0.8**	3.8	0.8
Revenues	**15.4**	**3.1**	49.3	9.9
Profit before taxation	**26.2**	**5.2**	35.8	7.2
Taxation	**(3.8)**	**(0.8)**	(5.0)	(1.0)
Profit after taxation	**22.4**	**4.4**	30.8	6.2

12. INTEREST IN JOINTLY CONTROLLED ENTITIES

	Group	
	2007	2006
	HK$ Million	*HK$ Million*
Share of net tangible assets	**15.9**	–
Amounts due from jointly controlled entities	**1,948.7**	–
	1,964.6	–

Details of principal jointly controlled entities at 31 December 2007 are shown on page 88.

The Group's interest in jointly-controlled entities mainly includes:

(a) Speedy Champ Investments Limited ("Speedy Champ")

Speedy Champ is a limited liability company established in Hong Kong which is 55% owned by Superb Mind Investment Limited, a wholly-owned subsidiary of the Group. Notwithstanding the contribution of 55% of the registered capital by Superb Mind Investment Limited, the Group entered into an agreement with the joint venture partner relating to a property development in Chongqing of China which stipulates that all significant financial and operating decisions of Speedy Champ must be approved by all of its directors. As neither the Group nor the joint venture partner have the ability to control the board of directors and economic activities of Speedy Champ, the Group accounts for its investments in Speedy Champ as a jointly controlled entity.

(b) Hangzhou Greentown Haiqui Property Development Limited

The Group's interest in Hangzhou Greentown Haiqui Property Development Limited ("Greentown Haiqui") is held under a joint venture agreement relating to a property development in Hangzhou of China. Throughout the joint venture period, the Group is entitled to share 40% of the financial results and net assets of Greentown Haiqui in accordance with the terms of the joint venture agreement. The Group's interest in Greentown Haiqui is held through a wholly-owned subsidiary which has contributed 40% of the registered capital.

12. INTEREST IN JOINTLY CONTROLLED ENTITIES *(Continued)*

The Group's effective interest in the results, assets and liabilities of its jointly controlled entities are summarised below:

	2007 **HK$ Million**	2006 *HK$ Million*
Assets	**1,965.0**	–
Liabilities	**(0.4)**	–
Equity	**1,964.6**	–
Revenues	**–**	–
Loss before taxation	**(0.5)**	–
Taxation	**–**	–
Loss after taxation	**(0.5)**	–

13. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2007 **HK$ Million**	2006 *HK$ Million*
Listed investments at market value in Hong Kong	**1,149.9**	276.7
Listed investments at market value outside Hong Kong	**1,344.1**	1,172.3
Unlisted investments	**22.6**	41.0
	2,516.6	1,490.0

Included in the above equity securities are investments in a listed company, the carrying value of which constituted more than 10% of the Group's total assets at 31 December 2007. Details of this listed company are shown as follows:

Name of company	**Place of incorporation**	**Percentage of total issued ordinary shares held**
Hongkong Land Holdings Limited	Bermuda	1.45 %

14. LONG TERM RECEIVABLES

Long term receivables represent receivables due after more than one year.

15. EMPLOYEE BENEFITS

(a) Defined benefit pension schemes

	Group	
	2007	2006
	HK$ Million	*HK$ Million*
Defined benefit pension schemes	**8.5**	6.7

The Group makes contributions to defined benefit pension schemes that provide pension benefits for certain employees upon retirement. The assets of the schemes are held separately by independently administered funds. The schemes are funded by contributions from both employers and employees. The contributions from employees are in accordance with recommendations made by actuaries based on their valuation. The latest valuations of the schemes as at 31 December 2007 were performed either internally or by Watson Wyatt Hong Kong Limited, using the projected unit credit method. The funding ratio of the principal scheme is 110.8%.

(i) The amount recognised in the consolidated balance sheet is as follows:

	2007	2006
	HK$ Million	*HK$ Million*
Present value of funded obligations	**(78.4)**	(76.9)
Fair value of scheme assets	**86.9**	83.6
	8.5	6.7

(ii) Scheme assets consist of the following:

	2007	2006
	HK$ Million	*HK$ Million*
Equity securities	**60.5**	61.0
Debt securities	**22.5**	18.4
Deposits and cash	**3.9**	4.2
	86.9	83.6

15. EMPLOYEE BENEFITS *(Continued)*

(a) Defined benefit pension schemes *(Continued)*

(iii) Movements in the present value of the defined benefit obligations are as follows:

	2007 **HK$ Million**	2006 HK$ Million
At 1 January	**76.9**	60.2
Net benefits paid and transferred	**(15.3)**	5.1
Employee contributions	**0.6**	0.6
Current service cost	**2.6**	2.3
Interest cost	**3.0**	2.5
Actuarial losses	**10.6**	6.2
At 31 December	**78.4**	76.9

(iv) Movements in the scheme assets are as follows:

	2007 **HK$ Million**	2006 HK$ Million
At 1 January	**83.6**	64.6
Contributions paid	**0.7**	1.5
Net benefits paid and transferred	**(15.3)**	5.1
Employee contributions	**0.6**	0.6
Expected return on scheme assets	**6.4**	4.5
Actuarial gains	**10.9**	7.3
At 31 December	**86.9**	83.6

15. EMPLOYEE BENEFITS *(Continued)*

(a) Defined benefit pension schemes *(Continued)*

(v) Expense recognised in the consolidated profit and loss account is as follows:

	2007 **HK$ Million**	2006 HK$ Million
Current service cost	**2.6**	2.3
Interest cost	**3.0**	2.5
Expected return on scheme assets	**(6.4)**	(4.5)
	(0.8)	0.3

The expense is recognised in the following line items in the consolidated profit and loss account:

	2007 **HK$ Million**	2006 HK$ Million
Direct costs and operating expenses	**0.6**	0.2
Selling and marketing expenses	**0.2**	0.1
	0.8	0.3
Actual return on scheme assets	**17.3**	11.8

(vi) The principal actuarial assumptions used as at 31 December 2007 (expressed as a range) are as follows:

