HARBOUR CENTRE DEVELOPMENT LIMITED

Stock Code: 51

# Annual Report 2008

# Contents

# Corporate Information

## BOARD OF DIRECTORS

G. W. J. Li *(Chairman and Director until 2 April 2009)*
S. T. H. Ng *(Chairman and Director since 2 April 2009)*
T. Y. Ng
P. Y. C. Tsui
C. K. H. Wong
H. M. V. de Lacy Staunton
M. T. P. Sze
B. S. K. Tang

## SECRETARY

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

## REGISTERED OFFICE

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

## REGISTRARS

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

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

## AUDITORS

KPMG

Despite a slight drop in long haul visitor arrivals in an unfavourable economic environment, the Hong Kong hotel market held up reasonably well in much of 2008. The leasing market for prime commercial properties in Hong Kong remained buoyant in the first half but noticeably softened in the latter part of the year on growing concerns over the weakening economy. As a whole, our Group's properties performed satisfactorily during the year.

The Group remains enthusiastic about the fundamental outlook for the real estate market in China. As at the end of 2008, the Group's total attributable developable area in China was about 26 million square feet in a total of four cities – Changzhou, Suzhou, Chongqing and Hangzhou. Details of the sites are covered under Segment Review.

In 2008, the Group's turnover was HK$664.2 million (2007: HK$671.1 million). The slight drop in turnover was mainly due to the decrease in investment income partially offset by an increase in revenue from the hotel and property investment segments. In addition, a very significant profit from the disposal of listed investment in 2007 did not recur in 2008. Operating profit therefore dropped to HK$288.0 million (2007: HK$633.6 million). Net profit attributable to shareholders, including a net revaluation surplus of HK$26.3 million on investment properties (2007: HK$135.0 million), slid to HK$170.5 million (2007: HK$638.4 million). Earnings per share were HK$0.39 (2007: HK$2.03).

## HOTEL OPERATIONS

Visitor arrivals in 2008 posted an increase of 4.7% to reach 29.5 million which rendered support to the performance of the hotel segment. Despite a decrease in average room occupancy to 84% (2007: 88%), average room rate at the Marco Polo Hongkong Hotel registered a 10% year-on-year growth during the year.

## PROPERTY INVESTMENT

The Group's commercial areas in the Marco Polo Hongkong Hotel and Star House performed satisfactorily, with favourable rental growth in 2008.

## PROSPECTS

2009 will be a challenging year. Growing concerns over the global economic outlook will continue to take their toll on the tourism and hotel industry, as well as the retail market in Hong Kong. Nevertheless, the Central government's support measures in further facilitating Mainland visitors to Hong Kong will provide some relief to the market. To stay competitive in the worsening environment, the hotel manager will keep optimising the performance of the Group's hotel.

The new projects underway in China are expected to generate a satisfactory return to the Company in the coming years. Market conditions will be closely monitored to enable the progress of development to be adjusted as appropriate. The Company will be funding these new projects by both equity and debt, as well as proceeds from operations and property pre-sales.

**Gonzaga W.J. Li**
*Chairman of the Company*
*(as at the date of this Chairman's Statement)*

Hong Kong, 10 March 2009

# Financial Highlights

| | **2008** | 2007 |
|---|---|---|
| | ***HK$ Million*** | *HK$ Million* |
| **Results** | | |
| Turnover | **664.2** | 671.1 |
| Operating profit | **288.0** | 633.6 |
| Profit before investment property revaluation surplus | **133.3** | 503.4 |
| Profit attributable to equity shareholders | **170.5** | 638.4 |
| Earnings per share | **HK$0.39** | HK$2.03 |
| Dividends per share | **20.0¢** | 29.0¢ |
| **Financial position** | | |
| Total assets | **11,507.1** | 8,438.0 |
| Net debt/(cash) | **1,806.6** | 1,274.1 |
| Shareholders' equity | **7,067.0** | 5,748.1 |
| Total equity | **7,762.8** | 5,945.1 |
| Net asset value per share | **HK$14.96** | HK$18.25 |
| Net debt to shareholders' equity | **25.6%** | 22.2% |
| Net debt to total equity | **23.3%** | 21.4% |

| | **Profit attributable to Shareholders** | **Shareholders' equity** | **Earnings per share** | **Dividends per share** | **Distribution cover** |
|---|---|---|---|---|---|
| | *HK$ Million* | *HK$ Million* | *HK$* | *HK¢* | *Times* |
| 2004 | 371.7 | 3,505.6 | 1.18 | 17.0 | 6.94 |
| 2005 | 517.1 | 4,096.3 | 1.64 | 17.0 | 9.66 |
| 2006 | 422.7 | 4,778.0 | 1.34 | 29.0 | 4.63 |
| 2007 | 638.4 | 5,748.1 | 2.03 | 29.0 | 4.94 |
| 2008 | 170.5 | 7,067.0 | 0.39 | 20.0 | 1.80 |

