



Harbour Centre Development Limited

Annual Report 2015

Stock Code: 51

www.harbourcentre.com.hk



Murray Building, an iconic building in Central, will become an urban chic hotel

Corporate Profile

Harbour Centre Development Limited (stock code: 51) is a listed subsidiary of The Wharf (Holdings) Limited (stock code: 4), with property and hotel development, and investment in Hong Kong and the Mainland as its primary business.

Flagship assets in Hong Kong include the Marco Polo Hongkong Hotel and Murray Building. The former has long been a core operating asset while the latter is being converted into an urban chic hotel targeted for opening in late 2017.

In the Mainland, the Group also owns 80% of Suzhou International Finance Square (an investment property under development which will comprise Grade A offices, luxury apartments and a premium boutique hotel).

The Group has an attributable land bank of 1.0 million square metres in Changzhou, Chongqing, Shanghai and Suzhou.

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Corporate Information

BOARD OF DIRECTORS

Chairman

Mr Stephen T H Ng

Non-executive Directors

Hon Frankie C M Yick, *JP*

Mr Kevin C Y Hui

Independent Non-executive Directors

Dr Joseph M K Chow, *OBE, JP*

Mr H M V de Lacy Staunton

Hon Andrew K Y Leung, *GBS, JP*

Mr Michael T P Sze

Mr Brian S K Tang

COMPANY SECRETARY

Mr Kevin C Y Hui, *FCCA, CPA*

AUDITORS

KPMG, Certified Public Accountants

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

REGISTRARS

Tricor Tengis Limited

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Hong Kong

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Chairman's Statement

Group core profit increased by 40% from 2014 to HK\$1,194 million (2014: HK\$851 million). Main contributor Development Properties (“DP”) recovered to the level of 2013 after a significant decline in 2014. However, performance of all other segments retreated, with combined contribution decreasing by 15%.

In addition, the Group's Investment Properties (“IP”) portfolio appreciated by HK\$37 million or 1%. Group profit increased by 14% to HK\$1,231 million (2014: HK\$1,082 million).

Net cash at year-end increased to HK\$1,647 million. Net asset value was HK\$22.84 per share, or HK\$28.68 per share if Marco Polo Hongkong Hotel and Marco Polo Changzhou are restated at market value.

In lieu of a final dividend, the Board has approved a second interim dividend of 56 HK cents per share. This would bring the total dividend for 2015 to 70 HK cents (2014: 60 HK cents) per share.

THE YEAR IN REVIEW

In Hong Kong, the unfavourable macro environment inevitably weighed on the retail and hospitality sectors throughout the year. The strong local currency drove both locals and visitors to South Korea, Japan, Europe and other overseas destinations. Perceptions of an unwelcoming or even unsafe Hong Kong also turned some visitors away. Total arrivals in 2015 decreased by 2.5% to 59.3 million and total retail sales decreased by 3.7% to HK\$475.2 billion. That put severe pressure on the entire local economy and the Group's IP and Hotel assets, principally Marco Polo Hongkong Hotel.

In the Mainland, uncertainty clouded the macro economy but easing measures stimulated buying in the property market. The Group's attributable DP sales of RMB5.3 billion in 2015 were 41% higher than in 2014. Phased completion of the high-margin Suzhou Times City spurred a 174% increase in DP operating profit to HK\$1.0 billion. Initial completion of the Shanghai South Station project sparked a 145% increase in JV/associate contributions.

After opening into a weak market in 2014, Marco Polo Changzhou is still building its business by expanding its client base among corporate and individual travellers as well as locals.

For projects under development which have not yet started to earn revenue, conversion of the iconic Murray Building in Central, Hong Kong, into an urban chic hotel continues. It is targeted for opening in late 2017.

Suzhou International Finance Square, a 450-metre skyscraper comparable in height to the tallest building in Hong Kong and situated at the centre of the new CBD, is scheduled for completion by 2017. Comprising Grade A offices, luxury apartments and a premium boutique hotel with full scenery of Suzhou, its favourable location and premium quality will set it apart from the competition.

Chairman's Statement

OUTLOOK

Looking forward, the global political and economic situation remains a source of concern. Tension arising from tumbling oil prices, currency turmoil and interest rate hikes may continue in 2016. Mainland China, a crucial driver of global growth, is steering its economy onto a different growth path with transition to consumer-led expansion. The goal of doubling GDP and per capita income by 2020 over 2010 levels was reaffirmed in the Fifth Plenum of the Chinese Communist Party's 18th Central Committee held in November 2015. The new 5-year plan of the world's second largest economy focuses on sustaining moderately high economic growth. The accelerating urbanisation and the booming middle class, together with the newly-implemented two-child policy, will provide additional demand in the real estate and consumption market in future.

Hong Kong's hospitality industry may remain weak in the near term, adversely affected by the sluggish global economic condition and a slowdown of inbound tourism. While Hong Kong government is allocating additional funding and taking additional initiatives to resuscitate the flagging tourism industry, strong headwinds can be expected to continue in 2016.

In 2015, DP's share of Group core profit increased to 60%. Looking ahead, capital released from DP projects in hand will be re-invested in new Hotel and IP assets in Hong Kong and the Mainland, which will, however, take time to reach maturity.

On behalf of the Board, I wish to extend a heartfelt gratitude to all customers, staff and business partners for their support over the year. My special thanks to Mr Paul Y C Tsui and Mr Kevin K P Chan, who stepped down from the Board during the year, for their valuable contributions during their tenure of office.

Stephen T H Ng

Chairman

Hong Kong, 2 March 2016

Financial Highlights

	2015 HK\$ Million	2014 HK\$ Million	Change
Results			
Revenue	5,048	5,646	-11%
Operating profit	1,622	1,124	+44%
Core profit (Note a)	1,194	851	+40%
Profit attributable to equity shareholders	1,231	1,082	+14%
Total dividend for the year	496	425	+17%
Earnings per share			
Core profit (Note a)	HK\$1.68	HK\$1.20	+40%
Reported profit	HK\$1.74	HK\$1.53	+14%
Dividend per share			
First interim	HK\$0.14	HK\$0.12	+17%
Second interim	HK\$0.56	HK\$0.48	+17%
Total for the year	HK\$0.70	HK\$0.60	+17%
Financial Position			
Total assets	29,651	29,542	-
Total business assets (Note b)	20,707	22,704	-9%
Net cash	1,647	767	+115%
Shareholders' equity	16,185	16,205	-
Total equity	17,330	17,246	+1%
Number of issued shares (in million)	709	709	-
Net asset value per share	HK\$22.84	HK\$22.86	-
Net debt to total equity	N/A	N/A	N/A

Financial year	Profit to shareholders			Shareholders' equity		Earnings per share		Dividends per share HK\$
	Core profit HK\$ Million	Reported profit HK\$ Million	Total equity HK\$ Million	Total HK\$ Million	Per share HK\$	Core profit HK\$	Reported profit HK\$	
2006	345	423	4,778	4,778	15.17	1.09	1.34	0.29
2007	503	638	5,945	5,748	18.24	1.60	2.03	0.29
2008	133	171	7,763	7,067	14.96	0.28	0.36	0.20
2009	304	535	9,877	9,175	12.95	0.48	0.84	0.20
2010	226	1,015	11,440	10,674	15.06	0.32	1.43	0.20
2011	336	1,096	12,279	11,463	16.17	0.47	1.55	0.24
2012	1,937	3,058	15,563	14,591	20.59	2.73	4.31	0.96
2013	1,464	1,276	16,447	15,381	21.70	2.07	1.80	0.78
2014	851	1,082	17,246	16,205	22.86	1.20	1.53	0.60
2015	1,194	1,231	17,330	16,185	22.84	1.68	1.74	0.70

Notes:

- Core profit excludes investment property revaluation surplus.
- Business assets exclude unallocated corporate assets mainly comprising available-for-sale investments, deferred tax assets, derivative financial assets and bank deposits and cash.
- Ten-Year Financial Summary is detailed on page 96.

Business and Financial Review

BUSINESS REVIEW

Phased completion of a high-margin Development Properties (“DP”) project in Suzhou lifted Group core profit by 40% to HK\$1,194 million. DP rebounded to the level of 2013 after a significant decline in 2014. However, contribution across all other segments retreated and collectively decreased by 15% as the relevant markets came under severe pressure.

Hong Kong Portfolio

Investment Properties

The segment reported a 5% decrease in revenue and a 7% decrease in operating profit. Star House re-opened after revamp, including the opening of a 46,000-square-foot Eslite Spectrum. This portfolio, independently revalued as at year-end, appreciated by 1% and reported a net revaluation surplus of HK\$37 million.

Hotel

The performance of Marco Polo Hongkong Hotel (“MP Hong Kong”) was overshadowed by a noticeable decrease in tourist arrivals to Hong Kong. Against the backdrop of weakened room demand, average occupancy declined to 82%, and average room rate dropped by 9%. Revenue decreased by 12% and operating profit by 13%.

Conversion of Murray Building into an urban chic hotel is progressing to plan. Targeted for opening in late 2017, the hotel will overlook the heart of Central.

China Portfolio

Development Properties

DP contribution was substantially boosted by the phased completion of Suzhou Times City, with a 10% decrease in revenue but a 174% increase in operating profit. Initial completion of Shanghai South Station project gave rise to a 145% increase in JV/associate contributions. China DP’s share of Group core profit increased to 60% (2014: 34%).

As at 31 December 2015, the Group had an attributable land bank of 1.0 million square metres at a book value of HK\$10.0 billion including cumulative development cost of HK\$5.4 billion.

Favourable market sentiment spurred a 41% increase in the Group’s attributable interest in contracted sales (including JV/associate projects) to RMB5.3 billion. 2,224 residences and retail units (total GFA: 316,000 square metres) across five projects were sold/pre-sold. The net order book as at year-end was RMB5.1 billion for 2,775 residences and retail units (total GFA: 352,000 square metres).

Additional phases of 80%-owned Suzhou Times City (total GFA: 883,000 square metres) were completed in 2015. Full completion is targeted for 2017.

27%-owned Shanghai South Station project (total GFA: 494,000 square metres) in Xuhui District, led by China Vanke Company Limited, is located next to Shanghai South Railway Station and is well connected to the existing Metro Line 1 & 3 and future Line 15 stations. Pre-sale of initial phases commenced in 2015. Full completion is scheduled for 2020.

Additional phases of 55%-owned The U World in Chongqing (total GFA: 423,000 square metres) were completed in 2015. Full completion is targeted for 2016.

Wholly-owned Changzhou Times Palace (total GFA: 635,000 square metres) is scheduled for full completion in 2016.

Investment Properties

80%-owned Suzhou International Finance Square (“IFS”) is a 450-metre tall commercial landmark (comparable to the tallest building in Hong Kong) under development. It is well located in the new CBD overlooking Jinji Lake, and is adjacent to Xinghu Street MTR station (Line 1). The development (total GFA: 278,000 square metres) will comprise Grade A offices, luxury apartments and a premium boutique hotel. Full completion is targeted for 2017. Its superb location and premium quality will enable it to stand out from the competition.

Hotel

Marco Polo Changzhou (“MP Changzhou”) is operating in a challenging market. Performance has not yet stabilised and continued to affect profitability.

In Suzhou, construction of a 133-room premium sky hotel at Suzhou IFS with full scenery of the city is underway. First revenue contribution is poised to begin in or beyond 2018.

FINANCIAL REVIEW

(I) Review of 2015 Final Results

Group core profit increased year-on-year by 40% to HK\$1,194 million (2014: HK\$851 million), mainly benefiting from recovery in Mainland Development Properties, which accounted for 60% of Group core profit, on more phased completion for Suzhou Times City and Shanghai South Station projects.

Revenue and Operating Profit

Group revenue decreased by 11% to HK\$5,048 million (2014: HK\$5,646 million) yet operating profit rose by 44% to HK\$1,622 million (2014: HK\$1,124 million).

DP revenue decreased by 10% to HK\$3,930 million (2014: HK\$4,361 million) with revenue recognition mainly from Suzhou Times City and Changzhou Times Palace. Operating profit improved by 174% to HK\$1,041 million (2014: HK\$380 million) due to a better overall operating margin of 26% (2014: 9%). Coupled with higher contribution from joint venture and associates, DP core profit increased by 149% to HK\$719 million (2014: HK\$289 million).

Investment Properties (“IP”) revenue and operating profit declined by 5% to HK\$344 million (2014: HK\$363 million) and 7% to HK\$309 million (2014: HK\$334 million), respectively. A drop in turnover rent was reported for the retail areas in MP Hong Kong and rental from Star House was affected by the transition to a new anchor tenant Eslite Spectrum.

Hotel revenue and operating profit fell by 7% to HK\$628 million (2014: HK\$674 million) and 21% to HK\$138 million (2014: HK\$175 million), respectively. Decline in both room rate and occupancy for MP Hong Kong and pre-stabilisation operating loss from MP Changzhou were reported.

Operating profit from Investment and Others segment, consisting of interest and dividend from the Group’s surplus cash and investments, decreased by 41% to HK\$146 million (2014: HK\$248 million), primarily due to a drop in interest income.

Contracted DP Sales

Inclusive of joint venture and associates on an attributable basis, the Group contracted property sales for RMB5,264 million (2014: RMB3,734 million). The net order book increased to RMB5,056 million (2014: RMB4,064 million) that is available for recognition in stages on completion of various DP projects.

Business and Financial Review

Increase in Fair Value of Investment Properties

The Group's completed IP were stated at fair value based on an independent valuation as at 31 December 2015, which resulted in a revaluation surplus of HK\$37 million (2014: HK\$231 million). IP under development were carried at cost and would not be carried at fair value until the earlier of their fair values first becoming reliably measurable or the dates of completion.

Other Net Income

Increase in other net income by HK\$26 million to HK\$79 million was mainly attributable to profit from sale of available-for-sale investments.

Finance Costs

Net finance costs amounted to HK\$59 million (2014: HK\$35 million) after interest capitalisation of HK\$32 million (2014: HK\$126 million) for the Group's projects.

Share of Results after Tax of Joint Venture and Associates

Joint venture profit from The U World in Chongqing slightly decreased by 2% to HK\$95 million (2014: HK\$97 million).

Associate profit was contributed from Shanghai South Station project, which recognised an initial attributable profit of HK\$133 million (2014: loss of HK\$4 million).

Income Tax

Taxation charge for the year increased by 41% to HK\$502 million (2014: HK\$355 million) due to increase in taxable profits.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the year amounted to HK\$1,231 million (2014: HK\$1,082 million), representing an increase of 14%.

Earnings per share ("EPS") was reported at HK\$1.74 (2014: HK\$1.53) based on 708.8 million issued shares. Excluding IP revaluation surplus, EPS was HK\$1.68 (2014: HK\$1.20).

(II) Liquidity, Financial Resources and Commitments

Shareholders' and Total Equity

As at 31 December 2015, shareholders' equity stood at HK\$16,185 million (2014: HK\$16,205 million), equivalent to HK\$22.84 per share (2014: HK\$22.86 per share), which has been adversely impacted by attributable investment revaluation deficit of HK\$255 million and exchange deficit of HK\$557 million on translation of Mainland net assets resulting from Renminbi ("RMB") depreciation. Including the non-controlling interests, the Group's total equity stood at HK\$17,330 million (2014: HK\$17,246 million).

MP Hong Kong and MP Changzhou are stated at cost less accumulated depreciation in accordance with prevailing Hong Kong Financial Reporting Standards. Restating the hotel properties based on independent valuation as at 31 December 2015 would give rise to an additional revaluation surplus totalling HK\$4,139 million and increase the Group's shareholders' equity as at 31 December 2015 to HK\$20,324 million, equivalent to HK\$28.68 per share.

Assets

Group total assets rose slightly to HK\$29,651 million (2014: HK\$29,542 million). Total business assets, excluding bank deposits and cash, available-for-sale investments, deferred tax assets and other derivative financial assets, decreased by 9% to HK\$20,707 million (2014: HK\$22,704 million) mainly due to reduction in DP for sale.

IP as at 31 December 2015 increased by 9% to HK\$7,876 million (2014: HK\$7,253 million), representing 38% of the Group's total business assets. Hong Kong IP amounted to HK\$5,414 million (2014: HK\$5,377 million), comprising of MP Hong Kong's podium and Star House units valued at HK\$4,830 million and HK\$584 million, respectively. Mainland IP under development, mainly for Suzhou IFS, was stated at book cost of HK\$2,462 million (2014: HK\$1,876 million).

Mainland DP for sale decreased by 46% to HK\$2,699 million (2014: HK\$4,979 million). In addition, DP investments undertaken through associates and joint ventures amounted to HK\$3,647 million (2014: HK\$4,186 million).

Other major business assets mainly included hotel properties at MP Hong Kong, Murray Building, MP Changzhou and other fixed assets with book cost totalling HK\$5,677 million.

Geographically, the Group's business assets in the Mainland decreased by 19% to HK\$10,002 million (2014: HK\$12,350 million), representing 48% (2014: 54%) of the Group's total business assets.

Net Cash and Gearing

Group net cash as at 31 December 2015 amounted to HK\$1,647 million, consisting of HK\$6,447 million in cash and HK\$4,800 million in bank borrowings, compared to HK\$767 million as at 31 December 2014.

Finance and Availability of Facilities and Funds

As at 31 December 2015, the Group's available loan facilities amounted to HK\$5,900 million, of which HK\$4,800 million were utilised. HK\$400 million is repayable within one year while the balance is due between two and five years.

The Group's debts were entirely denominated in Hong Kong dollar ("HKD") and in floating rate. Further borrowings will be sourced to finance the Group's property and hotel development projects.

The use of derivative financial instruments is strictly controlled. The majority of the derivative financial instruments entered into by the Group are primarily used for hedging of the Group's interest rate and currency exposures.

The Group continued to maintain a reasonable level of surplus cash denominated principally in HKD and RMB to facilitate business and investment activities. As at 31 December 2015, the Group also maintained a portfolio of available-for-sale investments principally consisting of blue chip listed securities, with an aggregate market value of HK\$2,450 million (2014: HK\$1,550 million), which is available for liquidation to meet needs if they arise. The performance of the portfolio was largely in line with the general market.

Net Cash Flows for Operating and Investing Activities

For the year under review, the Group generated a net cash inflow from operating activities of HK\$3,056 million (2014: HK\$2,553 million), mainly attributable to pre-sales proceeds net of construction cost payment for the Mainland development projects. For investing activities, the Group recorded a net cash outflow of HK\$1,451 million (2014: HK\$879 million), primarily for Murray Building and Suzhou IFS projects.