		2007	2006
Discount rate at 31 December		**3.45-3.5%**	3.75-5%
Expected rate of return on scheme assets		**7-8%**	5-8%
Future salary increases	2008	**3%**	N/A
	2009 onwards	**3%**	2-4%

15. EMPLOYEE BENEFITS *(Continued)*

(a) Defined benefit pension schemes *(Continued)*

(vii) Historical information:

	2007 **HK$ Million**	2006 HK$ Million
Present value of the defined benefit obligations	**(78.4)**	(76.9)
Fair value of scheme assets	**86.9**	83.6
Surplus in the schemes	**8.5**	6.7
Experience adjustments arising on scheme liabilities	**10.6**	3.5
Experience adjustments arising on scheme assets	**10.9**	7.3

(viii) The Group recognised actuarial gains amounting to HK$0.3 million (2006: HK$1.1 million) for the year ended 31 December 2007 directly in the statement of recognised income and expense. The cumulative amount of actuarial losses recognised amounted to HK$3.3 million (2006: HK$3.6 million) as at 31 December 2007.

(b) Defined contribution pension schemes

A number of defined contribution pension schemes (including the Mandatory Provident Fund) are available to the employees of the Group. For defined contribution pension schemes, both the Group and the employees contribute respectively to the schemes sums which represent percentages of the employees' salaries as defined under the relevant trust deeds. The contributions are expensed as incurred and may be reduced by contributions forfeited by those employees who have left the scheme prior to vesting fully in the contributions.

16. INVENTORIES

	Group	
	2007	2006
	HK$ Million	*HK$ Million*
Property held for sale	**–**	4.7
Property under development	**985.3**	–
Hotel consumables	**3.4**	2.9
	988.7	7.6

(a) Property held/under development for sale is stated at the lower of cost and net realisable value. The total carrying value of property stated at net realisable value at 31 December 2007 was HK$Nil (2006: HK$4.7 million).

The carrying value of leasehold land included in property under development for sale is summarised as follows:

	Group	
	2007	2006
	HK$ Million	*HK$ Million*
Held in Hong Kong		
Long lease	**–**	2.8

(b) Property under development of HK$985.3 million (2006: HK$Nil) was deposit paid for the acquisition for certain land sites located in Mainland China.

17. TRADE AND OTHER RECEIVABLES

(a) Ageing analysis

Included in this item are trade receivables (net of allowance for doubtful debts) with the following ageing analysis as at 31 December 2007 as follows:

	Group	
	2007	2006
	HK$ Million	*HK$ Million*
Trade receivables		
Due within 30 days	**64.2**	48.0
Due after 30 days but within 60 days	**2.9**	6.6
Due after 60 days but within 90 days	**0.4**	0.9
	67.5	55.5
Other receivables	**351.1**	12.6
Amounts due from fellow subsidiaries	**6.6**	10.7
	425.2	78.8

The Group has defined credit policies for each of its core business. The general credit terms allowed range from 0 to 60 days. The amounts due from fellow subsidiaries are unsecured, interest free and recoverable on demand. Included in other receivables are a land bidding deposit of HK$330.9 million (2006: HK$Nil) due within 30 days and other deposits of HK$0.9 million (2006: HK$0.7 million) recoverable after one year.

17. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. At 31 December 2007 and 31 December 2006, no amounts of significant trade receivables were individually determined to be doubtful or impaired.

(c) Trade receivables that are not impaired

As at 31 December 2007 and 31 December 2006, the Group assessed that of the total trade debtors and receivables, virtually all of them are neither past due nor impaired.

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

18. PLEDGED BANK DEPOSITS

Pledged bank deposits represent deposits placed with banks as security for credit facilities made available to the Group for securing a land bidding.

19. TRADE AND OTHER PAYABLES

Included in this item are trade creditors with an ageing analysis as at 31 December 2007 as follows:

	Group	
	2007	2006
	HK$ Million	*HK$ Million*
Trade creditors		
Due within 30 days	**15.0**	14.0
Due after 30 days but within 60 days	**6.1**	5.6
	21.1	19.6
Other payables and provisions	**118.2**	81.8
Amounts due to fellow subsidiaries	**12.4**	11.3
Amounts due to an associate	**35.5**	27.8
	187.2	140.5

The amounts due to fellow subsidiaries and an associate are unsecured, interest free and repayable on demand. The above includes deposits received amounting to HK$9.8 million (2006: HK$16.5 million) which are expected to be settled after one year.

20. BANK LOANS

	Group		Company	
	2007	2006	**2007**	2006
	HK$ Million	*HK$ Million*	***HK$ Million***	*HK$ Million*
Bank loans repayable:				
Within 1 year or on demand	**1,278.9**	–	**500.0**	–
After 1 year but within 2 years	**–**	–	**–**	–
After 2 years but within 5 years	**580.0**	–	**–**	–
After 5 years	**–**	–	**–**	–
	580.0	–	**–**	–
	1,858.9	–	**500.0**	–
Analysis:				
Secured	**980.0**	–	**–**	–
Unsecured	**878.9**	–	**500.0**	–
	1,858.9	–	**500.0**	–

At 31 December 2007, the banking facilities of the Group in the amount of HK$1,100.0 million (2006: HK$Nil) were secured by available-for-sale investments with an aggregate carrying value of HK$2,003.6 million (2006: HK$Nil). The secured facilities were utilised to the extent of HK$980.0 million (2006: HK$Nil).

21. DEFERRED INCOME

The movements of deferred income of the Group and Company are as follows:

	Group and Company	
	2007	2006
	HK$ Million	*HK$ Million*
Balance at 1 January	**0.8**	1.6
Credited to the consolidated profit and loss account	**(0.8)**	(0.8)
Balance at 31 December	**–**	0.8

22. DEFERRED TAXATION

(a) The components of deferred tax liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	Group			
	Depreciation allowances in excess of the related depreciation *HK$ Million*	**Revaluation of investment properties** *HK$ Million*	**Others** *HK$ Million*	**Total** *HK$ Million*
Balance at 1 January 2006	14.0	191.5	1.5	207.0
Charged/(credited) to the consolidated profit and loss account	3.7	16.5	(0.3)	19.9
Balance at 31 December 2006 and at 1 January 2007	**17.7**	**208.0**	**1.2**	**226.9**
Charged to the consolidated profit and loss account	**4.1**	**28.6**	**0.4**	**33.1**
Balance at 31 December 2007	**21.8**	**236.6**	**1.6**	**260.0**

(b) No deferred tax assets and liabilities have been recognised by the Company as there were no material temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding tax bases at 31 December 2007 and 2006.