## SEGMENT REVIEW

Revenue and operating profit of the **Hotel Segment** grew by 8% and 9%, respectively, primarily on the strength of a 10% growth in average room rates during the year. Demand for hotel rooms during trade fairs, exhibitions, sports events and festive seasons was strong but weakened in the rest of the year due to the global economic slowdown and a slight drop in long-haul visitors. Average occupancy for the full year dropped to 84%.

The **Property Investment Segment** benefited from a leasing market which held up well for prime commercial properties through much of 2008. Favourable rental growth mainly from Lane Crawford, the anchor tenant for the retail area in Marco Polo Hongkong Hotel ("MPHK Hotel"), spurred a 5% growth in revenue, while operating profit rose by a mild 1% on inclusion of renovation and improvement works expenses.

The Group's investment properties, comprising the office and retail areas in MPHK Hotel and the Star House retail units, were revalued by an independent valuer as at 31 December 2008. The net revaluation surplus after deferred tax was HK$26.3 million for 2008 (2007: HK$135.0 million).

### China Properties

The Group remains optimistic about the long term outlook for the Mainland economy despite the current global crisis. Underpinned by vibrant developments, rapid urbanisation, strong accumulation of wealth and a high savings rate in the Mainland, the fundamental outlook for the real estate market in China remains positive. Since 2007, the Group has acquired five prime sites in the cities of Changzhou, Suzhou, Chongqing and Hangzhou for development either solely or through joint ventures with strong local property companies. As at the end of 2008, the total developable area attributable to the Group was about 26 million square feet.

A land lot in Jiangbei City (江北城) of Jiangbei District (江北區), Chongqing, is being jointly developed by the Company and China Overseas Land on a 55:45 ownership basis into a high end residential project. Superbly located in the eastern side of Jiangbei City, facing the Yangtze River (長江) in the east and north and Jialing River (嘉陵江) in the south, the land lot has a total site area of about one million square feet. It offers a plot ratio GFA of 2.5 million square feet attributable to the Group. Completion is scheduled in phases by 2014.

Two land parcels on Xinghu Jie (星湖街) and Xiandai Da Dao (現代大道) in Suzhou Industrial Park (蘇州工業園區) are being developed in an 80:20 joint venture with Genway Housing Development Group (蘇州工業園區建屋發展集團). The parcels command a total site area of about 5.65 million square feet. They offer a plot ratio GFA of 13.5 million square feet attributable to the Group. A 420-metre skyscraper landmark will be built at the site of Xinghu Jie while the site at Xiandai Da Dao will house residential development. Planning and design are in progress.

Through a 40:60 joint venture with Greentown China Holdings, the Company is developing a land parcel in Hangzhou that is superbly located in the new Hangzhou Central Business District (錢江新城) and frontal to the Qiangtang Jiang (錢塘江). The site boasts a total area of about 907,000 square feet and offers a plot ratio GFA of 1.3 million square feet attributable to the Group. The development comprises high end residences, apartments and a five-star hotel. The whole project is expected to be completed in phases by 2013.

The Company's land parcel in Xinbei District (新北區) of Changzhou commands a total site area of about 4.4 million square feet and offers a plot ratio GFA of 8.7 million square feet. Ideally located in the prime area of Xinbei District, the parcel is just five kilometers away from the city centre, in the vicinity of China Changzhou Dinosaur Land theme park (中華恐龍園) and Xin Qu Park (新區公園). It boasts superb air-sea-land transportation links to Changzhou Airport and Huning Express Railway. The development comprises mainly high-end residences and a 5-star hotel. The whole project is scheduled for completion in phases by 2014.

## FINANCIAL REVIEW

### (I) Review of 2008 Final Results

*Turnover*

The Group's turnover for the year ended 31 December 2008 was little changed from the preceding year at HK$664.2 million (2007: HK$671.1 million).