Commitments to Capital and Development Expenditure

As at 31 December 2015, major capital and development expenditure in the forthcoming years totalled HK\$9.8 billion, of which HK\$5.0 billion was committed, including HK\$2.0 billion for Murray Building and HK\$3.0 billion for Mainland projects. Uncommitted expenditure of HK\$4.8 billion is mainly for the existing Mainland DP to be incurred in stages in the forthcoming years.

The above commitments and planned expenditures will be funded by internal financial resources, including cash on hand and future property sales proceeds, as well as bank loans. Other available resources include available-for-sale investments that can be liquidated when in need.

Business and Financial Review

(III) Human Resources

The Group had approximately 900 employees as at 31 December 2015. Employees are remunerated according to their job responsibilities and the market pay trend with a discretionary annual performance bonus as variable pay for rewarding individual performance and contributions to the Group's achievement and results.

BUSINESS MODEL

Harbour Centre Development Limited is a listed subsidiary of The Wharf (Holdings) Limited ("Wharf"), with property and hotel development and investment in Hong Kong and the Mainland as its primary business.

2015 contribution from the Mainland reached 81% and 67% of Group revenue and operating profit respectively.

Attributable development land bank in the Mainland totalled 1.0 million square metres at the end of 2015, which comprised five projects in the prime areas of Changzhou, Chongqing, Shanghai and Suzhou.

New investment properties under development include Suzhou IFS. Targeted for full completion in 2017-18, it comprises Grade A offices, luxury apartments and a premium boutique hotel.

Flagship assets in Hong Kong include MP Hongkong Hotel and Murray Building. The former, strategically located in Harbour City on Canton Road, has long been a core operating asset. The latter, a prominent landmark building standing on a prime site in Central, is being converted into an urban chic hotel, with target opening in late 2017.

BUSINESS STRATEGY

The Group endeavours to continuously enhance its competitiveness and drive future growth through:

- (a) Leveraging Wharf's core competencies in development and marketing to operate a profitable development property business in the Mainland;
- (b) Owning and operating prime hotels and investment properties through continuous product and service enhancement to maximise income and value; and
- (c) Exercising prudent and disciplined financial management at all times.

Corporate Governance Report

(A) CORPORATE GOVERNANCE PRACTICES

During the financial year ended 31 December 2015, all the code provisions in the Corporate Governance Code (the “CG Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited were met by the Company, with one exception as regards Code Provision A.2.1 as explained under section (D) below.

(B) DIRECTORS’ SECURITIES TRANSACTIONS

During the financial year ended 31 December 2015, the Company adopted its own set of code of conduct regarding directors’ securities transactions (the “Company’s Code”) with terms thereof being no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors of the Company and all Directors have confirmed that they have complied with the required standard set out in the Model Code and/or the Company’s Code during the financial year.

(C) BOARD OF DIRECTORS

(I) Composition of the Board and Directors’ attendance records at Board meetings and Annual General Meeting

The Board has a balance of skills and experience and a balanced composition of executive and non-executive directors. The Board composition and individual attendance records of our Directors at Board meetings and Annual General Meeting during the financial year ended 31 December 2015 are set out below:

Directors	Number of Meeting(s) (Attended/Eligible to attend)	
	Board Meetings	Annual General Meeting
<i>Chairman</i>		
Stephen T H Ng	5/5	1/1
<i>Non-executive Directors</i>		
Paul Y C Tsui (<i>resigned effective from 1 August 2015</i>)	3/3	1/1
Kevin K P Chan (<i>retired on 12 May 2015</i>)	3/3	1/1
Frankie C M Yick	5/5	1/1
Kevin C Y Hui (<i>appointed on 1 August 2015</i>)	2/2	n/a
<i>Independent Non-executive Directors</i>		
Joseph M K Chow	5/5	1/1
H M V de Lacy Staunton	5/5	1/1
Andrew K Y Leung	5/5	1/1
Michael T P Sze	5/5	1/1
Brian S K Tang	5/5	1/1

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.

Corporate Governance Report

(II) Board Diversity

Under the Board Diversity Policy adopted by the Board, the Company recognises and embraces the benefits of having a diverse Board towards enhancement of overall performance. With a vision to achieving a sustainable and balanced development, the Company regards increasing diversity at the Board level as an essential element in achieving a diversity of perspectives and supporting the attainment of its strategic goals. Appointments of directors are made on merits while having due regard for the benefits of diversity of the Board.

At present, more than half of the directors on the Board are Independent Non-executive Directors (“INED(s)”). They represent diverse career experience in both international and local enterprises. They bring with them diverse professional backgrounds, spanning engineering, infrastructure, textile, financial and securities, banking, trustee services and entrepreneurship. They also hold or have held important public service positions in Hong Kong and China, covering business, industry and commerce, educations, regulatory and politics.

The board composition reflects various cultural and educational backgrounds, professional development, length of service, knowledge of the Company and a broad range of individual attributes, interests and values. The Board considers the current line-up has provided the Company with a good balance and diversity of skills and experience for the requirements of its business. The Board will continue to review its composition from time to time taking into consideration board diversity for the requirements and benefits of the Company’s business.

(III) Operation of the Board

The Company is headed by an effective Board which makes 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.

(IV) Directors' Continuous Professional Development

The Company has arranged for Directors to attend training sessions which place emphasis on the roles, functions and duties of a listed company director.

According to the records of training maintained by the Company Secretary, during the financial year under review, all the current Directors pursued continuous professional development and relevant details are set out below:

Directors	Type of trainings (See Remarks)
Stephen T H Ng	B
Joseph M K Chow	A, B
H M V de Lacy Staunton	A, B
Kevin C Y Hui	A, B
Andrew K Y Leung	B
Michael T P Sze	A, B
Brian S K Tang	A, B
Frankie C M Yick	A, B

Remarks:

A: attending seminars and/or conferences and/or forums

B: reading journals, updates, articles and/or materials, etc

(D) CHAIRMAN AND CHIEF EXECUTIVE

Mr Stephen T H Ng serves as the Chairman and also as the *de facto* chief executive of the Company. This is a deviation from Code Provision A.2.1 of the CG Code with respect to the roles of chairman and chief executive 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. 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 more than half of them being INEDs.

The Chairman is responsible for the Board, focuses on Group strategies and Board issues, ensures a cohesive working relationship between members of the Board and management, and also in his capacity as *de facto* chief executive, he directly has responsibilities in certain major business units of the Group.

(E) NON-EXECUTIVE DIRECTORS

All those existing Directors of the Company who do not hold any executive office of the Company (including INEDs) 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. The re-election of each of those INEDs who has served on the Board for more than nine years is subject to (i) a separate resolution to be approved by Shareholders at the relevant Annual General Meeting; and (ii) further information being given to Shareholders together with the notice of meeting regarding the reasons why the Board believes the relevant Director is still independent and should be re-elected.

Corporate Governance Report

(F) BOARD COMMITTEES

(I) Audit Committee

The Company has set up an Audit Committee with all its members appointed from the INEDs.

All Audit Committee members have sufficient experience in reviewing audited financial statements as aided by the auditors of the Group whenever required. In addition, Mr Michael T P Sze has the appropriate professional qualifications and/or experience in financial matters.

Three Audit Committee meetings were held during the financial year ended 31 December 2015. Attendance of the Audit Committee members is set out below:

Members	Attendance/Number of Meetings
Michael T P Sze (<i>Chairman</i>)	3/3
Joseph M K Chow	3/3
Brian S K Tang	3/3

- (i) A revised set of terms of reference of the Audit Committee (the “Revised Audit Committee Terms of Reference”) has been adopted by the Company during the year to get in line with the recent amendments to the CG Code. The Revised Audit Committee Terms of Reference is aligned with the provisions set out in the CG Code and 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 the Audit Committee:

(A) *Relationship with the Company’s external auditors*

- (a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of their resignation or dismissal;
- (b) to review and monitor the external auditors’ independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences; and
- (c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, “external auditor” includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

(B) *Review of financial information of the Company*

- (a) to monitor integrity of financial statements of the Company and the Company’s annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:
 - (i) any changes in accounting policies and practices;
 - (ii) major judgemental areas;
 - (iii) significant adjustments resulting from audit;
 - (iv) the going concern assumptions and any qualifications;
 - (v) compliance with accounting standards; and
 - (vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

- (b) regarding (B)(a) above:
 - (i) members of the Committee should liaise with the Board and Senior Management and the Committee must meet, at least twice a year, with the Company's external auditors; and
 - (ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, or for compliance function, or auditors (internal or external).

(C) *Oversight of the Company's financial reporting system, and risk management and internal control systems*

- (a) to review the Company's risk management and internal control systems covering all controls; including financial, operational and compliance controls, with the support of the Risk Management and Internal Control Committee;
- (b) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budgets of the Company's accounting, internal audit and financial reporting functions;
- (c) to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings and review the statements concerning risk management and internal control to be included in the annual report;
- (d) to ensure co-ordination between the internal and external auditors, to review and approve the annual internal audit plan, to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company for it to carry out an analysis and independent appraisal of the adequacy and effectiveness of the Company's financial reporting system and risk management and internal control systems, and to review and monitor the effectiveness of the internal audit function;
- (e) to review the Group's financial and accounting policies and practices;
- (f) to review the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;
- (g) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;
- (h) to report to the Board on the matters in the code provisions in the Listing Rules;
- (i) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;
- (j) to act as the key representative body for overseeing the Company's relations with the external auditors; and
- (k) to consider other topics, as defined by the Board.

Corporate Governance Report

- (D) *Oversight of the Company's corporate governance matters*
- (a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
 - (b) to review and monitor the training and continuous professional development of Directors and Senior Management;
 - (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
 - (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
 - (e) to consider other topics, as defined by the Board.
- (ii) The other work performed by the Audit Committee for the financial year ended 31 December 2015 is summarised below:
- (a) approval of the remuneration and the appointment 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)(B) 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 of 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.

(II) Remuneration Committee

The Company has set up a Remuneration Committee consisting of the Chairman of the Company and two INEDs.

One Remuneration Committee meeting was held during the financial year ended 31 December 2015. Attendance of the Remuneration Committee members is set out below:

Members	Attendance/Number of Meeting
Michael T P Sze (<i>Chairman</i>)	1/1
Stephen T H Ng	1/1
Brian S K Tang	1/1

- (i) The terms of reference of the Remuneration Committee are aligned with the provisions set out in the CG Code. Given below are the main duties of the Remuneration Committee:
- (a) to make recommendations to the Board on the Company's policy and structure for all Directors' and Senior Management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
 - (b) to review and approve the management's remuneration proposals by reference to the Board's corporate goals and objectives;
 - (c) either:
 - (i) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and Senior Management; or
 - (ii) to make recommendations to the Board on the remuneration packages of individual executive Directors and Senior Management.

This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;
 - (d) to make recommendations to the Board on the remuneration of non-executive Directors;
 - (e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;
 - (f) to review and approve compensation payable to executive Directors and Senior Management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;
 - (g) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;
 - (h) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and
 - (i) to advise Shareholders on how to vote with respect to any service contracts of Directors that require Shareholders' approval under the Listing Rules.
- (ii) The work performed by the Remuneration Committee, which has the delegated authority and responsibility, for the financial year ended 31 December 2015 is summarised below:
- (a) review of the Company's policy and structure for all remuneration of Directors and Senior Management;
 - (b) consideration and approval of the emoluments for all Directors and Senior Management; and
 - (c) review of the level of fees for Directors and Audit Committee members.

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 fee payable to each of the Directors of the Company, currently at the rate of HK\$50,000 per annum, and the fee payable to each of those Directors who are also members of the Audit Committee of the Company, currently at the rate of HK\$20,000 per annum, is by reference to the level of fees of similar nature normally paid by a listed company in Hong Kong to its directors.

Corporate Governance Report

(III) Nomination Committee

The Company has set up a Nomination Committee comprising 3 members, namely the Chairman of the Company Mr Stephen T H Ng (as the chairman of the Committee) and two INEDs, namely Mr Michael T P Sze and Mr Brian S K Tang.

The terms of reference of the Nomination Committee are aligned with the provisions set out in the CG Code. Given below are the main duties of the Nomination Committee:

- (a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- (b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- (c) to assess the independence of INEDs; and
- (d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the chief executive.

During the financial year ended 31 December 2015, decisions to nominate the appointment of a Director, namely Mr Kevin C Y Hui, was taken by way of circulated resolutions and the Nomination Committee had not conducted any meeting.

(IV) Corporate Governance Functions

While the Board is and remains to be principally responsible for the corporate governance functions of the Company, it has delegated the relevant duties to the Audit Committee to ensure the proper performance of corporate governance functions of the Company. In this connection, the terms of reference of the Audit Committee include various duties relating to corporate governance matters which are set out in paragraph "(D) Oversight of the Company's corporate governance matters" on page 16 under sub-section "(I) Audit Committee" of section "(F) Board Committees" above.

(G) AUDITORS' REMUNERATIONS

For the financial year ended 31 December 2015, the external auditors of the Company received approximately HK\$1,627,000 for audit services and HK\$25,000 for other services.

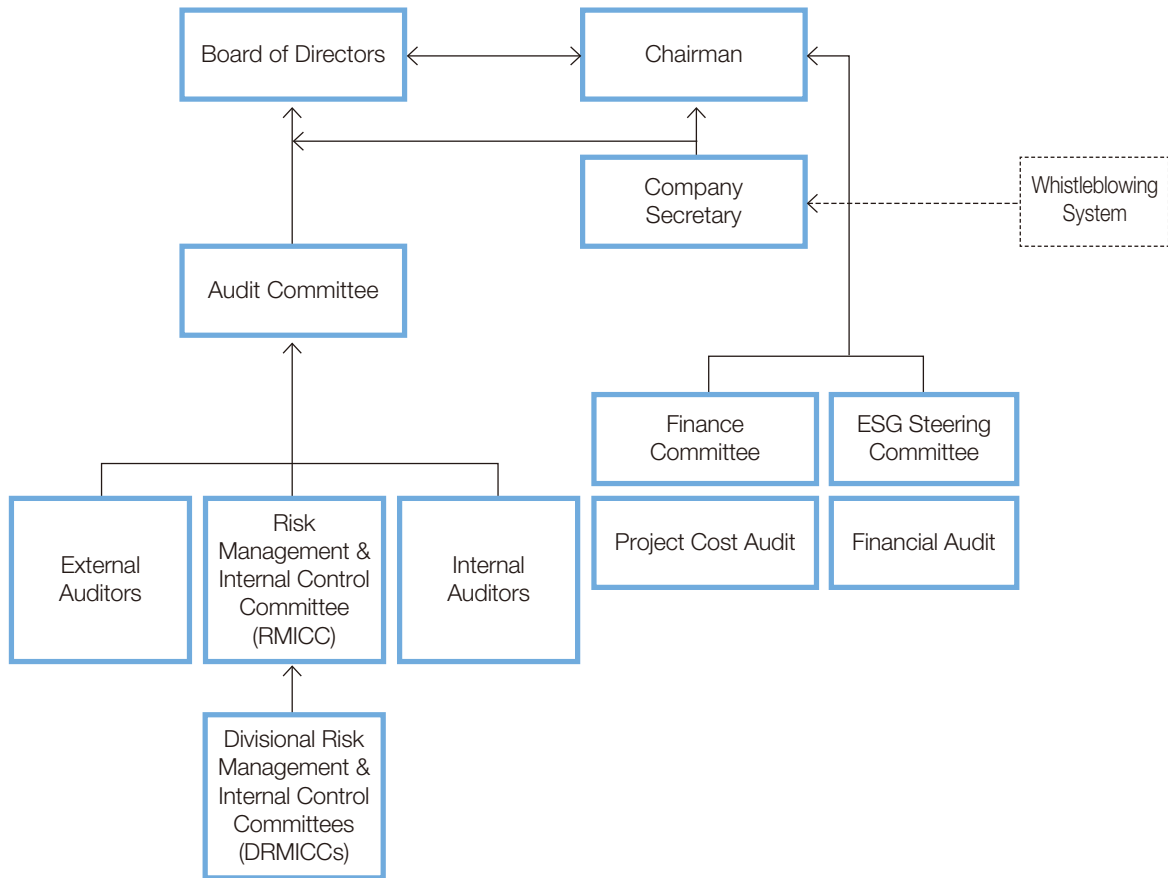
(H) RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

(I) Risk Governance Structure

The Board has overall responsibilities for the Group's risk management and internal control systems to safeguard the interests of the Company and its shareholders as a whole. To this end, the Board oversees and approves the Group's risk management and internal control strategies and policies, which are aimed at evaluating and determining the nature and extent of the risks that are compatible with the Group's strategic objectives and risk appetite, with the main purpose for provision of reasonable assurance against material misstatement or loss rather than absolute elimination of the risk of failure to achieve business objectives.

Reporting to the Board, the Audit Committee is delegated with the authority and responsibility for ongoing monitoring and evaluation of the effectiveness of the relevant systems, with assistance of the Risk Management and Internal Control Committee. In November 2015, the terms of reference of the Audit Committee were updated to formally incorporate the risk management into its scope of duties.

In adherence to its long standing principle for prudent management, the Group has put in place a robust and inclusive framework, on leverage of the resources of Wharf in internal audit and other corporate control functions, to manage risks at different business operations in diversified segments within the organisation, diagrammatically illustrated as below:



RMICC plays a central role in the ongoing management of risk management and internal control system of the Group with the objective of assisting the Audit Committee in discharge of its oversight responsibility over risk management and internal control system of the Group. One of its major functions is to assist the Audit Committee to conduct periodical reviews of the effectiveness of the risk management and internal control systems of the Group based on the procedure as further explained below.

DRMICCs are set up at the level of business units with composition of the respective key management staff together with those charged with the internal control functions. Acting as divisional advisory bodies, DRMICCs are entrusted with implementation of the Group's control policies and on-going assessment of control activities in the relevant business units.

Corporate Governance Report

(II) Practices and Processes

With diversified range of business activities, the Group is operating in dynamic environments with varying risk exposures according to different business segments. Risk management and internal controls within the Group are not just serial process but dynamic and integrated operations embedded in the day-to-day routines with the primary ownership vested on the respective business units under stewardship residing with the Board.

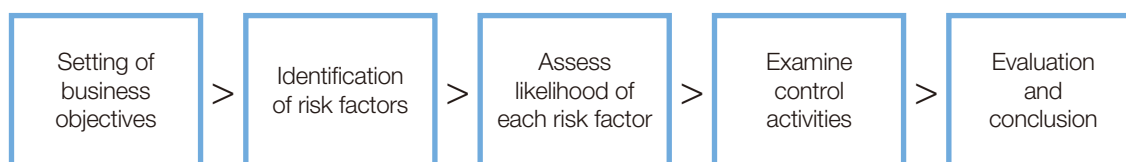
Areas of responsibility of each operational unit are clearly defined with specific limits of authority in place to ensure effective checks and balances. Procedures have been designed for safeguarding assets against unauthorised use or disposition, maintenance of proper accounting records, assurance of the reliability of financial information for internal use or publication and compliance with relevant legislation and regulations. Risk management system, internal control measures and procedures are continuously under review and being improved where necessary in response to changes in business, operating and regulatory environments.