23. FINANCIAL INSTRUMENTS

Exposure to interest rate, foreign currency, equity price, liquidity and credit risks arises in the normal course of the Group's business. These risks are managed by the Group's financial management policies and practices described below:

(a) Interest rate risk

(i) The Group's exposure to interest rate risk relates principally to the Group's short and long term loans. The Group is most vulnerable to changes in Hong Kong dollar interest rates. Interest rate risk is managed by the Group's senior management in accordance with defined policies through regular review to determine the strategy as to having the funding in floating/fixed rate mix appropriate to its current business portfolio.

(ii) The following table details the interest rate profile of the Group and the Company's borrowings at the balance sheet date.

	Group			
	2007		2006	
	Effective interest rate %	***HK$ Million***	Effective interest rate %	*HK$ Million*
Floating rate borrowings:				
Bank loans	**4.0%**	**(1,858.9)**	N/A	–
		(1,858.9)		–

	Company			
	2007		2006	
	Effective interest rate %	***HK$ Million***	Effective interest rate %	*HK$ Million*
Floating rate borrowings:				
Bank loans	**4.2%**	**(500.0)**	N/A	–
		(500.0)		–

23. FINANCIAL INSTRUMENTS *(Continued)*

(a) Interest rate risk *(Continued)*

(iii) Sensitivity analysis

At 31 December 2007, it is estimated that a general increase/decrease of 1% in interest rates, with all other variables held constant, would decrease/increase the Group's profit and total equity by approximately HK$12.7 million (2006: increase/decrease HK$18.3 million). This takes into account the effect of bank deposits and cash as at 31 December 2007 and 31 December 2006.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for both derivative and non-derivative financial instruments in existence at that date.

(b) Foreign currency risk

(i) The Group owns assets and conducts its business primarily in Hong Kong with its cash flows substantially denominated in Hong Kong dollars and has begun expansion in property investment in China since September 2007. During the year, total exchange gain arising from the translation of the net investments in China subsidiaries and jointly controlled entities amounted to HK$42.5 million (2006: HK$Nil) for the Group, which has been dealt with as an equity movement.

(ii) Exposure to foreign currency risk

The following table details the Group's exposure at the balance sheet date to currency risk arising from financial assets or liabilities denominated in a currency other than the functional currency of the Group's entities to which they relate.

	Group	
	2007 Australian Dollars *Million*	**2007 Japanese Yen *Million***
Notional amount of forward foreign exchange contracts at fair value through profit or loss	**39.0**	**(12,772.0)**

At 31 December 2007, the Group had forward foreign exchange contracts with a net fair value of HK$106.5 million (2006: HK$Nil), recognised as derivative financial liabilities. These forward exchange contracts have maturities of less than one year after the balance sheet date.

The Group was not exposed to foreign currency risk at 31 December 2006.

23. FINANCIAL INSTRUMENTS *(Continued)*

(b) Foreign currency risk *(Continued)*

(iii) Sensitivity analysis

The approximate change in the Group's profit and total equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date are as follows:

– a 5% increase/decrease in the foreign exchange rate of AUD against HKD will increase/decrease the Group's profit and total equity by approximately HK$13.3 million (2006: HK$Nil).

– a 5% increase/decrease in the foreign exchange rate of JPY against HKD will decrease/increase the Group's profit and total equity by approximately HK$44.6 million (2006: HK$Nil).

– the impact on the Group's profit and total equity is not expected to be material in response to possible changes in the foreign exchange rates of other currencies to which the Group is exposed.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to each of the Group entities' exposure to currency risk for both derivative and non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies. Results of the analysis as presented above represent an aggregation of the effects on each of the Group entities' profit and total equity measured in the respective functional currencies, translated into HKD at exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2006.

23. FINANCIAL INSTRUMENTS *(Continued)*

(c) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale investments.

Listed investments held in the available-for-sale portfolio have been chosen taking reference to their long term growth potential and returns and are monitored regularly for performance. Given that the volatility of the stock markets may not have a direct correlation with the Group's investment portfolio, it is impractical to determine the impact that the changes in stock market indices would have on the Group's portfolio of equity investments.

At 31 December 2007, it is estimated that an increase/a decrease of 10% in the market value of the Group's available-for-sale investments, with all other variables held constant, would not affect the Group's profit unless there are impairments. The Group's total equity would increase/decrease by HK$251.7 million (2006: HK$149.0 million). The analysis is performed on the same basis for 2006.

(d) Liquidity risk

Cash management of the Company and wholly-owned subsidiaries of the Group is substantially centralised at the Group level. The non wholly-owned subsidiaries are responsible for their own cash management, including the short term investment of cash surpluses with creditworthy financial institutions and the raising of loans to cover expected cash demands, in accordance with the established policies and strategies with the concurrence by the Company. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(e) Credit risk

The Group's credit risk is primarily attributable to rental, trade and other receivables. The exposures to these credit risks are closely monitored on an ongoing basis by establishing credit policies in each of its core businesses. In respect of rental receivables, sufficient rental deposits are held to cover potential exposure to credit risk.

Investments and transactions involving derivative financial instruments are with counter parties with sound credit ratings.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated balance sheet. Except for the financial guarantees given by the Company as set out in Note 27, the Group does not provide any other guarantee which would expose the Group or the Company to credit risk. The maximum exposure to credit risk in respect of these financial guarantees at the balance sheet date is disclosed in Note 27. There are no significant concentrations of credit risk within the Group.

23. FINANCIAL INSTRUMENTS *(Continued)*

(f) Fair value

Listed investments are stated at quoted market prices.

The fair values of receivables, bank balances and other current assets, payables and accruals, current borrowings, and provisions are assumed to approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date.

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2007. Amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed repayment terms. Given these terms it is not meaningful to disclose fair values.