The Hotel Segment recorded an 8% increase in turnover to HK$472.4 million (2007: HK$438.3 million), benefiting particularly from a 10% increase in average room rates achieved by MPHK Hotel despite a moderate decline in occupancy to 84%. Food and beverage revenue also rose by 14% resulting from the full-year operation of a new restaurant in MPHK Hotel, Cucina, which opened in late 2007.

Turnover for the Property Investment Segment increased by 5% to HK$134.5 million (2007: HK$127.6 million) as rental income generated from the retail areas rose in spite of the adverse economic conditions since the third quarter of 2008.

The Property Development Segment did not record any revenue (2007: HK$6.7 million) since the Group's projects on hand, all in China, are still at an early stage of development.

The Investment Segment's interest and dividend income decreased by 42% to HK$57.3 million (2007: HK$98.5 million) mainly due to the decrease in the Group's surplus cash and investment.

*Operating Profit*

The Group's operating profit decreased by 55% to HK$288.0 million (2007: HK$633.6 million). Hotel Segment's profit increased by 9% to HK$161.1 million and Property Investment Segment reported a marginal increase over 2007 to HK$109.9 million.

Profit from the Investment Segment decreased to HK$33.4 million (2007: HK$381.8 million) mainly due to an exceptionally large profit of HK$356.7 million from disposal of investments in 2007. Interest income also dropped as a result of the decrease in average surplus cash balance and the fall in interest rates.

In addition, the Group took advantage of a market window in 2007 to effectively lock in a significantly more favourable interest cost to finance RMB assets in the Mainland with liabilities in Japanese yen. Appreciation of the yen and the RMB against the US dollar (and the pegged Hong Kong dollar) in 2008 gave rise, respectively, to a net exchange loss of HK$167.1 million (2007: HK$74.2 million) in the profit and loss account and a net exchange gain of HK$241.8 million (2007: HK$42.5 million) as an equity movement on translation of the net RMB investments in China subsidiaries and jointly controlled entities.

*Net Other Charge*

The net other charge of HK$47.5 million (2007: HK$19.9 million) represented the impairment loss provided on the Group's available-for-sale investments.

*Finance Costs*

Net finance costs for the year was HK$67.1 million (2007: HK$8.3 million), resulting from the increase in bank borrowings mainly for the Group's equity investments in China properties.

*Increase in Fair Value of Investment Properties*

The Group's investment properties were revalued by an independent valuer as at 31 December 2008, resulting in a surplus of HK$31.5 million (2007: HK$163.6 million). The net surplus after deferred tax taken to the profit and loss account was HK$26.3 million (2007: HK$135.0 million).

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

Share of losses of the associate and jointly controlled entities after tax was HK$11.0 million (2007: profit of HK$3.9 million). No profit was attributable to the year under review as all the trading properties held by the associate were sold in previous years and those undertaken through the jointly controlled entities are at an early stage of development.

*Taxation*

The taxation charge for the year decreased by 82% to HK$24.3 million (2007: HK$134.6 million) as a result of decrease in the Group's operating profit and its revaluation surplus of investment properties. There was also a tax credit of HK$12.2 million (2007: HK$Nil) from a downward adjustment of deferred tax mainly on the investment property surplus brought forward from the previous years as a result of a reduction in Hong Kong profits tax rate by 1% to 16.5%.

*Profit Attributable to Equity Shareholders*

Group profit attributable to equity shareholders for the year ended 31 December 2008 amounted to HK$170.5 million (2007: HK$638.4 million), representing a decrease of HK$467.9 million or 73%. Earnings per share were HK$0.39 based on weighted average issued shares of 439.8 million (2007: HK$2.03 based on 315.0 million issued shares).

Excluding the net investment property surplus of HK$26.3 million (2007: HK$135.0 million) and the related deferred tax credit of HK$10.9 million (2007: HK$Nil) resulting from the 1% tax rate reduction, the Group's net profit for the year was HK$133.3 million, representing a decrease of 74% over last year.

## (II) Liquidity and Financial Resources

*Rights Issue*

In March 2008, the Company completed an issue of 157.5 million new ordinary shares at HK$12.80 each by way of rights, with net proceeds of HK$2,006.7 million.