Furthermore, a Whistleblowing Policy & Procedures has been adopted by the Group, with the authority and responsibility being delegated to the Audit Committee. Such Whistleblowing Policy is for employees and those who deal with the Group (e.g. customers and suppliers) to raise concerns, in confidence, with the Company Secretary, and any and all relevant complaints received may then be referred to the Audit Committee and/or Chairman of the Company about possible improprieties in any matter related to the Group.

The internal audit function monitors compliance with policies and standards and the effectiveness of internal control structures across the whole Group. Findings regarding internal control matters are reported to the Audit Committee. The external auditors have access to a full set of internal audit reports.

(III) Periodical Reviews

Under the leadership of RMICC, system reviews in a comprehensive approach on basis of COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework is conducted throughout the Group at least annually. Each business unit, through the co-ordination of DRMICC, makes a self-assessment by a process as illustrated in the following flow diagram.



DRMICCs report on their reviews and findings, with the conclusions as to the effectiveness of the risk management and control activities of each individual business unit while RMICC will draw an overall review and conclusion for reporting to the Audit Committee and the Board. Such reviewing exercise is carried out on a regular basis and affords good opportunities for the Group to identify and prioritise risks, and to develop and manage appropriate measures to control risks within acceptable levels and with a greater focus on anti-fraud measures.

(IV) Annual Confirmation

During the financial year ended 31 December 2015, the Audit Committee, with assistance of RMICC and DRMICCs, has conducted a review of the effectiveness of the Group's risk management and internal control systems and procedures covering all controls, including financial, operational and compliance and risk management, and the adequacy of, *inter alia*, resources, qualifications, experience and training of staff of the Company's accounting and financial reporting function. Confirmations from management in the form of certification that risk management and internal control procedures are functioning effectively to meet the respective financial reporting, operational and compliance needs, are submitted by business and corporate unit heads to RMICC for consolidation and reporting to the Audit Committee.

Based on the result of the review as reported by the Audit Committee, in respect of the financial year ended 31 December 2015, the Directors considered that the risk management and internal control systems and procedures of the Group were effective and adequate.

(I) DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for the financial year ended 31 December 2015, 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 2015:

- (i) appropriate accounting policies are selected, applied consistently and in accordance with the Hong Kong Financial Reporting Standards;
- (ii) prudent and reasonable judgments and estimates are made; and
- (iii) the reasons for any significant departure from applicable accounting standards are stated, if applicable.

(J) COMMUNICATION WITH SHAREHOLDERS

A Shareholders Communication Policy has been adopted by the Company to ensure that Shareholders are provided with ready, equal and timely access to balanced and understandable information about the Company (including its financial performance, strategic goals and plans, material developments, governance and risk profile), in order to enable Shareholders to exercise their rights in an informed manner, and to allow Shareholders and the investment community to engage actively with the Company.

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performance and activities. Annual and interim reports are published/printed and printed copies of such reports or notifications of publication thereof on the Company's website are sent to all Shareholders. Such reports and press releases are posted and are available for download at the Company's corporate website www.harbourcentre.com.hk. Constantly being updated in a timely manner, the website contains a wide range of additional information on the Group's business activities.

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

The Board and external auditors attend the Annual General Meetings to answer Shareholders' questions.

Corporate Governance Report

(K) SHAREHOLDERS' RIGHTS

(I) Convene an Extraordinary General Meeting

Pursuant to Section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "CO"), on written requisition by Shareholders representing at least 5% of the total voting rights of all Shareholders having a right to vote at general meetings, the Directors of the Company must convene an extraordinary general meeting.

(II) Send Enquiries to the Board

The Company's corporate website (www.harbourcentre.com.hk) provides email address (for enquiry purpose only), postal address, fax number and telephone number by which Shareholders may at any time address their enquiries to the Board.

(III) Make Proposals at General Meetings

- (i) The procedures for proposing candidate(s) for election as Director(s) at a Shareholders' meeting are set out in the Corporate Governance section of the Company's corporate website.
- (ii) The procedures for proposing resolution(s) to be moved at the Company's annual general meeting(s) are as follows:

Pursuant to Section 615 of the CO, Shareholder(s) can submit a written requisition to move a resolution at the Company's annual general meeting(s) if they represent:

- at least 2.5% of the total voting rights of all Shareholders who have a right to vote at the annual general meeting to which the requests relate; or
- at least 50 members who have a right to vote on the resolution at the annual general meeting to which the requests relate.

The relevant written requisition must—

- (a) identify the resolution of which notice is to be given;
- (b) be authenticated by the person or persons making it; and
- (c) be received by the Company not later than 6 weeks before the relevant annual general meeting to which the requests relate; or if later, the time at which notice is given of that meeting.

Any written requisitions from Shareholders pursuant to Sections 566 and 615 of the CO as set out in sections K(I) and K(III) above must be sent to the Company to be deposited at the Company's registered office (16th Floor, Ocean Centre, Harbour City, Canton Road, Kowloon, Hong Kong).

(L) AMENDMENTS TO CONSTITUTIONAL DOCUMENTS

There is no significant change in the Company's constitutional documents during the financial year ended 31 December 2015.

Directors' Report

The Board of Directors has pleasure in submitting their Report and the Audited Financial Statements for the financial year ended 31 December 2015.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of its principal subsidiaries are set out on pages 93 to 94.

RESULTS AND APPROPRIATIONS

The results of the Group for the financial year ended 31 December 2015 are set out in the Consolidated Income Statement and Consolidated Statement of Comprehensive Income on pages 39 to 40.

Appropriations of profits during the financial year are set out in the Consolidated Statement of Change in Equity on page 42.

DIVIDENDS

A first interim dividend of 14 HK cents per share was paid on 17 September 2015. In lieu of a final dividend, a second interim dividend of 56 HK cents per share will be paid on 21 April 2016 to Shareholders on record as at 5 April 2016. Total distribution for the year of 2015 will amount to 70 HK cents (2014: 60 HK cents) per share.

DONATIONS

The Group made donations during the financial year totalling HK\$3 million.

SHARE CAPITAL

Details of movement in share capital of the Company during the financial year are set out in Note 22 to the Financial Statements on page 72.

EQUITY-LINKED AGREEMENT

No equity-linked agreement which may result in the Company issuing shares was entered into or existed during the financial year.

BUSINESS REVIEW

Discussion and analysis of the Group's business in accordance with Schedule 5 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) are covered in different sections of this Annual Report as set out below, which shall form an integral part of this Directors' Report:

- Chairman's Statement (pages 3 to 4)
- Business and Financial Review (pages 6 to 10)
- Financial Highlights (page 5)
- Principal risks and uncertainties (pages 35 to 36)
- Risk management and internal control systems (pages 18 to 21)
- Events after the reporting period (Note 29 to the Financial Statements on page 77)

In addition, the Group's performance in environmental matters and social responsibilities is discussed in the section of Corporate social responsibility on page 36 .

Directors' Report

DIRECTORS

The Directors of the Company during the financial year and up to the date of this report were/are Mr Stephen T H Ng, Mr Kevin K P Chan (retired on 12 May 2015), Dr Joseph M K Chow, Mr H M V de Lacy Staunton, Mr Kevin C Y Hui (appointed on 1 August 2015), Hon Andrew K Y Leung, Mr Michael T P Sze, Mr Brian S K Tang, Mr Paul Y C Tsui (resigned effective from 1 August 2015) and Hon Frankie C M Yick.

Mr Kevin C Y Hui (appointed as Director of the Company after the last Annual General Meeting) is due to retire from the Board in accordance with Article 97 of the Company's Articles of Association and Hon Andrew K Y Leung, Mr Brian S K Tang and Hon Frankie C M Yick will retire from the Board in accordance with Article 106(A) of the Company's Articles of Association, at the forthcoming Annual General Meeting ("AGM"). The retiring Directors, being eligible, 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).

A list of persons who have served as directors of the Company's subsidiaries during the financial year and up to the date of this report is set out in the sub-section headed "(L) Directors of subsidiaries" on page 37.

INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No transaction, arrangement or contract of significance in relation to the Company's business to which any subsidiaries of the Company, the holding companies of the Company, or any subsidiaries of such holding companies was a party and in which a Director of the Company or any connected entities of a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the financial year or at any time during that financial year.

MANAGEMENT CONTRACTS

No contract 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 holding companies or any subsidiaries of such holding companies 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, with the exception that during the year, there existed certain outstanding options to subscribe for ordinary shares of The Wharf (Holdings) Limited ("Wharf"), the Company's parent company, and of Wheelock and Company Limited ("Wheelock"), the Company's ultimate holding company, granted under the Wharf's share option scheme and Wheelock's share option scheme respectively to certain employees/directors of companies in Wharf Group and in Wheelock group respectively, some of whom were Directors of the Company during the financial year.

Under the respective rules of the two schemes (such rules being subject to the relevant laws and rules applicable from time to time), shares of Wharf and/or Wheelock would be issued at such respective prices as being not less than the highest of (a) the indicative price as specified in the written offer; (b) the closing price on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on the date of grant of the options; and (c) the average closing price on the Stock Exchange for the five trading days immediately preceding the date of grant; and the relevant options would be exercisable during such periods, not being beyond the expiration of 10 years from the date of grant of relevant options, as determined by the boards of directors of Wharf and/or Wheelock respectively.

During the financial year, no shares of Wharf and/or Wheelock were allotted and issued under Wharf's and/or Wheelock's share option scheme to any person who was a director of the Company during the financial year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Articles of Association of the Company, every Director is entitled to be indemnified out of the assets of the Company against all costs, expenses, losses or liabilities, which he may sustain or incur in or about the execution and discharge of the duties of his office, to the extent as permitted by laws.

The Company has, together with its parent company (Wharf), its ultimate holding company (Wheelock) and a listed fellow subsidiary (i-CABLE Communications Limited), maintained directors' liability insurance which has been in force throughout the financial year and up to the date of this report to provide appropriate insurance cover for directors of their respective group companies, including *inter alia* the Directors of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of its listed securities 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 at the forthcoming AGM.

OTHER CORPORATE INFORMATION

Other corporate information supplementary to this Directors' Report are set out on page 26 to 37.

By Order of the Board

Kevin C Y Hui

Director and Company Secretary

Hong Kong, 2 March 2016

Directors' Report

OTHER CORPORATE INFORMATION

(A) BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGERS

(i) Directors

Stephen Tin Hoi NG, *Chairman (Age: 63)*

Mr Ng has been the Chairman and a Director of the Company since 2009. He also serves as a member and the chairman of the Company's Nomination Committee and a member of the Company's Remuneration Committee. Among other listed companies in Hong Kong and Singapore, he is the deputy chairman of Wheelock and Company Limited ("Wheelock"), the ultimate holding company of the Company, and the chairman and managing director of The Wharf (Holdings) Limited ("Wharf"), the holding company of the Company, the chairman of i-CABLE Communications Limited ("i-CABLE"), Joyce Boutique Holdings Limited ("Joyce") and Wheelock Properties (Singapore) Limited, as well as a non-executive director of Hotel Properties Limited. He was formerly a non-executive director of Greentown China Holdings Limited ("Greentown").

Mr Ng was born in Hong Kong in 1952 and grew up in Hong Kong. He attended Ripon College in Ripon, Wisconsin, USA and the University of Bonn, Germany, from 1971 to 1975, and graduated with a major in mathematics. He is the deputy chairman of the Hong Kong General Chamber of Commerce and a council member of the Employers' Federation of Hong Kong.

Joseph Ming Kuen CHOW, *OBE, JP, Director (Age: 74)*

Dr Chow, *RPE, FHKIE, FICE, FStructE, FCIT, MIHT*, has been an Independent Non-executive Director ("INED") of the Company since 2010. He also serves as a member of the Company's Audit Committee. He is a professional civil and structural engineer. He is the chairman of Joseph Chow & Partners Limited and is an INED of three companies publicly listed in Hong Kong, namely Build King Holdings Limited, Chevalier International Holdings Limited and Road King Infrastructure Limited. He was formerly an INED of Hsin Chong Construction Group Limited. Dr Chow was formerly the president of the Hong Kong Institution of Engineers, the chairman of the Hong Kong Examinations and Assessment Authority, a member of Hong Kong Housing Authority, a member of Hospital Authority and the chairman of the Hong Kong Construction Workers Registration Authority.

Hugh Maurice Victor de LACY STAUNTON, *Director (Age: 80)*

Mr de Lacy Staunton has been an INED of the Company since 2001. He was a career banker with HSBC for 37 years. Immediately prior to retirement from HSBC, Mr de Lacy Staunton was the chairman and managing director of HSBC Trustee and a director of a number of other HSBC companies. He is the chairman of the advisory committee to The Bradbury Charitable Foundation.

Kevin Chung Ying HUI, *Director and Company Secretary (Age: 59)*

Mr Hui, *FCCA, CPA*, has been appointed as a Director of the Company since August 2015. An accountant by profession since 1986, Mr Hui is presently a fellow of the Association of Chartered Certified Accountants, an associate of the Hong Kong Institute of Certified Public Accountants and a council member of The Taxation Institute of Hong Kong. He joined Wheelock in 1986 and has worked for the Wheelock group and subsequently for the Wharf group, gaining extensive experience in financial management and reporting control, auditing, taxation and corporate governance. He is currently the group financial controller of the Wharf group and a director of Wharf Limited and Modern Terminals Limited (“MTL”), both being fellow subsidiaries of the Company. Mr Hui has been the Company Secretary of the Company since July 2014 and he is also the company secretary of Wharf, i-CABLE and Joyce.

Hon Andrew Kwan Yuen LEUNG, *GBS, JP, Director (Age: 65)*

Mr Leung has been an INED of the Company since July 2012. He has more than 33 years of management experience in the textile, manufacturing, wholesale and distribution businesses. Mr Leung is a member of the Industrial (First) Functional Constituency of the Legislative Council of Hong Kong and a director of The Hong Kong Mortgage Corporation Limited. He formerly served as a council member of Hong Kong Trade Development Council and a non-executive director of Mandatory Provident Fund Schemes Authority. He is also the honorary president of Federation of Hong Kong Industries and the honorary chairman of Textile Council of Hong Kong Limited. Mr Leung is the chairman of Sun Hing Knitting Factory Limited and a founding member and first director of BPA Services Company Limited. He is also an INED of Dah Sing Banking Group Limited and China South City Holdings Limited, both being public companies listed in Hong Kong. Mr Leung holds a BSc (Hon) degree awarded by Leeds University, UK, and is a Fellow of Textiles Institute and of Clothing & Footwear Institute.

Michael Tsai Ping SZE, *Director (Age: 70)*

Mr Sze, *FCA (Eng & Wales), FCCA, FCPA*, has been an INED of the Company since 2007. He also serves as a member and the chairman of the Company’s Audit Committee and Remuneration Committee as well as a member of the Company’s Nomination 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 was a former member of The Securities and Futures Appeals Tribunal. He was also a former council member and member of the Main Board Listing Committee of the Stock Exchange. Mr Sze is an INED of Greentown and Walker Group Holdings Limited, both are listed on the Stock Exchange. He was formerly an INED of GOME Electrical Appliances Holding Limited.

Directors' Report

Brian See King TANG, *Director (Age: 66)*

Mr Tang has been an INED of the Company since 2008. He also serves as a member of the Company's Audit Committee, Nomination Committee and Remuneration Committee. He has over 30 years of comprehensive experience in accounting and financial management. He graduated with a Bachelor Degree in Science from the California State University of Long Beach, USA. He was the senior vice president of CITIC Ka Wah Bank Limited ("CKWB") for four years from 1997 with responsibilities covering treasury operations, remittance, bills operations, general services, property management, information technology and loan administration. He also served as a director of CKWB from 1998 to 2001. Before joining CKWB, he worked with various large organisations including 17-year service at Morgan Guaranty Trust Co as vice president and financial controller, and one-year service at Cheung Kong (Holdings) Limited as chief accountant.

Hon Frankie Chi Ming YICK, *JP, Director (Age: 62)*

Mr Yick, *MSc, BSc, CEng, FCILT, MIET, MCIPS*, has been a Director of the Company since July 2012. He joined the Wharf group in 1994. He is now responsible for, *inter alia*, overseeing the Wharf group's public transport and terminals portfolio. Mr Yick has extensive industrial and management experience in the public transportation and logistics industry, and is a member of the Legislative Council of Hong Kong representing the Transport Functional Constituency. He holds directorships in various Wharf group companies. Mr Yick is a non-executive director of The "Star" Ferry Company, Limited and a director of MTL, both being subsidiaries of Wharf. He is also a director of Hong Kong Air Cargo Terminals Limited which is an associate of Wharf. Other than the private sector, Mr Yick has also been appointed as a board member of the Airport Authority Hong Kong since 1 June 2014. Mr Yick is a chartered engineer. He holds a Bachelor Degree in Industrial Engineering awarded by The University of Hong Kong and a Master Degree in Industrial Management awarded by The University of Birmingham, UK.

Notes:

- (1) *Wheelock and Wharf (of which (i) Mr Stephen T H Ng is director and (ii) Hon Frankie C M Yick and Mr Kevin C Y Hui are employees) 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) *Both Mr Stephen T H Ng and Mr Kevin C Y Hui are currently directors of certain subsidiaries of the Company.*
- (3) *The Company confirms that it has received written confirmation from each of the INEDs of the Company confirming their independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and considers them independent.*

(ii) Senior Management

During the financial year, the senior management responsibilities of the Group were vested with the Chairman in conjunction with the Group's Hotel Manager and the Group's Property Project Manager, both being wholly-owned subsidiaries of Wharf.