24. SHARE CAPITAL

	2007		2006	
	No. of shares		No. of shares	
	Million	***HK$ Million***	*Million*	*HK$ Million*
Authorised				
Ordinary shares of HK$0.50 each	**380.0**	**190.0**	380.0	190.0
Issued and fully paid				
Ordinary shares of HK$0.50 each	**315.0**	**157.5**	315.0	157.5

Subsequent to 31 December 2007, pursuant to the Rights Issue exercise as detailed in Note 30(b), the Company's authorised capital has been increased to 1,200.0 million shares of HK$0.50 each.

25. CAPITAL AND RESERVES

	Shareholders' equity							
	Share capital HK$ Million	Share premium HK$ Million	Investments revaluation reserve HK$ Million	Revenue reserve HK$ Million	Exchange reserve HK$ Million	Total Shareholders' equity HK$ Million	Minority interests HK$ Million	Total equity HK$ Million
(a) The Group								
Balance at 1 January 2006	157.5	542.0	404.4	2,992.4	–	4,096.3	–	4,096.3
Surplus on revaluation of available-for-sale investments	–	–	309.8	–	–	309.8	–	309.8
Transferred to the consolidated profit and loss account on disposal of available-for-sale investments	–	–	1.7	–	–	1.7	–	1.7
Actuarial gains on defined benefit pension schemes	–	–	–	1.1	–	1.1	–	1.1
	–	–	311.5	1.1	–	312.6	–	312.6
Profit for the year	–	–	–	422.7	–	422.7	–	422.7
Total recognised income and expenses	–	–	311.5	423.8	–	735.3	–	735.3
Dividends approved in respect of the previous year	–	–	–	(37.8)	–	(37.8)	–	(37.8)
Dividends declared in respect of the current year	–	–	–	(15.8)	–	(15.8)	–	(15.8)
Balance at 31 December 2006	157.5	542.0	715.9	3,362.6	–	4,778.0	–	4,778.0
Balance at 1 January 2007	**157.5**	**542.0**	**715.9**	**3,362.6**	**–**	**4,778.0**	**–**	**4,778.0**
Surplus on revaluation of available-for-sale investments	**–**	**–**	**482.9**	**–**	**–**	**482.9**	**–**	**482.9**
Transferred to the consolidated profit and loss account on disposal of available-for-sale investments	**–**	**–**	**(122.5)**	**–**	**–**	**(122.5)**	**–**	**(122.5)**
Transferred to the consolidated profit and loss account on impairment of available-for-sale investments	**–**	**–**	**19.9**	**–**	**–**	**19.9**	**–**	**19.9**
Exchange difference	**–**	**–**	**–**	**–**	**42.5**	**42.5**	**–**	**42.5**
Actuarial gains on defined benefit pension schemes	**–**	**–**	**–**	**0.3**	**–**	**0.3**	**–**	**0.3**
	–	**–**	**380.3**	**0.3**	**42.5**	**423.1**	**–**	**423.1**
Profit for the year	**–**	**–**	**–**	**638.4**	**–**	**638.4**	**(0.1)**	**638.3**
Total recognised income and expense	**–**	**–**	**380.3**	**638.7**	**42.5**	**1,061.5**	**(0.1)**	**1,061.4**
Shares issued by a subsidiary	**–**	**–**	**–**	**–**	**–**	**–**	**197.1**	**197.1**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**(75.6)**	**–**	**(75.6)**	**–**	**(75.6)**
Dividends declared in respect of the current year	**–**	**–**	**–**	**(15.8)**	**–**	**(15.8)**	**–**	**(15.8)**
Balance at 31 December 2007	**157.5**	**542.0**	**1,096.2**	**3,909.9**	**42.5**	**5,748.1**	**197.0**	**5,945.1**

25. CAPITAL AND RESERVES *(Continued)*

(b) The Company

	Share capital *HK$ Million*	Share premium *HK$ Million*	Revenue reserve *HK$ Million*	Total equity *HK$ Million*
Balance at 1 January 2006	157.5	542.0	289.7	989.2
Profit for the year	–	–	58.9	58.9
Dividends approved in respect of the previous year	–	–	(37.8)	(37.8)
Dividends declared in respect of the current year	–	–	(15.8)	(15.8)
Balance at 31 December 2006	157.5	542.0	295.0	994.5
Balance at 1 January 2007	**157.5**	**542.0**	**295.0**	**994.5**
Profit for the year	**–**	**–**	**43.3**	**43.3**
Dividends approved in respect of the previous year	**–**	**–**	**(75.6)**	**(75.6)**
Dividends declared in respect of the current year	**–**	**–**	**(15.8)**	**(15.8)**
Balance at 31 December 2007	**157.5**	**542.0**	**246.9**	**946.4**

(c) Reserves of the Company available for distribution to shareholders at 31 December 2007 amounted to HK$246.9 million (2006: HK$295.0 million).

(d) The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance. The investments revaluation reserve has been set up and will be dealt with in accordance with the accounting policies adopted by the Group for the revaluation of available-for-sale investments. The exchange reserve comprises exchange differences arising from the translation of the financial statements of foreign operations.

(e) After the balance sheet date, the directors proposed a final dividend of 24 cents per share (2006: 24 cents per share) amounting to HK$113.4 million (2006: HK$75.6 million). This dividend has not been recognised as a liability at the balance sheet date.

25. CAPITAL AND RESERVES *(Continued)*

(f) Capital management

The Group's primary objective when managing capital are to safeguard the Group's ability to continue as a going concern to meet its financial obligations and continue to provide returns for shareholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in the group's business portfolio and economic conditions.

The Group monitors its capital structure by reviewing its net debt-to-equity ratio and cash flow requirements, taking into accounts of its future financial obligations and commitments. For this purpose, the Group defines net debt as total loans less bank deposits and cash. Equity comprised shareholders' equity of the Group and minority interest.