*Shareholders' Equity*

As at 31 December 2008, the Group's shareholders' equity was HK$7,067.0 million, equivalent to HK$14.96 per share based on 472.5 million issued shares (2007: HK$18.25 per share based on 315.0 million issued shares).

The Group's hotel property is stated at cost less accumulated depreciation according to the prevailing Hong Kong Financial Reporting Standards. If the hotel property was restated based on the valuation as at 31 December 2008 carried out by an independent valuer, it would result in a net revaluation surplus of HK$2,542.6 million and increase the Group's shareholders' equity to HK$9,609.6 million, equivalent to HK$20.34 per share.

*Capital Commitments*

As at 31 December 2008, the Group's total outstanding commitments to properties under development in China, both by the Group and through jointly controlled entities, amounted to HK$17.2 billion, of which HK$1.1 billion have been contracted for. Included in the commitments is land cost of HK$1.0 billion payable in 2009. The committed developments will be carried out in stages in the coming years and funded by both equity and debt, as well as proceeds from operations and property pre-sales.

*Finance and Availability of Facilities and Funds*

As at 31 December 2008, the Group's available loan facilities amounted to HK$3,965.0 million of which HK$3,065.0 million was drawn. Certain banking facilities of the Group were secured by mortgages mainly over the Group's hotel and investment properties and certain available-for-sale investments with total carrying value of HK$2,174.1 million (2007: HK$2,003.6 million).

The Group's debts were primarily denominated in Hong Kong dollars ("HKD") and United States dollars ("USD"). Renminbi ("RMB") borrowings will be sourced to finance the development cost of the China projects apart from their land cost.

The use of derivative financial instruments was strictly controlled. The majority of the financial instruments entered into by the Group were primarily used for management of the Group's interest rate and foreign currency exposures.

*Debt and Gearing*

As at 31 December 2008, the Group had a net debt of HK$1,806.6 million (2007: HK$1,274.1 million), which was made up of HK$3,065.0 million of bank borrowings less HK$1,258.4 million of cash. The increase in net debt was mainly caused by the increase in investment in the China development projects. The gearing ratio to shareholders' equity was 25.6% (2007: 22.2%).

*Net Cash Flows for Operating and Investing Activities*

For the period under review, the Group had net cash outflow of HK$3,205.9 million (2007: HK$908.8 million) for operating activities mainly due to payments made for the China projects. From investing activities, the Group received a net amount of HK$787.5 million, mainly including inflow of HK$1,085.4 million from the sale of investments and outflow of HK$596.9 million for investments in jointly controlled entities in property development projects in China. Net proceeds of HK$2,006.7 million from the rights issue was received in March 2008.

The Group maintained a reasonable level of surplus cash, which was denominated principally in HKD and RMB, to facilitate the Group's business and investment activities. As at 31 December 2008, the Group also maintained a portfolio of investments primarily consisting of blue chip securities, with an aggregate market value of HK$604.0 million (2007: HK$2,516.6 million), which is available for liquidation to meet the Group's commitments if necessary. The decrease in the portfolio was partly due to disposals and partly due to the decline in value in line with the performance of the stock markets.

## (III) Human Resources

The Group has approximately 470 employees. They are remunerated according to the nature of the job and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Total staff costs for the year ended 31 December 2008 amounted to HK$120.0 million (2007: HK$104.2 million).

## (A) CORPORATE GOVERNANCE PRACTICES

During the financial year ended 31 December 2008, all the code provisions set out in the Code on Corporate Governance Practices in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Code") were met by the Company, with the exception of one deviation as set out under section (D) below. The application of the relevant principles, and the reasons for the abovementioned deviation from a Code provision, are stated in the following sections.

## (B) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors of the Company who were in office during the financial year ended 31 December 2008, they have confirmed that they have complied with the Model Code during the financial year.

## (C) BOARD OF DIRECTORS

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

The Company's Board has a balance of skills and experience and a balanced composition of executive and non-executive directors. Five Board meetings were held during the financial year ended 31 December 2008. The composition of the Board and attendance of the Directors are set out below:

| Directors | Attendance at Meetings |
|---|---|
| *Chairman* | |
| Mr Gonzaga W. J. Li | 5 |
| *Non-executive Director* | |
| Mr T. Y. Ng | 3 |
| Mr Clement K. H. Wong *(appointed on 1 February 2008)* | 4 |
| *Independent Non-executive Directors* | |
| Mr H. M. V. de Lacy Staunton | 3 |
| Mr Michael T. P. Sze | 5 |
| Mr M. K. Tan *(passed away on 14 August 2008)* | 1 |
| Mr Brian S. K. Tang *(appointed on 8 September 2008)* | 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.