(B) DIRECTORS' INTERESTS IN SECURITIES

(i) Interests in Shares and Debt Securities

At 31 December 2015, present Directors of the Company had the following beneficial interests, all being long positions, in the shares and/or debt securities of the Company, Wharf (the Company's parent company), Wheelock (Wharf's parent company), i-CABLE and Wharf Finance Limited (both being fellow subsidiaries of the Company). The percentages (where applicable) which the relevant securities represented to the respective numbers of shares in issue of the five companies are also set out below:

	Quantity held (percentage, where applicable)	Nature of Interest
The Company – Ordinary Shares		
Michael T P Sze	37,500 (0.0053%)	Family Interest
Wheelock – Ordinary Shares		
Stephen T H Ng	300,000 (0.0148%)	Personal Interest
Frankie C M Yick	7,000 (0.0003%)	Personal Interest
Wharf – Ordinary Shares		
Stephen T H Ng	804,445 (0.0266%)	Personal Interest
Andrew K Y Leung	6,629 (0.0002%)	Personal Interest
Michael T P Sze	50,099 (0.0017%)	Family Interest
Frankie C M Yick	20,000 (0.0007%)	Personal Interest
i-CABLE – Ordinary Shares		
Stephen T H Ng	1,265,006 (0.0629%)	Personal Interest
Andrew K Y Leung	9,535 (0.0005%)	Personal Interest
Wharf Finance Limited		
– USD Fixed Rate Notes due 2017		
Brian S K Tang	US\$400,000	Personal Interest

Note:

The interests in shares disclosed above do not include interests in share options of the Company's associated corporation(s) held by Directors of the Company as at 31 December 2015. Details of such interests in share options are separately set out below under the sub-section headed "(ii) Interests in Share Options of Wharf".

Directors' Report

(ii) Interests in Share Options of Wharf

Set out below are particulars of all interests (all being personal interests) in options held during the financial year ended 31 December 2015 by present Director(s) of the Company to subscribe for ordinary shares of Wharf granted/exercisable under the share option scheme of Wharf:

Name of Director	Total no. as at 31 December 2015 (percentage based on no. of shares in issue)	Date of grant (Day/Month/Year)	No. of Wharf's shares under option		Subscription Price per Share (HK\$)	Vesting/Exercise Period (Day/Month/Year)
			As at 1 January 2015	As at 31 December 2015		
Stephen T H Ng	3,500,000 (0.12%)	04/07/2011	1,500,000	1,500,000	55.15	05/07/2011–04/07/2016 ⁽¹⁾
		05/06/2013	2,000,000	2,000,000	70.20	06/06/2013–05/06/2018 ⁽²⁾

Notes:

- (1) The share options of Wharf granted on 4 July 2011 outstanding as at both 1 January 2015 and 31 December 2015 were vested in five tranches within a period of 5 years, with each tranche covering one-fifth of the relevant Wharf's share options, i.e. exercisable to the extent of one-fifth of the relevant total number of Wharf's shares, and with the 1st, 2nd, 3rd, 4th and 5th tranche being exercisable from 5th of July in the years 2011, 2012, 2013, 2014 and 2015 respectively.
- (2) The share options of Wharf granted on 5 June 2013 outstanding as at both 1 January 2015 and 31 December 2015 were/will be vested in five tranches within a period of 5 years, with each tranche covering one-fifth of the relevant Wharf's share options, i.e. exercisable to the extent of one-fifth of the relevant total number of Wharf's shares, and with the 1st, 2nd, 3rd, 4th and 5th tranche being exercisable from 6th of June in the years 2013, 2014, 2015, 2016 and 2017 respectively.

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the 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 (or any other applicable code), there were no interests, whether long or short positions, held or deemed to be interested as at 31 December 2015 by any of 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 rights to subscribe for any shares, underlying shares or debentures of the Company and its associated corporations held or deemed to be interested by any of them as at 31 December 2015.

(C) SUBSTANTIAL SHAREHOLDERS' INTERESTS

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of any class of voting shares of the Company as at 31 December 2015, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at that date 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 number of shares in issue of the Company:

Names	No. of Ordinary Shares (percentage based on no. of shares in issue)	
(i) The Wharf (Holdings) Limited	506,298,196	(71.44%)
(ii) Wheelock and Company Limited	506,298,196	(71.44%)
(iii) HSBC Trustee (C.I.) Limited	506,298,196	(71.44%)
(iv) Harson Investment Limited	57,054,375	(8.05%)

Notes:

- (1) For the avoidance of doubt and double counting, it should be noted that the shareholdings stated against parties (i) to (iii) above represented the same block of shares.
- (2) Wheelock's deemed shareholding interests stated above were held through, *inter alia*, its two wholly-owned subsidiaries, namely Wheelock Investments Limited and WF Investment Partners Limited, which in turn have interests in more than one-third of the number of shares in issue of Wharf.
- (3) Wharf's deemed shareholding interests stated above were held through its two wholly-owned subsidiaries, namely Wharf Estates Limited and Upfront International Limited.

All the interests stated above represent long positions. As at 31 December 2015, there were no short position interests recorded in the Register.

(D) RETIREMENT BENEFITS SCHEMES

The Group's principal retirement benefits schemes available to its Hong Kong employees are defined contribution schemes (including the Mandatory Provident Fund) which are administered by independent trustees. Both the Group and the employees contribute respectively to the schemes sums which represent certain percentage of the employees' salaries. The contributions by the Group are expensed as incurred and may be reduced by contributions forfeited for those employees who have left the schemes prior to full vesting of the relevant employee's contributions.

The employees of the Group's subsidiaries in Mainland China are members of the state-managed social insurance and housing funds operated by the Government of Mainland China. The Mainland China subsidiaries are required to contribute a certain percentage of payroll costs to the funds to fund the benefits. The only obligation of the Group with respect to the retirement benefits of Mainland China employees is to make the specified contributions.

Directors' Report

(E) DIRECTORS' INTERESTS IN COMPETING BUSINESS

Set out below is information disclosed pursuant to Rule 8.10 of the Listing Rules.

Three Directors of the Company, namely Mr Stephen T H Ng, Hon Frankie C M Yick and Mr Kevin C Y Hui, being also directors of Wharf and/or certain subsidiaries of Wharf, are considered as having an interest in Wharf under Rule 8.10(2) of the Listing Rules.

Ownership of hotels, and ownership of property for letting and for development in Hong Kong and Mainland China carried on by subsidiaries of Wharf constitute competing businesses to 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 Marco Polo Hotels Management Limited ("MPHML", being a wholly-owned subsidiary of Wharf) to act as manager to operate, direct, manage and supervise The Marco Polo Hongkong Hotel ("MP Hong Kong") and Marco Polo Changzhou ("MP Changzhou"). MPHML is also responsible for the operation of the hotels of Wharf group in the Asia Pacific region. MPHML has agreed, *inter alia*, to operate MP Hong Kong and MP Changzhou as first class hotels, failing which, the Group has the right to unilaterally terminate the engagement of MPHML.

The business of property development in Mainland China owned by the Wharf group are also considered as competing with the Group's property development projects in Mainland China. In view of the Wharf group's expertise in project management and sales and marketing of properties, the Group has engaged a wholly-owned subsidiary of Wharf as the project manager and sales and marketing agent for the construction, development, sales and marketing of the Group's property development projects.

For safeguarding the interests of the Group, the INEDs 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 development 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.

(F) MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2015:

- (i) the aggregate amount of purchases (not including the 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.

(G) DEBENTURES, BANK LOANS AND OTHER BORROWINGS

Particulars of any and all debentures, bank loans and/or other borrowings of the Group as at 31 December 2015 which are repayable on demand or within a period not exceeding one year and after a period of one year are set out in Note 19 to the Financial Statements on page 64.

(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 financial year ended 31 December 2015.

(I) DISCLOSURE OF CONNECTED TRANSACTION

Set out below is information in relation to certain continuing connected transactions involving the Company and/or its subsidiaries, particulars of which were previously disclosed in the announcements of the Company dated 31 December 2013 and 10 November 2014 respectively and are required under the Listing Rules to be disclosed in the Annual Report and Financial Statements of the Company:

(i) Master Hotel Services Agreement with Wharf group

During the financial year, there existed certain individual hotel services agreements (the “Individual Hotel Services Agreements”) entered into between certain wholly-owned subsidiaries of the Company and MPHML for the purpose of engaging MPHML to provide, *inter alia*, hotel management, hotel marketing and technical services (“Hotel Services”), in respect of certain hotel properties of the Company in Hong Kong and Mainland China.

On 10 November 2014, a master hotel services agreement (the “Master Hotel Services Agreement”) was entered into between the Company and Wharf for a fixed term of three years commencing on 1 January 2015 and expiring on 31 December 2017. The Master Hotel Services Agreement is for the purpose of, *inter alia*, regulating various continuing connected transactions (including those under the Individual Hotel Services Agreements) involving the provision of Hotel Services and/or any other services relating to the development and/or operations of hotel and/or serviced apartment property(ies) by Wharf group to the Group and providing for, *inter alia*, the annual cap amount of remuneration payable by the Group to Wharf group in relation thereto, which is fixed at HK\$100 million per annum.

The aggregate amount of remuneration under the Master Hotel Services Agreement, which is subject to the relevant aggregate annual cap amount as abovementioned for the financial year ended 31 December 2015 amounted to HK\$45 million.

(ii) Master Property Services Agreement with Wharf group in respect of property projects

During the financial year, there existed certain individual property services agreements (the “Individual Property Services Agreements”) entered into between subsidiary(ies) of the Company and wholly-owned subsidiary(ies) of Wharf (the “Manager/Agent”) for the purpose of engaging the Manager/Agent to provide property project management services and property sales and marketing services (the “Property Services”) for the property projects owned by the Group.

On 31 December 2013, a master property services agreement (the “Master Property Services Agreement”) was entered into between the Company and Wharf for a fixed term of three years commencing on 1 January 2014 and expiring on 31 December 2016. The Master Property Services Agreement is for the purpose of, *inter alia*, regulating various continuing connected transactions (including those under the Individual Property Services Agreements) involving the provision of the Property Services by Wharf group to the Group and providing for, *inter alia*, the annual cap amounts of remuneration payable by the Group to the Manager/Agent in relation thereto, which are fixed at HK\$150 million, HK\$190 million and HK\$230 million for the financial years of 2014, 2015 and 2016 respectively.

The aggregate amount of remuneration under the Master Property Services Agreement, which is subject to relevant aggregate annual cap amounts as abovementioned for the financial year ended 31 December 2015 amounted to HK\$77 million.

As the Company is a 71.44%-owned subsidiary of Wharf, the transactions mentioned under Section (I)(i) and Section (I)(ii) above constitute continuing connected transactions for the Company under the Listing Rules.

Directors' Report

(iii) Confirmation from the Directors and the Auditors

- (a) The Directors, including the INEDs, of the Company have reviewed the continuing connected transactions mentioned under Section (I)(i) and (I)(ii) above (the "Transactions") and have confirmed that the Transactions were entered into:
- (1) by the Group in the ordinary and usual course of its business;
 - (2) on normal commercial terms; and
 - (3) according to the relevant agreements governing the Transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.
- (b) In accordance with paragraph 14A.56 of the Listing Rules, the Board of Directors engaged the Company's auditors to perform procedures on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The auditors of the Company have advised that nothing has come to their attention that causes them to believe that:

- (1) the Transactions had not been approved by the Company's Board of Directors;
 - (2) the Transactions were not, in all material respects, entered into in accordance with the terms of the related agreements governing the Transactions;
 - (3) the relevant cap amounts, where applicable, had been exceeded during the financial year ended 31 December 2015; and
 - (4) in the event that there would be any transactions involving the provision of goods and services by the Group, the transactions were not, in any material respects, in accordance with the pricing policies of the Group.
- (iv) With regard to the Related Party Transactions as disclosed under Note 24 to the Financial Statements on pages 74 to 75, the transactions stated under paragraphs (a) and (b) therein constitute connected transactions (as defined under the Listing Rules) of the Company, the one under paragraph (c) does not constitute a connected transaction under the Listing Rules, and those under paragraph (d) constitute a fully exempt connected transaction of the Company, for all of which the applicable requirements under the Listing Rules have been duly complied with.

(J) PRINCIPAL RISKS AND UNCERTAINTIES

The following is a list of principal risks and uncertainties that are considered to be of significant as it currently stands and with potential affecting the Group's business results of operations and financial conditions. However, this is non-exhaustive as there may be other risks and uncertainties arise resulting from changes in economic and other conditions over time. The Group employs a risk management and internal control framework to identify current and foreseeable risks at different levels of the organisation so as to take preventive actions to avoid or mitigate their adverse impact.

Risks pertaining to Investment Properties ("IP")

IP segment is the Group's core business with IP asset accounted for 38% of the Group's total business assets. With the majority of the properties locating in Hong Kong and Mainland China, the general economic climate, regulatory changes, government policies and the political conditions in both Hong Kong and Mainland China may have a significant impact on the Group's overall financial results and positions. The Group's rental income may experience more frequent adjustments resulting from competition arising from oversupply in retail and office areas. Furthermore, rental levels may also be impacted by external economic and market conditions including but not limited to the fluctuations in general supply and demand, performance in stock markets and financial volatility, which may indirectly affect the Group's IP performance.

IPs are stated at fair values in accordance with the Hong Kong Financial Reporting Standards in the statement of financial position at each reporting period. The fair values are provided by independent professional surveyors, using the income capitalisation approach which capitalised the net income of properties and takes into account the significant adjustments on term yield to account for the risk upon reversion and the changes in fair value are recognised to the consolidated income statement. Given the size of the Group's IP portfolio, any significant change in the IP values may overwhelmingly affect the Group's results that may not be able to reflect the Group's operating and cash flow performance.

In this respect, the Group regularly assesses changes in economic environment and keeps alert to market needs and competitors' offensives in order to maintain competitiveness. Continuously up keeping the quality of the assets and building up a diversified and high-quality tenant-mix also help the Group to grow revenue and to resist sluggish economy. In addition, long-range planned and tactical promotions are seamlessly executed for maintaining the IPs' leading brands and value.

Risks pertaining to Development Properties ("DP")

DP segment is the Group's another major business, particularly in Mainland China. Accordingly, the DP segment is subject to economic, political and legal developments in Mainland China as well as in the economies in the surrounding region. In recent years, the DP market movements in Mainland China have been concurrently affected by the economic trend and government policies including but not limited to the adoption of category-based regulatory measures and the bilateral regulatory measures for the real estate market, policy changes in mortgage levels and ownership, interest rate changes, supply and demand conditions as well as the overall economic volatility in Mainland China. The Group's DP segment is expected to continue exposing to these risks, which may affect the Group's investment strategy and business model as well as the performance in DP.

In this respect, the Group actively assesses the overall economic, political and legal developments as well as the property markets in Mainland China for deciding viable acquisitions and selling strategies. For each potential project, detailed feasibility and stress test with regard to all aspects will be carried out before acquisition to minimise the commercial and legal risks.

Directors' Report

Risks pertaining to Hotel Segment

The Group owns 4 hotels in Hong Kong and Mainland. Hotel performance is usually subject to a high degree of fluctuations caused by both predictable and unpredictable factors including seasonality, social stability, epidemic diseases and changes in economic conditions. For instance, the recent Central Government Anti-corruption drive in Mainland, the policy change on the grant of multiple-entry permits to Shenzhen residents, together with the change in the foreign exchanges of the surrounding regions have varied the development pattern of the tourism and hospitality industry with heavily reliance on the growth of visitor arrivals from Mainland.

In this respect, Hotel Segment closely assesses the impact of the geopolitical outlook and economic development of different countries for building its portfolios and exposures to match with the Group's risk appetite. It also takes continual reviews of competition, legal and political changes as well as market trends for setting its business strategies including marketing and pricing to protect and drive profitability.

Legal and Regulatory Compliance risk

Whilst the Group has a diversified portfolio of business operations across Hong Kong and various Mainland cities, any failure to anticipate the trend of regulatory changes or cope with relevant requirements may result in non-compliance of local laws or regulation, leading to not only financial loss but also reputational damage to the Group. In mitigation of relevant risks, the Group actively assesses the effect of relevant developments and engages closely with regulatory authorities and external advisors on new laws and regulations and also trending legislations to ensure relevant requirements are properly complied with in an effective manner.

Financial risk

The Group is exposed to financial risks related to interest rate, foreign currency, equity price, liquidity and credit risks in the normal course of the business. For further details of such risks and relevant management policies, please refer to Note 21 to the Financial Statements from pages 66 to 71.

(K) CORPORATE SOCIAL RESPONSIBILITY

As publicly listed in Hong Kong, the Company and its operating units strive to go beyond the regulatory compliance and adopt industry standards in environmental management as well as other areas in corporate social responsibility ("CSR"), which aligns with the direction of its listed parent company, the Wharf Group, in CSR commitment. The progress goes well in enhancing and formalising the current practice into a formal policy and guidelines in respect of the CSR matters which will be put into effect in the near future.

Currently, individual unit such as MP Hong Kong has its own set of environmental management, showing its commitment on environmental protection and stewardship. MP Hong Kong's goal is to mitigate impacts on the environment by working with all stakeholders to promote and implement responsible environmental practices and continuous improvement.

The Company understands the importance of engaging stakeholders to develop programmes and initiatives that are locally relevant. A more holistic plan applicable to all business units in Hong Kong and the Mainland China in respect of stakeholder engagement and communication is under final review.

Meanwhile, MP Hong Kong has clear guidelines on engaging employees, customers, suppliers and communities. Employee and customer surveys are conducted regularly to gauge feedback for human resources management and service enhancement respectively. Periodic inspections and audits of key suppliers to assess their social and environmental practices are in place.

More data on the Group's 2015 CSR achievements will be disclosed in accordance with the GRI sustainability reporting guidelines in due course.