The net debt-to-equity ratio as at 31 December 2007 was as follows:

	Group	
	2007	2006
	HK$ Million	*HK$ Million*
Secured bank loans	**980.0**	–
Unsecured bank loans	**878.9**	–
Total loans	**1,858.9**	–
Less: Bank deposits and cash (including pledged bank deposits of HK$452.4 million (2006: HK$Nil))	**(584.8)**	(1,840.2)
Net debt/(cash)	**1,274.1**	(1,840.2)
Total equity	**5,945.1**	4,778.0
Debt-to-equity ratio	**21.4%**	N/A

26. MATERIAL RELATED PARTY TRANSACTIONS

(a) During the financial year, there was in existence a management agreement with a subsidiary of the ultimate holding company for the management of the Group's hotel operations. Fees payable under this arrangement during the current year amounted to HK$34.8 million (2006: HK$34.2 million) which included management fees of HK$28.8 million (2006: HK$28.4 million) and marketing fees of HK$6.0 million (2006: HK$5.8 million). The management fees included a basic fee and an incentive fee which are calculated based on the relevant percentage of gross revenue and gross operating profit respectively. The marketing fee is calculated based on a percentage of gross revenue. Such transaction constitutes a connected transaction as defined under the Listing Rules.

(b) The Group has a tenancy agreement with Lane Crawford (Hong Kong) Limited, which is indirectly wholly owned by a trust of which the chairman of the Company's ultimate holding company is the settlor, in respect of the lease of shops situated on G/F, 1/F & 2/F of The Marco Polo Hongkong Hotel. The duration of tenancy is from 11 April 2003 to 10 April 2009. The rental income earned by the Group from the above agreement during the current year, including contingent rental income, amounted to HK$88.0 million (2006: HK$73.8 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

27. CONTINGENT LIABILITIES

As at 31 December 2007, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to bank overdrafts and credit facilities up to HK$503.1 million (2006: HK$3.1 million).

The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was HK$Nil (2006: HK$Nil).

As at the balance sheet date, the directors do not consider it is probable that a claim will be made against the Company under any of the guarantees.

28. COMMITMENTS

	Group 2007 HK$ Million	Group 2006 HK$ Million
(a) Capital commitments		
Contracted but not provided for	**9.0**	78.9
Authorised but not contracted for	**19.8**	4.6
	28.8	83.5
(b) Properties under development		
Contracted but not provided for	**3,965.3**	–
Authorised but not contracted for	**11,914.0**	–
	15,879.3	–
(c) Properties under development undertaken by jointly controlled entities (attributable)		
Contracted but not provided for	**1,126.8**	–
Authorised but not contracted for	**2,052.0**	–
	3,178.8	–

Included in properties under development including those undertaken by jointly controlled entities are land costs of HK$5,092.1 million payable by instalments in 2008 and 2009.

29. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations that are first effective for the current accounting period of the Group.

The adoption of the new and revised HKFRSs has had no significant impact on the financial statements of the Group and Company for the years ended 31 December 2006 and 31 December 2007, except for the presentation requirements following the adoption of HKFRS 7, Financial instruments: Disclosures and the amendment to Hong Kong Accounting Standards ("HKAS") 1, Presentation of financial statements: Capital disclosures.

(a) HKFRS 7, Financial instruments: Disclosures

As a result of the adoption of HKFRS 7, the financial statements include expanded disclosure about the significance of the Group's financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, Financial instruments: Disclosure and presentation. These disclosures are provided throughout these financial statements, in particular in Note 23.

(b) HKAS 1, Presentation of financial statements: Capital disclosure

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group's and the Company's objectives, policies and processes for managing capital. These new disclosures are set out in Note 25(f).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognised in the financial instruments.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 32).

30. POST BALANCE SHEET EVENTS

(a) After the balance sheet date the Directors proposed a final dividend. Further details are disclosed in Note 7.

(b) On 5 February 2008, the Company announced that it proposed to issue 157,500,000 new ordinary shares of HK$0.50 each by way of a rights issue in the proportion of one rights share for every two existing ordinary shares then held by qualifying shareholders at a subscription price of HK$12.80 per rights share ("Rights Issue"). In connection with the Rights Issue, the Company has increased its authorised share capital from 380,000,000 shares to 1,200,000,000 shares by the creation of an additional 820,000,000 shares on 3 March 2008.

31. COMPARATIVE FIGURES

As a result of adoption HKFRS 7, Financial instruments: Disclosures, and the amendments to HKAS 1, Presentation of financial statements: Capital disclosures, certain comparative figures have been adjusted to conform with changes in disclosures in the current year and to show separately comparative amounts in respect of items disclosed for the first time in 2007. Further details of these developments are disclosed in Note 29.

32. FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations that may impact the Group's financial statements. These new statements have not been adopted since they are only effective after 31 December 2007.

	Effective for accounting periods beginning on or after
HK(IFRIC) 11 – HKFRS 2 – Group and treasury share transactions	1 March 2007
HK(IFRIC) 12 – Service concession arrangements	1 January 2008
HK(IFRIC) 13 – Customer loyalty programmes	1 July 2008
HK(IFRIC) Int 14 – HKAS19 – Defined benefit asset, minimum funding requirements and their interaction	1 January 2008
HKAS 1 (Revised) – Presentation of financial statements	1 January 2009
HKAS 23 – Borrowing costs	1 January 2009
HKFRS 8 – Operating segments	1 January 2009

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

33. PARENT AND ULTIMATE HOLDING COMPANY

The parent and ultimate holding company is Wheelock and Company Limited, a company incorporated and listed in Hong Kong.

34. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 11 March 2008.

(A) STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

(B) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2007 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and jointly controlled entities.

The measurement basis used in the preparation of the financial statements is the historical cost basis except where stated otherwise in the accounting policies set out below.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed in (V).

(C) BASIS OF CONSOLIDATION

(i) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated profit and loss account as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses.

(C) BASIS OF CONSOLIDATION *(Continued)*

(ii) Associates and jointly controlled entities

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets. The consolidated profit and loss account includes the Group's share of the post-acquisition, post-tax results of the associates and jointly controlled entities for the year, including any impairment of goodwill relating to the investment in associates and jointly controlled entities recognised for the year.

When the Group's share of losses exceeds its interest in the associate or jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate and jointly controlled entity. For this purpose, the Group's interest in the associate or jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that, in substance, form part of the Group's net investment in the associate or jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated profit and loss account.