## (C) BOARD OF DIRECTORS *(Continued)*

### (II) Operation of the Board

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

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

## (D) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

## (E) NON-EXECUTIVE DIRECTORS

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

## (F) REMUNERATION OF DIRECTORS

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

One Remuneration Committee meeting was held during the financial year ended 31 December 2008. Attendance of the Members is set out below:

| **Members** | **Attendance at Meeting** |
|---|---|
| Mr Gonzaga W. J. Li, *Chairman* | 1 |
| Mr Michael T. P. Sze | 1 |
| Mr M. K. Tan *(passed away on 14 August 2008)* | 0 |
| Mr Brian S. K. Tang *(appointed on 8 September 2008)* | 1 |

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

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

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

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

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

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

(ii) The work performed by the Remuneration Committee for the financial year ended 31 December 2008 is summarised below:

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

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

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

## (F) REMUNERATION OF DIRECTORS *(Continued)*

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

## (G) NOMINATION OF DIRECTORS

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

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

## (H) AUDITORS' REMUNERATION

The fees in relation to the audit and other services for the financial year ended 31 December 2008 provided by KPMG, the external auditors of the Company, amounted to HK$1.1 million and HK$0.7 million respectively.

## (I) AUDIT COMMITTEE

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

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

Two Audit Committee meetings were held during the financial year ended 31 December 2008. Attendance of the Members is set out below:

| **Members** | **Attendance at Meetings** |
|---|---|
| Mr Michael T. P. Sze, *Chairman (elected Chairman on 8 September 2008)* | 2 |
| Mr T. Y. Ng | 2 |
| Mr M. K. Tan *(passed away on 14 August 2008)* | 0 |
| Mr Brian S. K. Tang *(appointed on 8 September 2008)* | 0 |

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

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

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

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

(i) any changes in accounting policies and practices;

(ii) major judgmental areas;

(iii) significant adjustments resulting from the audit;

(iv) the going concern assumption;

(v) compliance with accounting standards; and

(vi) compliance with Stock Exchange and legal requirements.

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

(e) to review the audit programme of the internal audit function;

## (I) AUDIT COMMITTEE *(Continued)*

(ii) The work performed by the Audit Committee for the financial year ended 31 December 2008 is summarised below:

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

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

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

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

(e) review of the audit programme 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.

## (J) INTERNAL CONTROL

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

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

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

A review of the effectiveness of the Group's internal control system and procedures covering all controls, including financial, operational and compliance and risk management, was conducted by the Audit Committee and subsequently reported to the Board during the financial year ended 31 December 2008. Based on the result of the review, in respect of the financial year ended 31 December 2008, the Directors considered that the internal control system and procedures of the Group were effective and adequate.

## (K) DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for the financial year ended 31 December 2008, 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 2008:

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

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

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

## (L) COMMUNICATION WITH SHAREHOLDERS

The Group uses several formal channels to ensure fair disclosure and comprehensive and transparent reporting of its performances and activities. Annual and interim reports are printed and sent to all shareholders. Press releases are posted on the Company's corporate website www.harbourcentre.com.hk. The Company's website provides email address, postal address, fax number and telephone number by which enquiries may be put to the Company's Board. Constantly being updated in a timely manner, the website also contains a wide range of additional information on the Group's business activities. As a standard part of the investor relations programme to maintain a constant dialogue on the Group's performance and objectives, senior executives hold regular briefings and attend conferences with institutional investors and financial analysts.

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

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

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

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

The Directors have pleasure in submitting their Report and the Audited Financial Statements for the financial year ended 31 December 2008.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of its principal subsidiaries, associates and jointly controlled entities are set out on pages 88 and 90.

## RESULTS, APPROPRIATIONS AND RESERVES

The results of the Group for the financial year ended 31 December 2008 are set out in the Consolidated Profit and Loss Account on page 28.

Appropriations of profits and movements in reserves during the financial year are set out in Note 26 to the Financial Statements on pages 65 to 67.