(L) DIRECTORS OF SUBSIDIARIES

The names of all persons who, during the financial year and up to 2 March 2016 (the date of the Directors' Report of the Company), have served as directors of all those companies included as subsidiaries in the consolidated financial statements of the Company for the financial year ended 31 December 2015, other than Mr NG Tin Hoi Stephen and Mr HUI Chung Ying Kevin, who are also Directors of the Company, are set out below:

Andrea Limited
CHAN Kwok Pong*
CHAN Sik Wah
CHOW On Kiu
GUO Yong
HAO Jian Min
LEE Yuk Fong Doreen
LI Lei
OON Hock Neo
PAO Zen Kwok Peter
TSUI Yiu Cheung
WEI Qing Shan
WU Guan
XIAO Zheng Guang*
ZHANG Lu
ZHANG Yi
凌學風

** ceased to be a director as at 2 March 2016.*

Independent Auditor's Report



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") and its subsidiaries (together the "Group") set out on pages 39 to 94, which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 405 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated 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 financial position of the Group as at 31 December 2015 and of the Group's financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

KPMG

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

2 March 2016

Consolidated Income Statement

For the year ended 31 December 2015

	Note	2015 HK\$ Million	2014 HK\$ Million
Revenue	1	5,048	5,646
Direct costs and operating expenses		(3,136)	(4,253)
Selling and marketing expenses		(138)	(134)
Administrative and corporate expenses		(90)	(72)
Operating profit before depreciation, interest and tax		1,684	1,187
Depreciation		(62)	(63)
Operating profit	1 & 2	1,622	1,124
Increase in fair value of investment properties		37	231
Other net income	3	79	53
Finance costs	4	(59)	(35)
Share of results after tax of:			
Joint ventures	11	95	97
Associates	10	133	(4)
Profit before taxation		1,907	1,466
Income tax	5(a)	(502)	(355)
Profit for the year		1,405	1,111
Profit attributable to:			
Equity shareholders		1,231	1,082
Non-controlling interests		174	29
		1,405	1,111
Earnings per share	6		
Basic		HK\$1.74	HK\$1.53
Diluted		HK\$1.74	HK\$1.53

The notes and principal accounting policies on pages 45 to 94 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 7.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	2015 HK\$ Million	2014 HK\$ Million
Profit for the year	1,405	1,111
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of the operations of:	(627)	(44)
– subsidiaries	(515)	(36)
– joint ventures	(112)	(8)
Fair value changes on available-for-sale investments:	(255)	210
– (deficit)/surplus on revaluation	(219)	210
– transferred to profit or loss on disposal	(36)	–
Others	–	(3)
Other comprehensive income for the year	(882)	163
Total comprehensive income for the year	523	1,274
Total comprehensive income attributable to:		
Equity shareholders	419	1,249
Non-controlling interests	104	25
	523	1,274

The notes and principal accounting policies on pages 45 to 94 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2015

	Note	2015 HK\$ Million	2014 HK\$ Million
Non-current assets			
Investment properties	8	7,876	7,253
Hotel properties, plant and equipment	9	5,677	5,429
Interest in associates	10	1,608	2,059
Interest in joint ventures	11	2,039	2,127
Available-for-sale investments	12	2,450	1,550
Deferred tax assets	20	46	19
Derivative financial assets	15	–	4
Other non-current assets		16	17
		19,712	18,458
Current assets			
Properties for sale	13	2,699	4,979
Inventories		3	5
Trade and other receivables	14	660	716
Derivative financial assets	15	1	80
Prepaid tax	5(f) and (g)	129	119
Bank deposits and cash	16	6,447	5,185
		9,939	11,084
Total assets		29,651	29,542
Non-current liabilities			
Derivative financial liabilities	15	–	(3)
Deferred tax liabilities	20	(69)	(35)
Bank loans	19	(4,400)	(4,168)
		(4,469)	(4,206)
Current liabilities			
Trade and other payables	17	(2,600)	(3,303)
Pre-sale deposits and proceeds	18	(4,691)	(4,373)
Derivative financial liabilities	15	(2)	(45)
Taxation payable	5(f)	(159)	(119)
Bank loans	19	(400)	(250)
		(7,852)	(8,090)
Total liabilities		(12,321)	(12,296)
NET ASSETS		17,330	17,246
Capital and reserves			
Share capital	22	3,641	3,641
Reserves		12,544	12,564
Shareholders' equity		16,185	16,205
Non-controlling interests		1,145	1,041
TOTAL EQUITY		17,330	17,246

The notes and principal accounting policies on pages 45 to 94 form part of these financial statements.

Stephen T H Ng
Chairman

Kevin C Y Hui
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Shareholders' equity							
	Share capital	Share premium	Investments revaluation reserve	Exchange reserve	Revenue reserve	Total shareholders' equity	Non-controlling interests	Total equity
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
At 1 January 2014	354	3,287	707	1,296	9,737	15,381	1,066	16,447
Changes in equity for 2014:								
Profit	-	-	-	-	1,082	1,082	29	1,111
Other comprehensive income	-	-	210	(40)	(3)	167	(4)	163
Total comprehensive income	-	-	210	(40)	1,079	1,249	25	1,274
Transition to no-par value regime on 3 March 2014	3,287	(3,287)	-	-	-	-	-	-
2013 second interim dividend paid	-	-	-	-	(340)	(340)	-	(340)
2014 first interim dividend paid	-	-	-	-	(85)	(85)	-	(85)
Dividends paid to non-controlling interests	-	-	-	-	-	-	(50)	(50)
At 31 December 2014 and 1 January 2015	3,641	-	917	1,256	10,391	16,205	1,041	17,246
Changes in equity for 2015:								
Profit	-	-	-	-	1,231	1,231	174	1,405
Other comprehensive income	-	-	(255)	(557)	-	(812)	(70)	(882)
Total comprehensive income	-	-	(255)	(557)	1,231	419	104	523
2014 second interim dividend paid	-	-	-	-	(340)	(340)	-	(340)
2015 first interim dividend paid	-	-	-	-	(99)	(99)	-	(99)
At 31 December 2015	3,641	-	662	699	11,183	16,185	1,145	17,330

The notes and principal accounting policies on pages 45 to 94 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

	Note	2015 HK\$ Million	2014 HK\$ Million
Operating cash inflow	(a)	1,538	939
Changes in working capital	(a)	1,858	2,007
Cash generated from operations	(a)	3,396	2,946
Net interest received/(paid)		4	(57)
Interest received		88	101
Interest paid on bank loans		(84)	(158)
Dividend income from listed investments		56	42
Dividend income from joint venture		71	124
Hong Kong profits tax paid		(108)	(73)
PRC taxation paid		(363)	(429)
Net cash generated from operating activities		3,056	2,553
Investing activities			
Additions of investment properties and hotel properties, plant and equipment		(1,044)	(1,182)
Net decrease in interest in associates		543	–
Net decrease in interest in joint ventures		172	303
Purchase of available-for-sale investments		(1,175)	–
Proceeds from disposal of available-for-sale investments		53	–
Net cash used in investing activities		(1,451)	(879)
Financing activities			
Drawdown of bank loans		1,800	4,112
Repayment of bank loans		(1,418)	(5,932)
Dividends paid to equity shareholders		(439)	(425)
Dividends paid to non-controlling interests		–	(50)
Net cash used in financing activities		(57)	(2,295)
Increase/(decrease) in cash and cash equivalents		1,548	(621)
Cash and cash equivalents at 1 January		5,185	5,825
Effect on exchange rate changes		(286)	(19)
Cash and cash equivalents at 31 December		6,447	5,185

Cash and cash equivalents represent bank deposits and cash.

The notes and principal accounting policies on pages 45 to 94 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2015

NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2015 HK\$ Million	2014 HK\$ Million
Operating profit	1,622	1,124
Depreciation	62	63
Dividend income from listed investments	(56)	(42)
Interest income	(90)	(206)
Operating cash inflow	1,538	939
Decrease in properties for sale	1,210	2,337
Decrease/(increase) in inventories	2	(3)
Decrease in trade and other receivables	73	322
Increase/(decrease) in trade and other payables	5	(109)
Increase/(decrease) in pre-sale deposits and proceeds	573	(608)
Changes in derivative financial instruments (net)	36	51
(Decrease)/increase in amounts due to fellow subsidiaries (net)	(41)	17
Changes in working capital	1,858	2,007
Cash generated from operations	3,396	2,946

Notes to the Financial Statements

1. SEGMENT INFORMATION

The Group manages its diversified businesses according to the nature of services and products provided. Management has determined three reportable operating segments for measuring performance and allocating resources. The segments are development property, investment property and hotel. No operating segment has been aggregated to form reportable segments.

Development property segment encompasses activities relating to the acquisition, development, design, sale and marketing of the Group's trading properties primarily in Mainland China.

Investment property segment primarily represents the property leasing of the Group's investment properties in Hong Kong. Some of the Group's development projects in Mainland China include properties which are intended to be held for investment purposes on completion.

Hotel segment represents the operations of Marco Polo Hongkong Hotel and Marco Polo Changzhou. It also includes Murray Building which is under construction.

Management evaluates performance based on operating profit as well as the equity share of results of associates and joint ventures of each segment.

Segment business assets principally comprise all tangible assets, intangible assets and current assets directly attributable to each segment with the exception of bank deposits and cash, available-for-sale investments, derivative financial instruments and deferred tax assets.

Revenue and expenses are allocated with reference to sales generated by those segments and expenses incurred by those segments or which arise from the depreciation of assets attributable to those segments.

(a) Analysis of segment revenue and results

	Revenue HK\$ Million	Operating profit HK\$ Million	Increase in fair value of investment properties HK\$ Million	Other net income HK\$ Million	Finance costs HK\$ Million	Joint ventures HK\$ Million	Associates HK\$ Million	Profit before taxation HK\$ Million
2015								
Development property	3,930	1,041	-	50	(13)	95	133	1,306
Investment property	344	309	37	-	(15)	-	-	331
Hotel	628	138	-	-	(4)	-	-	134
Segment total	4,902	1,488	37	50	(32)	95	133	1,771
Investment and others	146	146	-	29	(27)	-	-	148
Corporate expenses	-	(12)	-	-	-	-	-	(12)
Group total	5,048	1,622	37	79	(59)	95	133	1,907
2014								
Development property	4,361	380	-	2	(12)	97	(4)	463
Investment property	363	334	231	-	(12)	-	-	553
Hotel	674	175	-	-	(6)	-	-	169
Segment total	5,398	889	231	2	(30)	97	(4)	1,185
Investment and others	248	248	-	51	(5)	-	-	294
Corporate expenses	-	(13)	-	-	-	-	-	(13)
Group total	5,646	1,124	231	53	(35)	97	(4)	1,466

- (i) Substantially all depreciation was attributable to the Hotel Segment.
- (ii) No inter-segment revenue has been recorded during the current and prior years.

Notes to the Financial Statements

(b) Analysis of segment business assets

	2015 HK\$ Million	2014 HK\$ Million
Development property	6,885	9,772
Investment property	8,049	7,427
Hotel	5,773	5,505
Total segment business assets	20,707	22,704
Unallocated corporate assets	8,944	6,838
Total assets	29,651	29,542

- (i) Hotel is stated at amortised cost. Should the completed hotel property be stated based on the valuation as at 31 December 2015 of HK\$4,754 million (2014: HK\$4,990 million), the total segment business assets would be increased to HK\$24,846 million (2014: HK\$27,023 million).
- (ii) Unallocated corporate assets mainly comprise available-for-sale investments, deferred tax assets, derivative financial assets and bank deposits and cash.

(c) Geographical information

	Revenue		Operating profit	
	2015 HK\$ Million	2014 HK\$ Million	2015 HK\$ Million	2014 HK\$ Million
Hong Kong	946	1,038	503	549
Mainland China	4,064	4,575	1,081	542
Singapore	38	33	38	33
Group total	5,048	5,646	1,622	1,124

	Specified non-current assets		Total business assets	
	2015 HK\$ Million	2014 HK\$ Million	2015 HK\$ Million	2014 HK\$ Million
Hong Kong	10,438	10,105	10,705	10,354
Mainland China	6,762	6,763	10,002	12,350
Group total	17,200	16,868	20,707	22,704

Specified non-current assets exclude available-for-sale investments, deferred tax assets, derivative financial assets and other non-current assets.

Geographically, HK\$10,002 million (2014: HK\$12,350 million) or 48% (2014: 54%) of the Group's total business assets, based on book cost, were located in Mainland China.

The geographical location of revenue and operating profit is analysed based on the location at which services are provided and in case of equity instruments, where they are listed. The geographical location of specified non-current assets and total business assets is based on the physical location of operations.

2. OPERATING PROFIT

(a) Operating profit is arrived at:

	2015 HK\$ Million	2014 HK\$ Million
After charging/(crediting):		
Depreciation	62	63
Staff costs (Note i)	215	220
Auditors' remuneration	2	2
Cost of trading properties for recognised sales	2,768	3,859
Rental charges under operating leases	14	19
Gross rental revenue from investment property (Note ii)	(344)	(363)
Direct operating expenses of investment property	25	21
Interest income (Note iii)	(90)	(206)
Dividend income from listed investments	(56)	(42)

Notes:

- (i) Staff costs included defined contribution pension schemes costs HK\$6 million (2014: HK\$9 million).
- (ii) Rental income included contingent rentals of HK\$112 million (2014: HK\$163 million).
- (iii) Interest income in 2014 included HK\$105 million from an associate.

(b) Directors' emoluments

Directors' emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary bonuses HK\$'000	Retirement scheme contributions HK\$'000	2015 Total HK\$'000	2014 Total HK\$'000
Executive Director						
Stephen T H Ng	50	960	-	-	1,010	1,010
Non-executive Directors						
Kevin K P Chan (iii)	18	-	-	-	18	50
Paul Y C Tsui (iv)	29	-	-	-	29	50
Kevin C Y Hui (v)	21	-	-	-	21	-
Frankie C M Yick	50	-	-	-	50	50
Independent Non-executive Directors						
Michael T P Sze (ii)	70	-	-	-	70	70
H M V de Lacy Staunton	50	-	-	-	50	50
Brian S K Tang (ii)	70	-	-	-	70	70
Joseph M K Chow (ii)	70	-	-	-	70	70
Andrew K Y Leung	50	-	-	-	50	50
	478	960	-	-	1,438	1,470
Total for 2014	510	960	-	-	-	1,470

Notes to the Financial Statements

Notes:

- (i) There was no compensation for loss of office and/or inducement for joining the Group paid/payable to the Company's Directors in respect of the years ended 31 December 2015 and 2014.
- (ii) Includes Audit Committee Member's fee received by each of relevant Directors based on HK\$20,000 per annum for the year ended 31 December 2015 (2014: HK\$20,000 per annum).
- (iii) Mr Kevin K P Chan ceased to be a Director of the Company with effect from 12 May 2015.
- (iv) Mr Paul Y C Tsui ceased to be a Director of the Company with effect from 1 August 2015.
- (v) Mr Kevin C Y Hui was appointed as a Director of the Company with effect from 1 August 2015.

(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 2015 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:

Aggregate emoluments	2015 HK\$ Million	2014 HK\$ Million
Salaries, allowances and benefits in kind	7	7
Discretionary bonuses and/or performance-related bonuses	2	1
	9	8

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

Bands (in HK\$)	2015 Number	2014 Number
\$1,000,001 – \$1,500,000	–	2
\$1,500,001 – \$2,000,000	5	3

3. OTHER NET INCOME

	2015 HK\$ Million	2014 HK\$ Million
Profit on disposal of available-for-sale investments, including revaluation surplus of HK\$36 million (2014: HK\$Nil) transferred from the investments revaluation reserve	33	–
Net exchange gain, including the impact of forward foreign exchange contracts	46	53
	79	53

4. FINANCE COSTS

	2015 HK\$ Million	2014 HK\$ Million
Interest on bank borrowings	60	95
Other finance costs	31	66
	91	161
Less: Amount capitalised	(32)	(126)
	59	35

- (a) Interest was capitalised at an average annual rate of approximately 1.3% (2014: 1.7%).
- (b) All interest costs are in respect of interest bearing borrowings that are stated at amortised cost.

5. INCOME TAX

- (a) Taxation charged to the consolidated income statement represents:

	2015 HK\$ Million	2014 HK\$ Million
Current income tax		
Hong Kong		
– provision for the year	80	96
– overprovision in respect of prior years	(2)	(2)
Mainland China		
– provision for the year	329	182
	407	276
Land appreciation tax (“LAT”) (Note (d))	89	119
Deferred tax		
Origination and reversal of temporary differences	6	(40)
Total	502	355

- (b) The provision for Hong Kong profits tax is at the rate of 16.5% (2014: 16.5%) of the estimated assessable profits for the year.
- (c) Income tax on profits assessable in Mainland China are China corporate income tax calculated at a rate of 25% (2014: 25%) and China withholding tax at a rate of up to 10%.
- (d) Under the Provisional Regulations on LAT, all gains arising from transfer of real estate property in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights, borrowings costs and all property development expenditures.
- (e) The China tax law also imposes a withholding tax at 10% unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside Mainland China. For the year ended 31 December 2015, the Group has provided HK\$42 million (2014: HK\$15 million) for withholding tax on accumulated earnings generated by its Mainland China subsidiaries which will be distributed to their immediate holding companies outside Mainland China in the foreseeable future.

Notes to the Financial Statements

- (f) The prepaid tax/taxation payable in the consolidated statement of financial position is expected to be recovered/settled within one year.
- (g) Prepaid tax represents advance LAT and corporate income tax paid in respect of pre-sale proceeds received from sale of properties in Mainland China.
- (h) Tax attributable to joint ventures and associates for the year ended 31 December 2015 of HK\$135 million (2014: HK\$88 million) is included in the share of results of joint ventures and associates.
- (i) Reconciliation between the actual total tax charge and accounting profit at applicable tax rates:

	2015 HK\$ Million	2014 HK\$ Million
Profit before taxation	1,907	1,466
Notional tax on accounting profit calculated at applicable tax rates	377	247
Tax effect of non-deductible expenses	62	66
Tax effect of non-taxable fair value gain on investment properties	(6)	(38)
Tax effect of other non-taxable income	(42)	(48)
Tax effect of tax losses not recognised	12	9
Tax effect of utilisation of tax losses and other temporary differences	(30)	(13)
Overprovision in respect of prior years	(2)	(2)
LAT on trading properties	89	119
Withholding tax on distributed/undistributed earnings	42	15
Actual total tax charge	502	355

6. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year attributable to equity shareholders of HK\$1,231 million (2014: HK\$1,082 million) and the weighted average of 709 million (2014: 709 million) ordinary shares in issue during the year.

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2015 and 2014.

7. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	2015 HK\$ Per share	2015 HK\$ Million	2014 HK\$ Per share	2014 HK\$ Million
First interim dividend declared and paid	0.14	99	0.12	85
Second interim dividend declared after the end of the reporting period	0.56	397	0.48	340
	0.70	496	0.60	425

- (a) The second interim dividend based on 709 million issued ordinary shares (2014: 709 million shares) declared after the end of the reporting period has not been recognised as a liability at the end of the reporting period.
- (b) The second interim dividend of HK\$340 million for 2014 was approved and paid in 2015.

8. INVESTMENT PROPERTIES

	Completed HK\$ Million	Under development HK\$ Million	Total HK\$ Million
(a) Cost or valuation			
At 1 January 2014	5,146	1,289	6,435
Exchange adjustment	–	(4)	(4)
Additions	–	591	591
Revaluation surpluses	231	–	231
At 31 December 2014 and 1 January 2015	5,377	1,876	7,253
Exchange adjustment	–	(109)	(109)
Additions	–	695	695
Revaluation surpluses	37	–	37
At 31 December 2015	5,414	2,462	7,876
(b) The analysis of cost or valuation of the above assets is as follows:			
2015 valuation	5,414	–	5,414
At cost	–	2,462	2,462
	5,414	2,462	7,876
2014 valuation	5,377	–	5,377
At cost	–	1,876	1,876
	5,377	1,876	7,253
(c) Tenure of title to properties:			
At 31 December 2015			
Held in Hong Kong			
Long term leases	5,414	–	5,414
Held outside Hong Kong			
Medium term leases	–	2,462	2,462
	5,414	2,462	7,876
At 31 December 2014			
Held in Hong Kong			
Long term leases	5,377	–	5,377
Held outside Hong Kong			
Medium term leases	–	1,876	1,876
	5,377	1,876	7,253

Notes to the Financial Statements

(d) Investment properties revaluation

The Group's investment properties under development are stated at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property.