(C) BASIS OF CONSOLIDATION *(Continued)*

(iii) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate or jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment. In respect of associate or jointly controlled entity, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

Any excess of the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or jointly controlled entity is recognised immediately in the consolidated profit and loss account.

On disposal of a cash generating unit or an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(D) FIXED ASSETS

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated profit and loss account. Rental income from investment properties is accounted for as described in Note (O)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease, and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in Note (G).

(D) FIXED ASSETS *(Continued)*

(ii) Hotel property

Hotel property is stated at cost less accumulated depreciation and impairment losses.

(iii) Other fixed assets

Other fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

Subsequent expenditure relating to a fixed asset that has already been recognised is added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Group. All other subsequent expenditure is recognised as an expense in the period in which it is incurred.

Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated profit and loss account on the date of retirement or disposal.

(E) DEPRECIATION OF FIXED ASSETS

(i) Investment properties

No depreciation is provided on investment properties.

(ii) Hotel property

Depreciation is provided on the cost of the leasehold land of hotel property over the unexpired period of the lease. Costs of buildings thereon are depreciated on a straight line basis over their estimated useful lives of 40 years.

(iii) Other fixed assets

Other assets comprising plant, machinery, furniture, fixtures and equipment are depreciated at annual rates of 10% to 20% on a straight line basis on cost.

(F) IMPAIRMENT OF ASSETS

(i) Impairment of financial assets

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale investments are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

  Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables whose recovery is considered doubtful but not remote. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit and loss.

– For available-for-sale investments, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in the consolidated profit and loss account. The amount of the cumulative loss that is recognised in the consolidated profit and loss account is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the consolidated profit and loss account.

  Impairment losses recognised in the consolidated profit and loss account in respect of available-for-sale equity investments are not reversed through the profit and loss account. Any subsequent increase in the fair value of such assets is recognised directly in the investments revaluation reserve in equity.

(F) IMPAIRMENT OF ASSETS *(Continued)*

(ii) The carrying amounts of non-current assets, other than properties carried at revalued amounts and deferred tax assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated. An impairment loss is recognised whenever the carrying amount exceeds the recoverable amount. Impairment losses are recognised as an expense in the consolidated profit and loss account. The recoverable amount of an asset is the greater of its net selling price and value in use. In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed. A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated profit and loss account in the year in which the reversals are recognised.

(G) LEASED ASSETS

(i) Classification of leased assets

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis and, if classified as an investment property, is accounted for as if held under a finance lease; and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

(G) LEASED ASSETS *(Continued)*

(ii) Assets held for use in operating leases

Where the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature. Revenue arising from operating leases is recognised in accordance with the Group's revenue recognition policies, as set out in Note (O)(ii).

(iii) Operating lease charges

(a) Where the Group has the use of assets under operating leases, payments made under the leases are charged to the consolidated profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in the consolidated profit and loss account as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated profit and loss account in the accounting period in which they are incurred.

(b) The cost of acquiring land held under an operating lease is amortised on a straight line basis over the period of the lease term except where the property is classified as an investment property.

(H) AVAILABLE-FOR-SALE INVESTMENTS

Investments in securities classified as available-for-sale investments are initially recognised at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in the investments revaluation reserve in equity, except for impairment losses and, in the case of monetary items such as debt securities, foreign exchange gains and losses which are recognised directly in the consolidated profit and loss account. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the consolidated profit and loss account. When these investments are derecognised, the cumulative gain or loss previously recognised directly in the investments revaluation reserve in equity is recognised in the consolidated profit and loss account.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(I) INVENTORIES

(i) Property held for sale

Property held for sale is stated at lower of cost and net realisable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalised, attributable to unsold units. Net realisable value is estimated by the management, based on prevailing market conditions.

The amount of any write down of or provision for property held for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated profit and loss account in the period in which the reversal occurs.

(ii) Property under development

Property under development is classified as current assets and stated at lower of cost and net realisable value. Cost includes identified costs including the acquisition cost of land, aggregate cost of development, borrowing costs capitalised, material and supplies, wages, other direct expenses and an appropriate proportion of overheads. Net realisable value is estimated by the management, taking into account the expected price ultimately be achieved, based on prevailing market conditions and the anticipated costs to completion.

The amount of any write down of or provision for properties under development for sale is recognised as an expense in the period the write down or loss occurs. The amount of any reversal of any write down or provision arising from an increase in net realisable value is recognised in the consolidated profit and loss account in the period in which the reversal occurs.

(iii) Hotel consumables

Inventories comprise hotel consumables and are stated at the lower of cost, calculated on weighted average basis, and net realisable value. Net realisable value represents the estimated selling price less direct selling costs.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(J) DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are recognised initially at fair value. Subsequent to initial recognition, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in the consolidated profit and loss account. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

(K) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts, except where the receivables are interest-free or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade receivables whose recovery is considered doubtful but not remote. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the consolidated profit and loss account.

(L) TRADE AND OTHER PAYABLES

Trade and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(M) CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(N) FOREIGN CURRENCIES

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary foreign currency balances and the balance sheets of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. The profit and loss account of overseas subsidiaries are translated into Hong Kong dollars at the monthly weighted average exchange rates for the year. Differences arising from the translation of the financial statements of overseas subsidiaries are dealt with in capital reserves and those arising from the financing of properties under development by foreign currency borrowings are capitalised as part of the development costs. All other exchange differences are dealt with in the consolidated profit and loss account.

(O) RECOGNITION OF REVENUE

(i) Income from hotel operations is recognised at the time when the services are rendered.

(ii) Rental income under operating leases is recognised in the consolidated profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives granted are recognised in the consolidated profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iii) Interest income from bank deposits is recognised as it accrues using the effective interest method.

(iv) Interest on a loan advanced to an associate or a jointly controlled entity involved in a property development project is deferred and is recognised when the associate or jointly controlled entity starts to generate profit from the property development project based on the percentage of total area sold to the total area available for sale.

(v) Dividend income from investments is recognised when the shareholder's right to receive the payment is established.

(vi) Income arising from the sale of properties held for sale is recognised upon the execution of the formal sale and purchase agreement or the issue of an occupation permit by the relevant government authorities, whichever is the later. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet under other payables.