## DIVIDENDS

An interim dividend of 5.0 cents per share was paid on 13 October 2008. The Directors now recommend the payment on 21 May 2009 of a final dividend of 15.0 cents per share in respect of the financial year ended 31 December 2008, payable to shareholders on record as at 14 May 2009. This recommendation has been disclosed in the Financial Statements.

## SHARE CAPITAL

During the financial year, a total of 157,500,000 ordinary shares of HK$0.50 each of the Company, credited as fully paid, were allotted and issued by the Company as a result of a 1-for-2 rights issue by the Company.

## FIXED ASSETS

Movements in fixed assets during the financial year are set out in Note 10 to the Financial Statements on pages 43 to 44.

## DONATIONS

The Group made donations during the financial year totalling HK$3.4 million.

## DIRECTORS

The Directors of the Company during the financial year were Mr G. W. J. Li, Mr T. Y. Ng, Mr H. M. V. de Lacy Staunton, Mr Michael T. P. Sze, Mr M. K. Tan (passed away on 14 August 2008), Mr Brian S. K. Tang (appointed on 8 September 2008) and Mr Clement K. H. Wong (appointed on 1 February 2008).

Messrs T. Y. Ng and Brian S. K. Tang are due to retire from the Board at the forthcoming Annual General Meeting. Being eligible, they offer themselves for re-election. None of the retiring Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## INTERESTS IN CONTRACTS

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

## MANAGEMENT CONTRACTS

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

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

## PURCHASE, SALE OR REDEMPTION OF SHARES

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

## AUDITORS

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

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

Hong Kong, 10 March 2009

Note: Mr G. W. J. Li stepped down as the Chairman and a Director of the Company effective from 2 April 2009. Mr S. T. H. Ng and Mr P. Y. C. Tsui were appointed as Directors of the Company, and Mr S. T. H. Ng was also elected as the Chairman of the Company to succeed Mr G. W. J. Li, all effective from 2 April 2009. In accordance with the Articles of Association of the Company, Messrs S. T. H. Ng and P. Y. C. Tsui will retire from the Board and being eligible, offer themselves for re-election at the forthcoming Annual General Meeting of the Company to be held on 20 May 2009.

## (A) Biographical Details of Directors and Senior Managers

*(I) Directors*

**Mr Stephen Tin Hoi NG**, *Chairman (Age: 56)*

Mr Ng was appointed a Director and elected as Chairman of the Company with effect from 2 April 2009. He is the deputy chairman of publicly-listed Wheelock and Company Limited ("Wheelock"), which is the ultimate holding company of the Company, and the deputy chairman and managing director of publicly-listed The Wharf (Holdings) Limited ("Wharf") of which the Company is a subsidiary. He has been a director and chief executive officer of i-CABLE Communications Limited, a listed fellow subsidiary of the Company, since 1999 and became its chairman in 2001. Furthermore, Mr Ng is the chairman of Modern Terminals Limited, the chairman and chief executive officer of Wharf T&T Limited, and the chairman of publicly-listed Joyce Boutique Holdings Limited ("Joyce"). He is also a director of certain other subsidiaries of Wheelock.

**Tze Yuen NG**, *Director (Age: 61)*

Mr Ng, *ACPA, ACMA,* has been a Director of the Company since 1994 and serves as a member of the Company's Audit Committee. He is also a director of Wharf and of Wheelock Properties Limited, a publicly listed fellow subsidiary of the Company. He is also the managing director of Wharf Estates China Limited ("WECL"), a wholly-owned subsidiary of Wharf. Mr Ng was formerly a director of Joyce from 2000 to 2008. He is also a director of certain other subsidiaries of Wheelock.

**Mr Paul Yiu Cheung TSUI**, *Director (Aged 62)*

Mr Tsui, *FCCA, FCPA, FCMA, FCIS, CGA-Canada*, was appointed a Director of the Company with effect from 2 April 2009. He is an executive director and the group chief financial officer of both Wheelock and Wharf. He joined Wheelock/Wharf group in 1996 and became Wheelock's director in 1998. Furthermore, he was formerly a director of the Company from 1998 to 2005. He is presently also a director of two fellow subsidiaries of the Company, namely, Wheelock Properties Limited, publicly listed in Hong Kong, and Wheelock Properties (Singapore) Limited, publicly listed in Singapore, and also is a director of Joyce. He is also a director of certain other subsidiaries of Wheelock.