The investment properties stated at fair value as at 31 December 2015 were revalued by Knight Frank Petty Limited ("Knight Frank"), 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 Mainland China. Knight Frank has valued the investment properties on a market value basis and has taken into account the net income of the respective properties, allowing for reversionary potential and the redevelopment potential of the properties where appropriate.

The revaluation surplus arising on revaluation on investment properties is recognised in the line item "Increase in fair value of investment properties" on the face of the consolidated income statement.

Investment properties are measured at fair value at the end of the reporting period across the three levels of the inputs to the revaluation methodologies in accordance with Hong Kong Financial Reporting Standards ("HKFRS 13"), Fair value measurement. The levels are defined as follows:

Level 1 valuations: Fair value measured using only level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.

Level 2 valuations: Fair value measured using level 2 inputs i.e. observable inputs which fail to meet level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.

Level 3 valuations: Fair value measured using significant unobservable inputs.

The Group's completed investment properties measured at HK\$5,414 million (2014: HK\$5,377 million) mainly represent the retail properties located in Hong Kong, were classified as Level 3 under the fair value hierarchy in accordance with HKFRS 13.

None of the Group's investment properties measured at fair value are categorised as Level 1 and Level 2 input.

During the years ended 31 December 2015 and 2014, there were no transfers among Level 1, Level 2, or transfers into or out of Level 3.

The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation processes

The Group reviews the valuations performed by the independent valuers for financial reporting purposes by verifying all major inputs and assessing the reasonableness of property valuation. A valuation report with analysis of changes in fair value measurement is prepared at each interim and annual reporting date, and is reviewed and approved by the senior management.

Valuation methodologies

The valuation of completed retail properties in Hong Kong were based on income capitalisation approach which capitalised the net income of the properties and taking into account the significant adjustment on term yield to account for the risk upon reversion and the estimation in vacancy rate after expiry of current lease.

Level 3 valuation methodologies

The significant unobservable inputs was capitalisation rate at 5.0% (2014: 5.0%). The fair value measurement of investment properties is negatively correlated to the capitalisation rate.

- (e) Gross rental revenue from investment properties amounted to HK\$344 million (2014: HK\$363 million).
- (f) The Group leases out its investment properties under operating leases, which generally run for an initial period of two to ten years. Lease payments may contain a contingent rental element which is based on various percentages of tenants' sales receipts.
- (g) The Group's total future minimum lease income under non-cancellable operating leases is receivable as follows:

	2015 HK\$ Million	2014 HK\$ Million
Within 1 year	250	78
After 1 year but within 5 years	417	25
After 5 years	135	–
	802	103

Notes to the Financial Statements

9. HOTEL PROPERTIES, PLANT AND EQUIPMENT

	Hotel properties HK\$ Million	Others HK\$ Million	Total HK\$ Million
(a) Cost or valuation			
At 1 January 2014	5,288	424	5,712
Exchange adjustment	(3)	–	(3)
Additions	691	38	729
Disposals	–	(3)	(3)
At 31 December 2014 and 1 January 2015	5,976	459	6,435
Exchange adjustment	(69)	(3)	(72)
Additions	338	11	349
Disposals	–	(4)	(4)
At 31 December 2015	6,245	463	6,708
Accumulated depreciation and impairment			
At 1 January 2014	652	296	948
Exchange adjustment	(2)	–	(2)
Charge for the year	11	52	63
Written back on disposals	–	(3)	(3)
At 31 December 2014 and 1 January 2015	661	345	1,006
Exchange adjustment	(32)	(1)	(33)
Charge for the year	19	43	62
Written back on disposals	–	(4)	(4)
At 31 December 2015	648	383	1,031
Net book value			
At 31 December 2015	5,597	80	5,677
At 31 December 2014	5,315	114	5,429

(b) Tenure of title to properties:

	Hotel properties HK\$ Million
At 31 December 2015	
Held in Hong Kong	
Long term leases	22
Medium term leases	4,947
Held outside Hong Kong	
Medium term leases	628
	5,597
At 31 December 2014	
Held in Hong Kong	
Long term leases	22
Medium term leases	4,625
Held outside Hong Kong	
Medium term leases	668
	5,315

(c) Impairment of hotel properties, plant and equipment

The value of hotel properties, plant and equipment, other than investment properties which are revalued annually, is assessed at the end of each reporting period for indications of impairment with reference to valuations undertaken by management. Such valuations assess the recoverable amount of each asset being the higher of its value in use or its fair value less costs of disposal. No such provision was made or written back for 2015 and 2014.

(d) Hotels properties under development

As at 31 December 2015, hotel properties under development amounted to HK\$4,982 million (2014: HK\$4,644 million) was not subject to depreciation.

10. INTEREST IN ASSOCIATES

	2015 HK\$ Million	2014 HK\$ Million
Share of net assets	702	610
Amount due from an associate	906	1,449
	1,608	2,059

Details of principal associate at 31 December 2015 are shown on page 94.

- (a)** Interest in associates at 31 December 2015 and 2014 mainly represents the Group's 27%-interest in a limited liability company, 上海萬九綠合置業有限公司, established for development property in Shanghai in Mainland China.

Notes to the Financial Statements

- (b) Amount due from an associate is unsecured, interest free, has no fixed terms of repayment and not expected to be recoverable within twelve months from the end of the reporting period. The amount is neither past due nor impaired.
- (c) The associates are unlisted corporate entities whose quoted market price is not available. All of the associates are accounted for using the equity method in the consolidated financial statements.

Summarised financial information of 上海萬九綠合置業有限公司, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2015 HK\$ Million	2014 HK\$ Million
Summarised statement of financial position		
Cash and cash equivalents	1,744	171
Other current assets	7,875	8,550
Total current assets	9,619	8,721
Trade and other payables	(4,472)	(3,041)
Other current liabilities	(2,072)	(2,923)
Total current liabilities	(6,544)	(5,964)
Non-current assets	1	8
Non-current liabilities	(478)	(507)
Net assets	2,598	2,258
Summarised statement of comprehensive income		
Revenue	1,820	–
Interest income	2	–
Profit/(loss) from continuing operations	698	(15)
Income tax expense	(206)	–
Post-tax profit/(loss) from continuing operations	492	(15)
Other comprehensive income	(153)	–
Total comprehensive income	339	(15)

	2015 HK\$ Million	2014 HK\$ Million
Reconciled to the Group's interest in the associate		
Gross amounts of net assets of the associate	2,598	2,258
Group's effective interest	27%	27%
Group's share of net assets of the associate	702	610
Carrying amount in the consolidated financial statement	702	610

No other associates are considered to be material to the Group individually or in aggregate.

11. INTEREST IN JOINT VENTURES

	2015 HK\$ Million	2014 HK\$ Million
Share of net assets	2,039	2,127

Details of principal joint ventures at 31 December 2015 are shown on page 94.

- (a) The Group's interest in joint ventures at 31 December 2015 and 2014 mainly represents its 55%-interest in a limited liability company, Speedy Champ Investments Limited ("Speedy Champ"), which holds 100% interest in a limited liability company, 重慶豐盈房地產開發有限公司, established for development property in Chongqing in Mainland China. Notwithstanding the Group's contribution of 55% of the registered capital, as the Group and the joint venture partner contractually agree to share control of Speedy Champ and have rights to the net assets of Speedy Champ, the Group accounts for its investment as a joint venture.
- (b) The joint ventures are unlisted corporate entities whose quoted market price is not available. All of the joint ventures are accounted for using the equity method in the consolidated financial statements.

Notes to the Financial Statements

Summarised financial information of Speedy Champ, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2015 HK\$ Million	2014 HK\$ Million
Summarised statement of financial position		
Cash and cash equivalents	339	339
Other current assets	4,269	4,107
Total current assets	4,608	4,446
Trade and other payables	(279)	(213)
Other current liabilities	(649)	(392)
Total current liabilities	(928)	(605)
Non-current assets	27	26
Net assets	3,707	3,867
Summarised statement of comprehensive income		
Revenue	962	1,126
Interest income	3	4
Profit from continuing operations	318	337
Income tax expense	(144)	(160)
Post-tax profit from continuing operations	174	177
Other comprehensive income	(204)	(15)
Total comprehensive income	(30)	162
Dividend received from joint venture	71	124
Reconciled to the Group's interest in the joint venture		
Gross amounts of net assets of the joint venture	3,707	3,867
Group's effective interest	55%	55%
Group's share of net assets of the joint venture	2,039	2,127
Carrying amount in the consolidated financial statement	2,039	2,127

12. AVAILABLE-FOR-SALE INVESTMENTS

	2015 HK\$ Million	2014 HK\$ Million
Listed investments stated at market value		
– in Hong Kong	867	303
– outside Hong Kong	1,583	1,247
	2,450	1,550

13. PROPERTIES FOR SALE

	2015 HK\$ Million	2014 HK\$ Million
Properties under development for sale	2,510	4,528
Completed properties for sale	189	451
	2,699	4,979

- (a) At 31 December 2015, included in the properties under development for sale are HK\$1,117 million (2014: HK\$2,059 million) expected to be completed after more than one year.
- (b) As 31 December 2015, the carrying value of leasehold land included in properties under development for sale and completed properties for sale is summarised as follows:

	2015 HK\$ Million	2014 HK\$ Million
Held outside Hong Kong		
Long term leases	1,707	2,912

Notes to the Financial Statements

14. TRADE AND OTHER RECEIVABLES

(a) Ageing analysis

Included in this item are trade receivables (net of allowance for doubtful debts) with an ageing analysis based on invoice date as at 31 December 2015 as follows:

	2015 HK\$ Million	2014 HK\$ Million
Trade receivables		
0–30 days	168	187
31–60 days	1	–
Over 60 days	4	1
	173	188
Prepayments	399	348
Other receivables	48	165
Amounts due from fellow subsidiaries	40	15
	660	716

The Group has established credit policies for each of its core businesses. The general credit terms allowed range from 0 to 60 days, except for sale of properties the proceeds from which are receivable pursuant to the terms of the agreements. The amounts due from fellow subsidiaries are unsecured, interest free and recoverable on demand. All the trade and other receivables are expected to be recoverable within one year.

The amount of the Group's prepayments expected to be recognised as expense after more than one year is HK\$61 million (2014: HK\$37 million).

(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 2015 and 2014, no significant amounts of trade receivables were individually determined to be doubtful or impaired.

(c) Trade receivables that are not impaired

As at 31 December 2015 and 2014, the Group assessed that of the total trade receivables, virtually all of them are neither past due nor impaired.

Based on past experience of the Group, it is determined that no impairment allowance is necessary in respect of the past due balances as there has not been a significant change in credit quality of the customers and the balances are still considered to be fully recoverable. The Group does not hold any collateral over these balances.

15. DERIVATIVE FINANCIAL INSTRUMENTS

	2015 Assets HK\$ Million	2015 Liabilities HK\$ Million	2014 Assets HK\$ Million	2014 Liabilities HK\$ Million
At fair value through profit or loss				
Forward foreign exchange contracts	–	2	80	48
Other derivatives	1	–	4	–
Total	1	2	84	48
Analysis				
Current	1	2	80	45
Non-current	–	–	4	3
Total	1	2	84	48

Analysis of the remaining maturities at the end of the reporting period of the above derivative financial instruments were as follows:

	2015 Assets HK\$ Million	2015 Liabilities HK\$ Million	2014 Assets HK\$ Million	2014 Liabilities HK\$ Million
Forward foreign exchange contracts				
Expiring within 1 year	–	2	80	45
Expiring after more than 1 year but not exceeding 5 years	–	–	–	3
	–	2	80	48
Other derivatives				
Expiring within 1 year	1	–	–	–
Expiring after more than 1 year but not exceeding 5 years	–	–	4	–
Total	1	2	84	48

Notes to the Financial Statements

- (a) The notional principal amounts of derivative financial instruments outstanding at the end of the reporting period were as follows:

	2015 HK\$ Million	2014 HK\$ Million
Forward foreign exchange contracts	2,652	2,879

- (b) Derivative financial assets represented the amounts the Group would receive whilst derivative financial liabilities represented the amounts the Group would pay if the positions were closed at the end of the reporting period.
- (c) None of the derivative financial instruments are qualified for hedge accounting and accordingly their corresponding changes in fair values have been recognised in the consolidated income statement.
- (d) During the year, a gain of HK\$2 million (2014: HK\$36 million) in respect of forward foreign exchange contracts has been included under other net income in the consolidated income statement.

16. BANK DEPOSITS AND CASH

Bank deposits and cash as at 31 December 2015 include HK\$6,406 million equivalent (2014: HK\$4,933 million) placed with banks in Mainland China, the remittance of which are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

At 31 December 2015, bank deposits and cash included bank deposits of RMB134 million (equivalent to HK\$160 million) (2014: RMB260 million equivalent to HK\$329 million) which are solely for certain designated development property projects in Mainland China.

The effective interest rate on bank deposit was 1.5% (2014: 1.8%) per annum.

Bank deposits and cash are denominated in the following currencies:

	2015 HK\$ Million	2014 HK\$ Million
HKD	39	248
United States dollar ("USD")	28	30
RMB	6,380	4,907
	6,447	5,185

17. TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis as at 31 December 2015 as follows:

	2015 HK\$ Million	2014 HK\$ Million
Trade payables		
0–30 days	34	15
31–60 days	1	6
	35	21
Other payables and provisions	292	268
Construction costs payable	1,022	1,919
Amounts due to fellow subsidiaries	42	58
Amounts due to associates	1	1
Amounts due to joint ventures	1,208	1,036
	2,600	3,303

The amounts due to fellow subsidiaries, associates and joint ventures are unsecured, interest free and repayable on demand.

Included in the above other payables and provisions and construction costs payable, are amounts of HK\$460 million (2014: HK\$455 million) which are expected to be settled after one year. The Group considers the effect of discounting these would be immaterial. All of the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

18. PRE-SALE DEPOSITS AND PROCEEDS

Of the total pre-sale deposits and proceeds received in respect of Mainland China based properties, HK\$2,836 million (2014: HK\$786 million) are expected to be recognised as income in the consolidated income statement after more than one year.

Notes to the Financial Statements

19. BANK LOANS

	2015 HK\$ Million	2014 HK\$ Million
Bank loans		
Due within 1 year or on demand, unsecured	400	250
Due after more than 1 year but not exceeding 2 years		
– secured	–	6
– unsecured	1,500	–
	1,500	6
Due after more than 2 years but not exceeding 5 years		
– unsecured	2,900	4,162
Total	4,800	4,418

- (a) The Group's borrowings are considered by the management to be effectively denominated in the following currencies:

	2015 HK\$ Million	2014 HK\$ Million
HKD	4,800	4,100
RMB	–	6
USD	–	312
	4,800	4,418

- (b) At 31 December 2014, the Group's banking facilities in the amount of HK\$138 million were secured by mortgage over the Group's certain properties under development for sale with an aggregate carrying value of HK\$208 million.
- (c) All the interest bearing borrowings are carried at amortised cost. None of the non-current interest bearing borrowings is expected to be settled within one year.
- (d) Certain of the above borrowings are attached with financial covenants which require that at any time, the Group's consolidated tangible net worth is not less than and the ratio of borrowings to consolidated tangible net worth is not more than certain required levels. During the year under review, all these covenants have been complied with by the Group.

20. DEFERRED TAXATION

(a) Net deferred tax (assets)/liabilities recognised in the consolidated statement of financial position:

	2015 HK\$ Million	2014 HK\$ Million
Deferred tax liabilities	69	35
Deferred tax assets	(46)	(19)
Net deferred tax liabilities	23	16

The components of net deferred tax (assets)/liabilities and the movements during the year are as follows:

	Depreciation allowances in excess of the related depreciation HK\$ Million	Future benefit of tax losses HK\$ Million	Withholding tax for the possible dividend distribution HK\$ Million	Others HK\$ Million	Total HK\$ Million
At 1 January 2014	11	(2)	46	2	57
(Credited)/charged to the consolidated income statement	3	–	(25)	(18)	(40)
Exchange adjustment	–	–	–	(1)	(1)
At 31 December 2014 and 1 January 2015	14	(2)	21	(17)	16
(Credited)/charged to the consolidated income statement	(2)	–	38	(30)	6
Exchange adjustment	–	–	(2)	3	1
At 31 December 2015	12	(2)	57	(44)	23

(b) Deferred tax assets not recognised

Deferred tax assets have not been recognised in respect of the following items:

	2015		2014	
	Deductible temporary differences/ tax losses HK\$ Million	Deferred tax assets HK\$ Million	Deductible temporary differences/ tax losses HK\$ Million	Deferred tax assets HK\$ Million
Deductible temporary differences	442	110	472	118
Future benefit of tax losses				
– Hong Kong	16	3	14	2
– Mainland China	112	28	72	18
	128	31	86	20
	570	141	558	138

Notes to the Financial Statements

- (c) The Group has not recognised the deferred tax assets attributable to the future benefit of tax losses sustained in the operations of certain subsidiaries as the availability of future taxable profits against which the assets can be utilised is uncertain at 31 December 2015. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from Mainland China operations can be carried forward to offset against taxable profits of subsequent years for up to five years from the year in which they arose.

21. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group is exposed to financial risks related to interest rate, foreign currency, equity price, liquidity and credit in the normal course of business. To manage some of these risks, the Group Finance Committee develops, maintains and monitors the Group's financial policies designed to facilitate cost efficient funding to the Group and to mitigate the impact of fluctuations in interest rates and exchange rates. The financial management policies are implemented by the Group's Treasury department, which operates as a centralised service unit in close co-operation with the Group's operating units for managing the day-to-day treasury functions and financial risks and for providing cost efficient funding to the Group.

The Group uses derivatives, principally forward foreign exchange contracts, as deemed appropriate, for financing and hedging transactions and for managing risks associated with the Group's assets and liabilities. It is the Group's policy not to enter into derivative transactions and invest in financial products with significant underlying leverage which are commercially speculative.

(a) Interest rate risk

The Group's main exposure to interest rate risk relates principally to the Group's borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. The Group manages its interest rate risk exposures in accordance with defined policies and reviews this exposure with a focus on reducing the Group's overall cost of funding as well as maintaining the floating/fixed rate mix appropriate to its current business portfolio.