(P) BORROWING COSTS

Borrowing costs are expensed in the consolidated profit and loss account in the year in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

(Q) INCOME TAX

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

(ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

(Q) INCOME TAX *(Continued)*

(iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(R) EMPLOYEE BENEFITS

(i) Defined contribution pension scheme

Contributions to the scheme are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. The assets of the scheme are held separately from those of the Group in an independently administered fund.

(ii) Defined benefit pension schemes

The Group's net obligation in respect of the defined benefit pension schemes is calculated separately for each scheme by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value, and the fair value of any scheme assets is deducted. The discount rate is the yield at the balance sheet date on high quality corporate bonds that have maturity dates approximating the terms of the Group's obligations. The calculation is performed using the projected unit credit method.

When the benefits of a scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the consolidated profit and loss account on a straight line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the consolidated profit and loss account.

(R) EMPLOYEE BENEFITS *(Continued)*

(ii) Defined benefit pension schemes *(Continued)*

Any actuarial gains and losses are recognised directly in equity immediately.

Where the calculation of the Group's net obligation results in a negative amount, the asset recognised is limited to the present value of any future refunds from the scheme or reductions in future contributions to the scheme less past service cost.

(iii) Mandatory Provident Fund

Contributions to the Mandatory Provident Fund as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance are charged to the consolidated profit and loss account when incurred.

(iv) Salaries, annual bonuses, paid annual leave, leave passage and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(S) SEGMENT REPORTING

A segment is a distinguishable component of the Group that is engaged either in providing services (business segment), or in providing services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group enterprises within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

Unallocated items mainly comprise corporate assets, borrowings and corporate and financing expenses.

(T) PROVISIONS AND CONTINGENT LIABILITIES

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e., the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note (ii) below if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Other provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(U) RELATED PARTIES

For the purposes of these financial statements, a party is considered to be related to the Group if:

(i) the party is the ability, directly or indirectly through one or more intermediates, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;

(ii) the Group and the party are subject to common control;

(iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

(iv) the party is a member of key management personnel of the Group or the Company's parent or a close family member of such an individual or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

(V) ACCOUNTING ESTIMATES AND JUDGEMENTS

(i) Key sources of estimation uncertainty

Note 15 contains information about the assumptions and their risk factors relating to defined benefit pension scheme obligations. Other key sources of estimation uncertainty are as follows:

– *Valuation of investment properties*

Investment properties are included in the balance sheet at their open market value, which is assessed annually by external qualified valuers, after taking into consideration the net income allowing for reversionary potential.

The assumptions adopted in the property valuations are based on the market conditions existing at the balance sheet date, with reference to sales evidence as available on the market and the appropriate capitalisation rate.

(V) ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(i) Key sources of estimation uncertainty *(Continued)*

– *Assessment of the useful economic lives for depreciation of fixed assets*

In assessing the estimated useful lives of fixed assets, management takes into account factors such as the expected usage of the asset by the Company based on past experience, the expected physical wear and tear (which depends on operational factors), technical obsolescence arising from changes or improvements in production or from a change in the market demand for the product or service output of the asset. The estimation of the useful life is a matter of judgment based on the experience of the Group.

Management reviews the useful lives of fixed assets periodically. If expectations are significantly different from previous estimates of useful economic lives, the useful lives and, therefore, the depreciation rate for the future periods will be adjusted accordingly.

– *Assessment of impairment of non-current assets*

Management assesses the recoverable amount of each asset based on its value in use (using relevant rates) or on its selling price (by reference to market prices), depending upon the anticipated future plans for the asset. Estimating the value in use of an asset involves estimating the future cash inflows and outflows to be derived from continuing use of the asset and from its ultimate disposal and applying the appropriate discount rate to these future cash flows. Cash flow projections for the remaining useful life of the asset and the most recent financial budgets/forecasts are approved by management.

– *Assessment of provision for properties held under development and for sale*

Management determines the net realisable value of properties held for sale by using (1) prevailing market data such as most recent sale transactions and market survey reports available from independent property valuers; and (2) internal estimates of costs based on quotes by suppliers.

Management's assessment of net realisable value of properties under development for sale requires the application of a risk-adjusted discount rate to estimate future discounted cash flows to be derived from the properties under development for sale. These estimates require judgement as to the anticipated sale prices by reference to recent sale transactions in nearby locations, rates of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs and the expected costs to completion of properties, the legal and regulatory framework and general market conditions.

(ii) Critical accounting judgments in applying the Group's accounting policies

Management considers that there are no critical accounting judgements in applying the Group's accounting policies.

As at 31 December 2007

Subsidiaries	Place of incorporation/ operation	Issued share capital (all being ordinary shares and fully paid up except otherwise stated)/ registered and paid up capital	Effective equity interest to the Company	Principal activities
#Harbour Centre (Hong Kong) Limited	British Virgin Islands	500 US$1 shares	100%	Holding company
#Ocean New Investments Limited	British Virgin Islands	500 US$1 shares	100%	Holding company
Algebra Assets Limited	British Virgin Islands	500 US$1 shares	100%	Investment
Insight Ever International Limited	British Virgin Islands	500 US$1 shares	100%	Investment
Mandelson Investments Limited	British Virgin Islands	500 US$1 shares	100%	Investment
Manniworth Company Limited	Hong Kong	10,000 HK$1 shares	100%	Property investment
The Hongkong Hotel Limited	Hong Kong	100,000 HK$1 shares	100%	Hotel and property
Shelford Green Enterprises Limited	British Virgin Islands	500 US$1 shares	100%	Investment
Smooth Gain Investments Limited	Hong Kong	1 HK$1 shares	100%	Finance
#Superb Mind International Limited	British Virgin Islands	500 US$1 shares	100%	Holding company
Free Boost Investments Limited	Hong Kong	1 HK$1 shares	100%	Holding company
蘇州高龍房產發展有限公司	The People's Republic of China	RMB925,268,493	80%	Property development
Joinhill Investments Limited	Hong Kong	1 HK$1 shares	100%	Holding company
南京聚龍房地產開發有限公司	The People's Republic of China	US$84,000,000	100%	Holding company