As at 31 December 2015, all the Group's borrowings were at floating rate and the interest rate was approximately 2.0% per annum (2014: 2.9% per annum).

Based on the sensitivity analysis performed on 31 December 2015, it was estimated that a general increase/decrease of 1% (2014: 1%) in interest rates, with all other variables held constant, the Group's post-tax profit and total equity would have increased/decreased by approximately HK\$19 million (2014: increased/decreased HK\$34 million). This takes into account the effect of interest bearing bank deposits.

The sensitivity analysis above indicates the instantaneous change in the Group's post-tax profit and total equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2014.

(b) Foreign currency risk

The Group owns assets and conducts its businesses both in Hong Kong and Mainland China, with its cash flows denominated substantially in HKD and RMB which exposes the Group to foreign currency risk with respect to RMB related to its property development in Mainland China. Anticipated foreign exchange payments relate primarily to RMB capital expenditure.

Where appropriate or available in a cost-efficient manner, the Group may enter into forward foreign exchange contracts to manage its foreign currency risk arising from the anticipated transactions denominated in currencies other than its entities' functional currencies.

The Group's borrowings are predominantly denominated in the functional currency of the entity taking out the borrowings. In the case of group companies whose functional currencies are in HKD, their borrowings will be either in HKD or USD. For managing the overall financing costs of existing and future capital requirements for the projects in Mainland China and Hong Kong, the Group has adopted a diversified funding approach and has entered into certain forward foreign exchange contracts.

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets/(liabilities) denominated in a currency other than the functional currency of the Group's entities to which they relate. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency and exposure arising from inter-company balances which are considered to be in the nature of investment in a subsidiary are excluded.

	USD Million	RMB Million
At 31 December 2015		
Available-for-sale investments	203	–
Bank deposits and cash	4	–
Inter-company balances	–	66
Gross exposure arising from recognised assets and liabilities/ Overall net exposure	207	66
At 31 December 2014		
Available-for-sale investments	160	–
Bank deposits and cash	4	–
Bank loans	(40)	–
Inter-company balances	4	66
Gross exposure arising from recognised assets and liabilities	128	66
Notional amount of forward foreign exchange contracts – at fair value through profit or loss	(235)	–
Overall net exposure	(107)	66

At 31 December 2015, the Mainland China subsidiaries of the Group with RMB as their functional currency are exposed to foreign currency risk with respect to HKD/USD by holding HKD/USD denominated bank deposits and cash in the amount of HK\$27 million (2014: HK\$27 million).

Based on the sensitivity analysis performed on 31 December 2015, it was estimated that the impact on the Group's post-tax profit and total equity would not be material in response to possible changes in the foreign exchange rates of foreign currencies to which the Group is exposed.

It is further analysed that the sensitivity on the translation of the Mainland operations from 1% increase/decrease of exchange rate of RMB against HKD, the Group's total equity would have increased/decreased by HK\$93 million (2014: HK\$98 million).

Notes to the Financial Statements

(c) Equity price risk

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

Listed investments held in the available-for-sale portfolio have been chosen for 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.

Based on the sensitivity analysis performed on 31 December 2015, it is estimated that a 5% (2014: 5%) increase/decrease in the market value of the Group's available-for-sale investments, with all other variables held constant, would not affect the Group's post-tax profit unless there were impairments but would have increased/decreased the Group's total equity by HK\$123 million (2014: HK\$78 million). The analysis is performed on the same basis as for 2014.

(d) Liquidity risk

The Group adopts a prudent liquidity risk management policy, maintaining sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding with staggered maturities to reduce refinancing risk in any year from major financial institutions and to maintain flexibility for meeting its liquidity requirements in the short and longer term. The Group's cash management is substantially centralised within the Group Treasury department, which regularly monitors the current and expected liquidity requirements and its compliance with lending covenants.

Certain 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 of the Company.

The following tables detail the remaining contractual maturities at the end of the reporting period of the Group's derivative and non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates at the end of the reporting period and carried at exchange rate prevailing at the end of the reporting period) and the earliest date the Group can be required to pay:

	Contractual undiscounted cash flow					
	Carrying amount	Total	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
At 31 December 2015						
Bank loans	(4,800)	(4,983)	(456)	(1,551)	(2,976)	-
Trade and other payables	(2,600)	(2,600)	(2,140)	(452)	-	(8)
Forward foreign exchange contracts - at fair value through profit or loss	(2)	(2)	(2)	-	-	-
	(7,402)	(7,585)	(2,598)	(2,003)	(2,976)	(8)
At 31 December 2014						
Bank loans	(4,418)	(4,642)	(309)	(63)	(4,270)	-
Trade and other payables	(3,303)	(3,303)	(2,848)	(455)	-	-
Forward foreign exchange contracts - at fair value through profit or loss	32	32	35	(3)	-	-
	(7,689)	(7,913)	(3,122)	(521)	(4,270)	-

The Company is exposed to liquidity risk that arises from financial guarantees given by the Company on behalf of subsidiaries. The guarantees are callable if the respective subsidiary is unable to meet its obligation and the maximum amount callable as at 31 December 2015 was HK\$3,130 million (2014: HK\$2,192 million).

(e) Credit risk

The Group's credit risk is primarily attributable to rental, trade and other receivables, cash and cash equivalents and over-the-counter derivative financial instruments. The exposures to these credit risks are closely monitored on an ongoing basis by established credit policies and procedures in each of its core businesses. In respect of rental receivables, sufficient rental deposits from tenants are held to cover potential exposure to credit risk. Further, evaluations are made for the customers with reference to their repayment history and financial strength, as well as the economic environment in which the customer operates.

Cash at bank, deposits placed with financial institutions, and investments and transactions involving derivative financial instruments are with counter parties with sound credit ratings to minimise credit risk exposure.

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. Except for the financial guarantees given by the Company as set out in Note 25, the Group does not provide any other guarantee which would expose the Group or the Company to material credit risk.

Notes to the Financial Statements

(f) Fair values measurement

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy set out in Note 8(d).

The fair value measurement information for financial instruments in accordance with HKFRS 13 is given below:

	Fair value measurements as at 31 December 2015 categorised into		
	Level 1	Level 2	Total
	HK\$ Million	HK\$ Million	HK\$ Million
Assets			
Available-for-sale investments:			
– Listed investments	2,450	–	2,450
Derivative financial instruments:			
– Other derivatives	1	–	1
	2,451	–	2,451
Liabilities			
Derivative financial instruments:			
– Forward foreign exchange contracts	–	2	2

	Fair value measurements as at 31 December 2014 categorised into		
	Level 1	Level 2	Total
	HK\$ Million	HK\$ Million	HK\$ Million
Assets			
Available-for-sale investments:			
– Listed investments	1,550	–	1,550
Derivative financial instruments:			
– Forward foreign exchange contracts	–	80	80
– Other derivatives	4	–	4
	1,554	80	1,634
Liabilities			
Derivative financial instruments:			
– Forward foreign exchange contracts	–	48	48

During the years ended 31 December 2015 and 2014, there were no transfers of instruments between Level 1 and Level 2, or transfer into or out of Level 3.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as at the end of reporting period in which they occur.

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.

Available-for-sale investments and other derivatives in Level 1 are stated at quoted market prices.

The fair value of forward foreign exchange contracts in Level 2 is determined by using the forward exchange rates at the end of the reporting period and comparing them to the contractual rates. The fair value of bank loans and other borrowings is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

All financial instruments carried at cost or amortised cost are carried at amounts not materially different from their fair values as at 31 December 2015 and 2014. Amounts due from/(to) fellow subsidiaries and related parties are unsecured, interest free and have no fixed repayment terms. Given these terms it is not meaningful to disclose fair values.

(g) Capital management

The Group's primary objective when managing capital is to safeguard the Group's ability to continue as a going concern, to meet its financial obligations and continue to provide returns for shareholders and benefits for other stakeholders, 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 account its future financial obligations and commitments. For this purpose, the Group defines net debt as total loans less bank deposits and cash. Shareholders' equity comprises issued share capital and reserves attributable to equity shareholders of the Company. Total equity comprises shareholders' equity and non-controlling interests.

The net debt-to-equity ratio as at 31 December 2015 and 2014 were as follows:

	2015 HK\$ Million	2014 HK\$ Million
Bank loans (Note 19)	4,800	4,418
Less: Bank deposits and cash (Note 16)	(6,447)	(5,185)
Net cash	(1,647)	(767)
Shareholders' equity	16,185	16,205
Total equity	17,330	17,246
Net debt-to-shareholders' equity ratio	N/A	N/A
Net debt-to-total equity ratio	N/A	N/A

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the requirement to comply with the financial covenants attached to the Group's borrowing as disclosed in note 19(d).

Notes to the Financial Statements

22. CAPITAL AND RESERVES

(a) Share capital

	2015 No. of shares Million	2014 No. of shares Million	2015 HK\$ Million	2014 HK\$ Million
Issued and fully paid ordinary shares At 1 January	709	709	3,641	354
Transition to no-par value regime on 3 March 2014	–	–	–	3,287
At 31 December	709	709	3,641	3,641

The transition to the no-par value regime under the Hong Kong Companies Ordinance (Cap. 622) occurred on 3 March 2014. On that date, the share premium account was subsumed into share capital in accordance with section 37 of Schedule 11 to the Ordinance. These changes did not impact on the number of shares in issue or the relative entitlement of any of the members. Since that date, all changes in share capital have been made in accordance with the requirements of Part 4 and 5 of the Ordinance. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

- (b) The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity.

The Group's equity, apart from share capital and other statutory capital reserves, includes investments revaluation reserves for dealing with movement on revaluation of available-for-sale investments and the exchange reserve mainly comprises exchange differences arising from the translation of the financial statements of foreign operations in accordance with the accounting policy note (O).

The revenue reserves for the Group at 31 December 2015 included HK\$257 million (2014: HK\$220 million) in respect of statutory reserves of the subsidiaries in Mainland China.

23. COMPANY STATEMENT OF FINANCIAL POSITION

	Note	2015 HK\$ Million	2014 HK\$ Million
Non-current assets			
Interest in subsidiaries	(a)	7,417	5,237
Loans to subsidiaries		1,700	2,250
		9,117	7,487
Current asset			
Bank deposits and cash		3	4
		9,120	7,491
Non-current liabilities			
Bank loans		(1,700)	(2,250)
Current liabilities			
Trade and other payables		(1)	(3)
Amounts due to subsidiaries		(2,768)	(587)
		(2,769)	(590)
		(4,469)	(2,840)
Total liabilities		(4,469)	(2,840)
NET ASSETS		4,651	4,651
Capital and reserves			
Share capital		3,641	3,641
Reserves		1,010	1,010
TOTAL EQUITY		4,651	4,651

Stephen T H Ng
Chairman

Kevin C Y Hui
Director

Notes to the Financial Statements

- (a) Particulars regarding principal subsidiaries are set out in the section headed “Principal Subsidiaries” of the Annual Report 2015.
- (b) The Company’s equity and the details of the changes in the individual components between the beginning and the end of the year are set out below.

	Share capital HK\$ Million	Share premium HK\$ Million	Revenue reserve HK\$ Million	Total equity HK\$ Million
The Company				
At 1 January 2014	354	3,287	1,009	4,650
Profit and total comprehensive income	–	–	426	426
Transition to no-par value regime on 3 March 2014	3,287	(3,287)	–	–
2013 second interim dividend paid	–	–	(340)	(340)
2014 first interim dividend paid	–	–	(85)	(85)
At 31 December 2014 and 1 January 2015	3,641	–	1,010	4,651
Profit and total comprehensive income	–	–	439	439
2014 second interim dividend paid	–	–	(340)	(340)
2015 first interim dividend paid	–	–	(99)	(99)
At 31 December 2015	3,641	–	1,010	4,651

- (c) Reserves of the Company available for distribution to shareholders at 31 December 2015 amounted to HK\$1,010 million (2014: HK\$1,010 million).
- (d) After the end of the reporting period, the directors declared a second interim dividend of 56 cents per share (2014: 48 cents per share) amounting to HK\$397 million (2014: HK\$340 million). This dividend has not been recognised as a liability at the end of the reporting period.

24. MATERIAL RELATED PARTY TRANSACTIONS

Material transactions between the Group and other related parties during the year ended 31 December 2015 are set out below:

- (a) There were in existence agreements with a subsidiary of the parent company for the management, marketing, project management and technical services of the Group’s hotel operations. Total fees payable under this arrangement during the current year amounted to HK\$45 million (2014: HK\$53 million). Such transaction constitutes a connected transaction as defined under the Listing Rules. The disclosure required by Chapter 14A of the Listing Rules are provided in Section (I) of the Directors’ Report.

- (b) There were in existence agreements with subsidiaries of the parent company for the property services in respect of the Group's property projects of subsidiaries. Total fees payable under this arrangement during the current year amounted to HK\$77 million (2014: HK\$125 million). Such transaction constitutes a connected transaction as defined under the Listing Rules. The disclosure required by Chapter 14A of the Listing Rules are provided in Section (I) of the Directors' Reports.
- (c) The Group leased out retail areas situated on G/F, 1/F, 2/F & 3/F of Marco Polo Hongkong Hotel to Lane Crawford (Hong Kong) Limited, which is indirectly wholly owned by a trust of which a close family member of the Chairman of the Company's ultimate holding company is the settlor. The rental earned by the Group from such shops during the current year, including contingent rental income, amounted to HK\$269 million (2014: HK\$287 million). Such a transaction does not constitute a connected transaction under the Listing Rules.
- (d) Remuneration for key management personnel of the Group, including amounts paid to the Directors of the Company is disclosed in Note 2(b).

In addition to the above transactions, details of the Group's amounts due from and to related parties are disclosed in Note 10, 14 and 17 respectively.

25. CONTINGENT LIABILITIES

As at 31 December 2015, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to bank overdrafts, short term loans and credit facilities up to HK\$3,130 million (2014: HK\$2,192 million).

As at 31 December 2015, there were guarantees of HK\$3,108 million (2014: HK\$3,529 million) provided by the Group to the banks in favour of their customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's development properties. There were also mortgage loan guarantees of HK\$20 million (2014: HK\$Nil) provided by joint ventures and associates of the Group to the banks in favour of their customers.

Except for the above, the Group and the Company do not provide any other guarantee. The Group and the Company have 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 (2014: HK\$Nil).

As at the end of the reporting period, the Directors do not consider it is probable that a claim will be made against the Group and the Company under any of the guarantees.

Notes to the Financial Statements

26. COMMITMENTS

The Group's outstanding commitments as at 31 December 2015 are detailed as below:

	31 December 2015			31 December 2014		
	Committed HK\$Million	Uncommitted HK\$Million	Total HK\$Million	Committed HK\$Million	Uncommitted HK\$Million	Total HK\$Million
Investment Property						
Hong Kong	3	100	103	3	–	3
Mainland China	1,672	2,442	4,114	2,073	1,746	3,819
	1,675	2,542	4,217	2,076	1,746	3,822
Hotel						
Hong Kong	1,995	8	2,003	163	1,881	2,044
Mainland China	–	125	125	–	158	158
	1,995	133	2,128	163	2,039	2,202
Development Property						
Hong Kong	–	–	–	–	–	–
Mainland China	1,302	2,157	3,459	1,935	3,246	5,181
	1,302	2,157	3,459	1,935	3,246	5,181
Total						
Hong Kong	1,998	108	2,106	166	1,881	2,047
Mainland China	2,974	4,724	7,698	4,008	5,150	9,158
	4,972	4,832	9,804	4,174	7,031	11,205

The expenditure for development properties included attributable amounts for developments undertaken by joint ventures and associates of HK\$2,044 million (2014: HK\$2,781 million) in Mainland China.

27. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued certain amendments to HKFRSs which are first effective for the current accounting period of the Group.

Annual improvements to HKFRSs 2010-2012 cycle

Annual improvements to HKFRSs 2011-2013 cycle

The amendments do not have a significant impact on the Group's results and financial position for the current or prior periods have been prepared or presented.

The Group has not applied any new standards or interpretation that is not yet effective for the current accounting period.

The “Principal accounting policies” set out on pages 78 to 92 summarise the accounting policies of the Group after the adoption of these policies to the extent that they are relevant to the Group.

28. FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2015 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Annual improvements to HKFRSs 2012-2014 cycle	1 January 2016
Amendments to HKFRS 10 and HKAS 28, Sales or contribution of assets between an investor and its associate or joint venture	1 January 2016
Amendment to HKFRS 11, Accounting for acquisitions of interests in joint operations	1 January 2016
Amendments to HKAS 1, Disclosure initiative	1 January 2016
Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKFRS 15, Revenue from contracts with customers	1 January 2018
HKFRS 9, Financial instruments	1 January 2018
HKFRS 16, Leases	1 January 2019

The adoption of the amendments is not expected to have any material impact on the Group's consolidated financial statements. The Group is in the process of making an assessment on the impact of HKFRS 9 and HKFRS 15.

29. EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period the Directors declared a second interim dividend. Further details are disclosed in Note 7.

30. PARENT AND ULTIMATE HOLDING COMPANY

The Directors consider the parent and ultimate holding company at 31 December 2015 to be The Wharf (Holdings) Limited and Wheelock and Company Limited respectively, both incorporated and listed in Hong Kong. Both The Wharf (Holdings) Limited and Wheelock and Company Limited produce financial statements available for public use.

31. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 2 March 2016.

Principal Accounting Policies

(A) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the 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.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 27 to the financial statements provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(B) Basis of preparation of the financial statements

The consolidated financial statements made up to 31 December comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and joint ventures.

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 major sources of estimation uncertainty are discussed in Note (W).

(C) Basis of consolidation

(i) *Subsidiaries and non-controlling interests*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows, 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.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, 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. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with Notes (L) or (M) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note (H)) or, when appropriate, the cost on initial recognition of an investment in an associate or a joint venture (see Note (C)(ii)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note (F)(i)).

(ii) Associates and joint ventures

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 joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement and have rights to the net assets of the arrangement.

An investment in an associate or a joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Notes (C)(iii) and (F)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of comprehensive income. Adjustments are made on consolidation to the financial information of associates and joint ventures where necessary to ensure consistency with the accounting policies adopted by the Group.

Principal Accounting Policies

When the Group's share of losses exceeds its interest in the associates or joint ventures, 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 investee. For this purpose, the Group's interest in the associates or joint ventures 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 associates or joint ventures.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint ventures are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in the consolidated income statement.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see Note (H)).

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see note (F)(i)).

(iii) *Goodwill*

Goodwill represents the excess of

- (a) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (b) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (b) is greater than (a), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note (F)).

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

(D) Investment properties and hotel properties, plant and equipment

(i) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see Note (G)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and properties that are being constructed or developed for future use as investment properties.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Investment properties under development are stated at cost less impairment if the fair value cannot be measured reliably (see Note (F)(ii)). 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 income statement. Rental income from investment properties is accounted for as described in Note (P)(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).

(ii) Hotel properties

Hotel properties is stated at cost less accumulated depreciation and impairment losses. Hotel properties under development is stated at cost less impairment losses.

(iii) Other property, plant and equipment held for own use

Other property, plant and equipment held for own use is stated at cost less accumulated depreciation and impairment losses.

(iv) Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement on the date of retirement or disposal.

(E) Depreciation of hotel properties, plant and equipment

Depreciation is calculated to write-off the cost of items of hotel properties, plant and equipment, less their estimated residual value, if any, using a straight line method over their estimated useful lives as follows:

(i) Investment properties

No depreciation is provided on investment properties.

(ii) Hotel properties

Depreciation is provided on the cost of the leasehold land of hotel properties over the unexpired period of the lease. Costs of buildings thereon are depreciated on a straight line basis over their estimated useful lives of not more than 40 years.

Depreciation on hotel properties under development commences when they are available for use.

(iii) Other property, plant and equipment held for own use

Depreciation is provided at annual rates of 10% to 20% on a straight line basis on the cost of other property, plant and equipment held for own use.

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Principal Accounting Policies

(F) Impairment of assets

(i) *Impairment of investments in debt and equity securities and other receivables*

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 the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates and joint ventures accounted for under the equity method (see Note (C)(ii)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note (F)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note (F)(ii).
- For unquoted equity securities and other financial assets 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 equity securities carried at cost are not reversed (including those provided during the interim financial reporting).
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the consolidated income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale investments, the cumulative loss that has been recognised directly in the investments revaluation reserve is reclassified to the consolidated income statement. The amount of the cumulative loss that is recognised in the consolidated income statement 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 income statement.

Impairment losses recognised in the consolidated income statement in respect of available-for-sale equity investments are not reversed through the consolidated income statement. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

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. In this case, the impairment losses for doubtful debts are recorded using an allowance account. 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 income statement.

(ii) Impairment of other assets

The carrying amounts of non-current assets other than properties carried at revalued amounts and deferred tax assets, are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the recoverable amount is estimated.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised as an expense in the consolidated income statement if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds the recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use, if determinable.

– Reversal of impairment losses

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 (including those provided during the interim financial reporting). 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 income statement in the year in which the reversals are recognised.

Principal Accounting Policies

- Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes (F)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not in the consolidated income statement.

(G) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(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 (see note (D)(i)); 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.

(ii) Assets held under operating lease

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to the consolidated income statement 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 income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the consolidated income statement in the accounting period in which they are incurred.

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 (see Note (D)(i)) or is held for development for sale (see Note (I)(i) and (ii)).

(H) Investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities (other than investments in subsidiaries, associates and joint ventures) classified as available-for-sale investments are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs. At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the investments revaluation reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note (F)(i)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in the consolidated income statement in accordance with the policies set out in note P(iv) and P(v), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in the consolidated income statement.

When the investments are derecognised or impaired (see note (F)(i)), the cumulative gain or loss recognised in equity is reclassified to the consolidated income statement. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or when they expire.

(I) Inventories

(i) *Completed properties for sale*

Completed properties for sale are 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 which represents the estimated selling price less costs to be incurred in selling the property. Cost of completed properties held for sale comprise all costs of purchase, costs of conversion and costs incurred in bringing the inventories to their present location and condition.

The amount of any write down of or provision for properties 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 income statement in the period in which the reversal occurs.

(ii) *Properties under development for sale*

Properties under development for sale are 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 (see note (Q)), materials 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 that can ultimately be achieved, based on prevailing market conditions and the anticipated costs to completion and costs to be incurred in selling the property.

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 income statement in the period in which the reversal occurs.

Principal Accounting Policies

(iii) Hotel consumables

Inventories comprise hotel consumables and are stated at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business 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. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in the consolidated income statement, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case 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 using the effective interest methods, less allowance for impairment of doubtful debts (see Note (F)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

(L) Interest bearing borrowings

Interest-bearing borrowings are initially recognised at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in the consolidated income statement over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(M) Trade and other payables

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

(N) 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 that 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 statement of cash flows.

(O) 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 statements of financial position of foreign operations are translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the monthly weighted average exchange rates for the year. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. Differences arising from the translation of the financial statements of foreign operations are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve 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 income statement.

On disposal of a foreign operation, the cumulative amount of the exchange differences which relate to that foreign operation is reclassified from equity to the consolidated income statement and is included in the calculation of the profit or loss on disposal.

(P) Recognition of revenue

Revenue is measured at the fair value of the consideration received or receivable with the same meaning as turnover. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the consolidated income statement as follows:

- (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 income statement 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 use of the leased assets. Lease incentives granted are recognised in the consolidated income statement 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) Income arising from the sale of properties held for sale is recognised upon the later of the signing the sale and purchase agreement or the issue of an occupation permit/completion certificate by the relevant government authorities, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under pre-sale deposits and proceeds.
- (iv) Interest income is recognised as it accrues using the effective interest method.
- (v) Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(Q) Borrowing costs

Borrowing costs that are 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 are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

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.

Principal Accounting Policies

(R) 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 income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, 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 difference 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 be capable to 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.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided that they are not part of a business combination).

Where investment properties are carried at their fair value in accordance with the accounting policy set out in Note (D)(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the end of the reporting period unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, 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 end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period 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.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay dividend is recognised.

- (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.

(S) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, leave passage, contributions to defined contribution retirement plans 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.

(T) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(U) Financially guarantees issued, 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 is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. 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 in the consolidated income statement on initial recognition of any deferred income.

(ii) Other provisions and contingent liabilities

Provisions are recognised for other 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.

Principal Accounting Policies

(V) Related parties

- (i) A person, or a close member of that person's family, is related to the Group if that person:
 - (a) has control or joint control over the Group;
 - (b) has significant influence over the Group; or
 - (c) is a member of the key management personnel of the Group or the Group's parent.
- (ii) An entity is related to the Group if any of the following conditions applies:
 - (a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (c) Both entities are joint ventures of the same third party.
 - (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (f) The entity is controlled or jointly controlled by a person identified in (i).
 - (g) A person identified in (i)(a) had significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - (h) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

(W) Significant accounting estimates and judgements

Key sources of estimation uncertainty

Note 21 contain information about the assumptions and their risk relating to financial instruments. Other key sources of estimation uncertainty are as follows:

– *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 the 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 and 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 to completion of properties, the legal and regulatory framework and general market conditions. The Group's estimates may be inaccurate and estimates may need to be adjusted in later periods.

– *Valuation of investment properties*

Investment properties are included in the statement of financial position at their market value unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably determined at that time. The market value of investment properties is assessed annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential of the properties.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to current market selling prices and the appropriate capitalisation rate.

– *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 net 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 the useful economic lives for depreciation of hotel properties, plant and equipment*

In assessing the estimated useful lives of hotel properties, plant and equipment, management takes into account factors such as the expected usage of the asset by the Group 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 judgement based on the experience of the Group.

Management reviews the useful lives of hotel properties, plant and equipment annually, and 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.

– *Recognition of deferred tax assets*

The recognition of deferred tax assets requires formal assessment by the Group of the future profitability of related operations. In making this judgement, the Group evaluates, amongst other factors, the forecast financial performance, changes in technology and operational and financing cash flows.

– *Income taxes*

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that we initially recorded, such difference will impact the income tax and deferred tax provision in the period in which such determination is made.

The Group is subject to land appreciation taxes and withholding tax on capital gains in Mainland China. Significant judgement is required in determining the amount of the land appreciation and capital gains, based on management's best estimates according to the understanding of the tax rules. The final tax outcome could be different from the amounts that were initially recorded, and these differences will impact the income tax and deferred income tax provision in the periods in which such taxes have been finalised with local authorities.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

Principal Accounting Policies

- *Distinction between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production of supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

Principal Subsidiaries, Associate and Joint Ventures

As 31 December 2015

Subsidiaries	Place of incorporation/operation	Issued share capital/registered and paid up capital	Percentage of equity attributable to shareholders	Principal activities
#Harbour Centre (Hong Kong) Limited	British Virgin Islands	500 US\$1 shares	100%	Holding company
HCDL Finance Limited	Hong Kong	HK\$5,000,000 divided into 5,000,000 shares	100%	Finance
Manniworth Company Limited	Hong Kong	HK\$10,000 divided into 10,000 shares	100%	Property
The Hongkong Hotel Limited	Hong Kong	HK\$100,000 divided into 100,000 shares	100%	Hotel and property
#HCDL Investments Limited	Hong Kong	HK\$1 divided into 1 share	100%	Holding company
Ocean New Investments Limited	British Virgin Islands	500 US\$1 shares	100%	Holding company
Algebra Assets Limited	British Virgin Islands/International	500 US\$1 shares	100%	Investment
Mandelson Investments Limited	British Virgin Islands/International	500 US\$1 shares	100%	Investment
Power Castle Limited	British Virgin Islands/International	500 US\$1 shares	100%	Investment
Smart Event Investments Limited	Hong Kong	HK\$1 divided into 1 share	100%	Hotel
HCDL China Development Limited	British Virgin Islands	500 US\$1 shares	100%	Holding company
HCDL China Finance Limited	Hong Kong	HK\$1 divided into 1 share	100%	Finance
蘇州高龍房產發展有限公司 (Note (a))	The People's Republic of China	RMB4,000,000,000	80%	Property

Principal Subsidiaries, Associate and Joint Ventures

As 31 December 2015

Subsidiaries	Place of incorporation/operation	Issued share capital/registered and paid up capital	Percentage of equity attributable to shareholders	Principal activities
九龍倉（常州）置業有限公司 (Note (b))	The People's Republic of China	US\$229,800,000	100%	Property
常州馬哥孛羅酒店有限公司 (Note (b))	The People's Republic of China	US\$7,000,000	100%	Hotel

Associate	Place of incorporation/operation	Class of shares	Percentage of equity attributable to shareholders	Principal activities
上海萬九緣合置業有限公司	The People's Republic of China	Registered	27%	Property

Joint ventures	Place of incorporation/operation	Class of shares	Percentage of equity attributable to shareholders	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	Registered	55%	Property

All the subsidiaries listed above were, as at 31 December 2015, indirectly held by the Company except where marked #, which are held directly by the Company.

Notes:

- (a) The entity is registered as a sino-foreign joint venture company under PRC law.
- (b) This entity is registered as a wholly foreign owned enterprise under PRC law.

Schedule of Principal Properties

As 31 December 2015

Address	Approximate Gross Floor Areas (sq.ft.)							Year of Completion/Expected Completion	Lease Expiry	Stage of Completion	Effective Equity Interest to the Company
	Total	Office	Retail	Residential	Others	Remarks	Site Area (sq.ft.)				
HONG KONG											
Investment Properties											
Marco Polo Hongkong Hotel (Commercial Section), Harbour City, Tsimshatsui	189,000	14,000	175,000	-	-	Note (a)	(a) KML 91 S.A. & KML 10 S.B.	2863	N/A	100%	
Units at Star House, 3 Salisbury Road, Kowloon	50,800	-	50,800	-	-	-	N/A KML 10 S.A.	2863	N/A	100%	
	239,800	14,000	225,800	-	-	-					
Hotel Properties											
Marco Polo Hongkong Hotel, Harbour City, Tsimshatsui	571,000	-	-	-	571,000	(A 665-room hotel)	58,814 KML 91 S.A. & KML 10 S.B.	2863	N/A	100%	
Murray Building, Cotton Tree Drive, Central	325,000	-	-	-	325,000	-	68,136 9036	2063	Renovation in progress	100%	
	896,000	-	-	-	896,000	-					
HONG KONG TOTAL	1,135,800	14,000	225,800	-	896,000	-					
MAINLAND											
Investment Property											
Suzhou International Finance Square Xing Hu Jie, Suzhou Industrial Park, Suzhou	2,989,000	2,558,000	-	181,000	250,000	(A 133-room hotel)	229,069 N/A	2047/77	Superstructure in progress	80%	
Hotel Property											
Marco Polo Changzhou 88 Heibei East Road, Xibei District, Changzhou	474,000	-	-	-	474,000	(A 271-room hotel, serviced apartment and The Mansion)	842,531 N/A	2048	N/A	100%	
Development Properties											
Changzhou Times Palace China Dinosaur Park, Xibei District, Jiangsu Province, Changzhou	1,429,000	-	-	1,429,000	-	-	3,585,273 N/A	2047/77	Superstructure in progress	100%	
Suzhou Times City Xiangdi Da Dao, Suzhou Industrial Park, Suzhou	3,740,000	-	-	3,740,000	-	-	5,425,454 N/A	2077	Superstructure in progress	80%	
Shanghai Xiyuan D1 of Xinjiangwancheng of Yangpu District, Shanghai	3,000	-	-	3,000	-	-	638,000 N/A	2077	N/A	100%	
	5,172,000	-	-	5,172,000	-	-					
Development Properties undertaken by joint venture/associates - Note (b)											
The U World Zone B of Jiangbei City, Jiang Bei District, Chongqing	813,000	-	40,000	773,000	-	-	1,002,408 N/A	2057	Superstructure in progress	55%	
Shanghai South Station Caoheng Area Lot 278a-05/278b-02/278b-04, South Station Business Zone, Xuhui District, Shanghai	1,428,000	1,182,000	219,000	-	27,000	-	1,156,979 N/A	2052/62	Superstructure in progress	27%	
	2,241,000	1,182,000	259,000	773,000	27,000	-					
MAINLAND TOTAL	10,876,000	3,740,000	259,000	6,126,000	751,000	-					
GROUP TOTAL	12,011,800	3,754,000	484,800	6,126,000	1,647,000	-					

Notes:

(a) Part of Marco Polo Hongkong Hotel building.

(b) The floor area of property held through joint venture and associates is shown on an attributable basis.

(c) Total Mainland development properties area included 352,000 sq.m. (3,785,000 sq. ft.) pre-sold areas have not yet been recognised in the financial statements.

Ten-Year Financial Summary

HK\$ Million	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Consolidated Income Statement										
Revenue	5,048	5,646	5,758	6,261	1,297	667	566	664	671	921
Core profit (Note a)	1,194	851	1,464	1,937	336	226	304	133	503	345
Profit attributable to shareholders	1,231	1,082	1,276	3,058	1,096	1,015	535	171	638	423
Dividends attributable to shareholders	496	425	553	680	170	142	142	95	129	91
Consolidated Statement of Financial Position										
Investment property	7,876	7,253	6,435	5,566	4,290	3,352	2,516	1,877	1,827	1,663
Hotel properties, plant and equipment	5,677	5,429	4,764	650	359	116	74	96	120	79
Interest in associates	1,608	2,059	1,925	–	–	–	–	1	1	1
Interest in joint ventures	2,039	2,127	2,162	2,082	1,769	1,757	1,651	2,587	1,965	–
Available-for-sale investments	2,450	1,550	1,340	1,541	1,119	1,744	1,193	604	2,517	1,490
Properties under development/for sale	2,699	4,979	7,376	7,822	8,717	7,335	6,473	4,972	985	5
Bank deposits and cash	6,447	5,185	5,825	7,731	5,842	3,522	1,124	1,258	585	1,840
Other assets	855	960	1,249	1,390	959	441	119	112	438	91
Total assets	29,651	29,542	31,076	26,782	23,055	18,267	13,150	11,507	8,438	5,169
Bank loans	(4,800)	(4,418)	(6,238)	(3,150)	(3,141)	(3,350)	(2,953)	(3,065)	(1,859)	–
Other liabilities	(7,521)	(7,878)	(8,391)	(8,069)	(7,635)	(3,477)	(320)	(679)	(634)	(391)
Net assets	17,330	17,246	16,447	15,563	12,279	11,440	9,877	7,763	5,945	4,778
Share capital: nominal value	–	–	354	354	354	354	354	236	158	158
Other statutory capital reserve	–	–	3,287	3,287	3,287	3,287	3,287	2,470	542	542
Share capital and other statutory capital reserve	3,641	3,641	3,641	3,641	3,641	3,641	3,641	2,706	700	700
Reserves	12,544	12,564	11,740	10,950	7,822	7,033	5,534	4,361	5,048	4,078
Shareholders' equity	16,185	16,205	15,381	14,591	11,463	10,674	9,175	7,067	5,748	4,778
Non-controlling interests	1,145	1,041	1,066	972	816	766	702	696	197	–
Total equity	17,330	17,246	16,447	15,563	12,279	11,440	9,877	7,763	5,945	4,778
Net debt/(cash)	(1,647)	(767)	413	(4,581)	(2,701)	(172)	1,829	1,807	1,274	(1,840)
Financial Data										
<i>Per share data</i>										
Earnings per share (HK\$)										
– Core profit (Note a)	1.68	1.20	2.07	2.73	0.47	0.32	0.48	0.28	1.60	1.09
– Reported profit	1.74	1.53	1.80	4.31	1.55	1.43	0.84	0.36	2.03	1.34
Net assets value per share (HK\$)	22.84	22.86	21.70	20.59	16.17	15.06	12.95	14.96	18.24	15.17
Dividends per share (HK cents)	70.00	60.00	78.00	96.00	24.00	20.00	20.00	20.00	29.00	29.00
<i>Financial ratios</i>										
Net debt to total equity (%)	N/A	N/A	2.5%	N/A	N/A	N/A	18.5%	23.3%	21.4%	N/A
Return on shareholders' equity (%) (Note b)	7.6%	6.9%	8.5%	23.5%	9.9%	10.2%	6.6%	2.7%	11.1%	9.5%
Dividend cover (Times)										
– Core profit (Note a)	2.4	2.0	2.6	2.8	2.0	1.6	2.1	1.4	3.9	3.8
– Reported profit	2.5	2.6	2.3	4.5	6.4	7.2	3.8	1.8	4.9	4.6
Interest cover (Times) (Note c)	18.5	7.3	17.4	52.2	20.1	11.0	12.0	5.1	37.5	N/A

Notes:

- Core profit excludes investment property revaluation surplus and impairment provision for hotel properties under development.
- Return on shareholders' equity is based on profit attributable to shareholders over average shareholders' equity during the year.
- Interest cover is based on EBITDA over finance costs (before capitalisation and fair value gain/loss).
- Certain figures have been reclassified or restated to comply with the prevailing HKFRSs.