As at 31 December 2007

Subsidiaries	Place of incorporation/ operation	Issued share capital (all being ordinary shares and fully paid up except otherwise stated)/ registered and paid up capital	Effective equity interest to the Company	Principal activities
Silver Zone International Limited	Hong Kong	1 HK$1 shares	100%	Holding company
華萃投資管理(杭州)有限公司	The People's Republic of China	US$12,200,000	100%	Investment
Cheer Sky Investment Limited	Hong Kong	100,000 HK$1 shares	100%	Holding company
九龍倉(常州)置業有限公司	The People's Republic of China	US$99,000,000 (paid in February 2008)	100%	Property development

Associate	Place of incorporation/ operation	Class of shares	Effective equity interest to the Company	Principal activities
Kowloon Properties Company Limited	Hong Kong	Ordinary	20%	Property development

Jointly controlled entities	Place of incorporation/ operation	Class of shares	Effective equity interest to the Company	Principal activities
Speedy Champ Investments Limited	Hong Kong	Ordinary	55%	Holding company
重慶豐盈房地產開發有限公司	The People's Republic of China	Ordinary	55%	Property development
杭州綠城海企房地產開發有限公司	The People's Republic of China	Ordinary	40%	Property development

All the subsidiaries listed above were, as at 31 December 2007, indirectly held by the Company except where marked #, which are held directly by the Company.

As at 31 December 2007

Address	Lot Number	Year of Completion/ Expected Completion	Lease Expiry	Site Area (Sq.Ft.)	Approximate Gross Floor Areas (Sq.Ft.)				Stage of Completion	Effective Equity Interest to the Company
					Office	Retail	Residential	Hotel (No. of Rooms)		
Investment properties										
The Marco Polo Hongkong Hotel, Harbour City, Tsimshatsui (Commercial Section)	KML 91 S.A. & KML 10 S.B.	1969	2863	(a)	34,000	172,000	–	–	N/A	100%
Various units of Star House, 3 Salisbury Road, Kowloon	KML 10 S.A.	1966	2863	N/A	–	50,780	–	–	N/A	100%
Hotel property										
The Marco Polo Hongkong Hotel, Harbour City, Tsimshatsui	KML 91 S.A. & KML 10 S.B.	1969	2863	58,814	–	–	–	553,000 (664 rooms)	N/A	100%
Properties under development										
Changzhou Dinosaur Park Project China Dinosaur Park, Xinbei District, Changzhou, Jiangsu Province	N/A	2012	2047/77	4,427,804	–	–	7,838,000	843,000 (405 rooms)	Planning stage	100%
Suzhou Industrial Park Project										
Xinghu Jie,	N/A	2013	2047/77	229,069	1,302,000	30,000	1,627,000	821,000 (600 rooms)	Planning stage	80%
Xiandai Da Dao Suzhou Industrial Park, Suzhou	N/A	2013	2077	5,425,454	–	–	9,765,000	–	Planning stage	80%
Properties under development undertaken by jointly controlled entities										
Chongqing Jiangbei City Project Zone B of Jiangbei City, Jiangbei District, Chongqing	N/A	2012	2057	1,002,408	–	–	2,524,000*	–	Planning stage	55%
Hangzhou CBD Project West of Wang Jiang Dong Road, north of Zhi Jiang Road, east side is bounded by Planning Road, south of Fu Chun Road, Qianjiang New City Shangcheng District, Hangzhou, Zhejiang Province	N/A	2012	2047/77	906,921	190,000#	26,000#	917,000#	147,000# (160 rooms)#	Planning stage	40%

(a) Part of The Marco Polo Hongkong Hotel building

* *being 55% attributable to the Group*

\# *being 40% attributable to the Group*

Five-Year Financial Summary

	2007 HK$ Million	2006 HK$ Million	2005 HK$ Million Restated	2004 HK$ Million Restated	2003 HK$ Million
Consolidated profit and loss account					
Turnover	**671.1**	920.9	526.8	445.0	308.7
Group profit attributable to shareholders	**638.4**	422.7	517.1	250.7	169.4
Prior year adjustment *(note 1)*	**–**	–	–	121.0	–
Restated amount	**638.4**	422.7	517.1	371.7	169.4
Consolidated balance sheet					
Fixed assets *(note 1)*	**1,947.1**	1,741.6	1,637.3	1,092.1	2,541.8
Interest in an associate	**0.8**	0.8	14.6	42.4	387.9
Interest in jointly controlled entities	**1,964.6**	–	–	–	–
Available-for-sale investments	**2,516.6**	1,490.0	922.8	820.4	550.0
Long term receivables	**1.7**	3.1	–	–	–
Employee benefits *(note 2)*	**8.5**	6.7	4.4	8.7	8.6
Current assets	**1,998.7**	1,926.6	1,868.9	1,792.3	1,313.0
Current liabilities	**(1,652.9)**	(163.1)	(143.1)	(86.6)	(76.5)
Long term bank loan	**(580.0)**	–	–	–	–
Deferred income	**–**	(0.8)	(1.6)	(5.2)	(25.3)
Deferred taxation *(note 1)*	**(260.0)**	(226.9)	(207.0)	(158.5)	(12.9)
	5,945.1	4,778.0	4,096.3	3,505.6	4,686.6
Representing:					
Share capital	**157.5**	157.5	157.5	157.5	157.5
Reserves *(notes 1 & 2)*	**5,590.6**	4,620.5	3,938.8	3,348.1	4,529.1
Shareholders' equity	**5,748.1**	4,778.0	4,096.3	3,505.6	4,686.6
Minority interests	**197.0**	–	–	–	–
	5,945.1	4,778.0	4,096.3	3,505.6	4,686.6

Notes:

(1) The figures for 2004 have been restated pursuant to the adoption of HKAS 40, HKAS-INT 21 and HK-INT 2 as explained in note 8 to the 2005 financial statements.

(2) The figures for 2005 have been restated pursuant to the adoption of HKAS 19 (amendment) as explained in note 8 to the financial statements. Figures for 2004 and prior years have not been restated as it would involve delay and expenses out of proportion to the benefit to shareholders.