**Hugh Maurice Victor de LACY STAUNTON**, *Director (Age: 73)*

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

**Michael Tsai Ping SZE**, *Director (Age: 63)*

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

## SUPPLEMENTARY CORPORATE INFORMATION *(Continued)*

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

*(I) Directors (Continued)*

**Brian See King TANG**, *Director (Age: 59)*

Mr Tang was appointed an independent Non-executive Director of the Company in September 2008. He also serves as a member of the Company's Audit Committee and Remuneration Committee. He has over 29 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, U.S.A. He had been 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.

**Clement Kam Hung WONG**, *Director (Age: 53)*

Mr Wong, *MHKIE, MCIBSE, CEng (ECUK),* was appointed a Director of the Company in February 2008. He joined the Wheelock group in 1982. He has been in continuous employment of the Wheelock group and of the Wharf group since 1982, and has been involved in various property-related responsibilities of the Wheelock group and Wharf group. He is currently an executive director of Wharf Estates Development Limited and WECL, both being wholly-owned subsidiaries of Wharf, and is presently responsible for overseeing the planning, development and construction in respect of all property projects of the Wheelock group and Wharf group, including those of the Group, in China. Mr Wong graduated from The University of Hong Kong with a Degree of Bachelor of Science in Engineering.

*Notes:*

*(1) Wheelock, Wharf, WF Investment Partners Limited and Wharf Estates Limited (of which one or more of Mr S. T. H. Ng, Mr T. Y. Ng and Mr P. Y. C. Tsui is/are director(s)) have interests in the share capital of the Company discloseable to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO").*

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

*(II) Senior Managers*

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

## SUPPLEMENTARY CORPORATE INFORMATION *(Continued)*

### (B) Directors' Interests in Shares

At 31 December 2008, Directors of the Company had the following beneficial interests, all being long positions, in the securities of the Company, the Company's parent company, namely, Wharf, and Wharf's parent company, namely, Wheelock, and of three fellow subsidiaries, namely, i-CABLE Communications Limited ("i-CABLE"), WPL and Wharf Finance (BVI) Limited, and the percentages which the relevant shares represented to the issued share capitals of the five relevant companies respectively are also set out below:

| **Names of Directors** | **Quantity held** (percentage of issued share capital, if applicable) | **Nature of Interest** |
|---|---|---|
| **The Company – Ordinary Shares** | | |
| Michael T. P. Sze | 25,000 (0.0053%) | Family interest |
| **Wheelock – Ordinary Shares** | | |
| Gonzaga W. J. Li | 1,486,491 (0.0732%) | Personal interest |
| T. Y. Ng | 70,000 (0.0034%) | Personal interest |
| **Wharf – Ordinary Shares** | | |
| Gonzaga W. J. Li | 772,367 (0.0280%) | Personal interest |
| T. Y. Ng | 200,268 (0.0073%) | Personal interest |
| Michael T. P. Sze | 50,099 (0.0018%) | Family interest |
| **i-CABLE – Ordinary Shares** | | |
| Gonzaga W. J. Li | 68,655 (0.0034%) | Personal interest |
| T. Y. Ng | 17,801 (0.0009%) | Personal interest |
| **WPL – Ordinary Shares** | | |
| Gonzaga W. J. Li | 2,900 (0.0001%) | Personal interest |
| **Wharf Finance (BVI) Limited – HK$ Fixed Rate Notes due 2011** | | |
| Brian S. K. Tang | HK$1,500,000 | Personal interest |

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, there were no interests, both long and short positions, held during the financial year by any of the Directors or Chief Executive of the Company in shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO), nor had there been any exercises during the financial year of any rights to subscribe for any shares, underlying shares or debentures of the Company.

## SUPPLEMENTARY CORPORATE INFORMATION *(Continued)*

### (C) Substantial Shareholders' Interests

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company as at 31 December 2008, 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 issued share capital of the Company:

| | **Names** | **No. of Ordinary Shares** (percentage of issued capital) |
|---|---|---|
| (i) | Upfront International Limited | 332,496,131 (70.37%) |
| (ii) | Wharf Estates Limited | 332,496,131 (70.37%) |
| (iii) | The Wharf (Holdings) Limited | 332,496,131 (70.37%) |
| (iv) | WF Investment Partners Limited | 332,496,131 (70.37%) |
| (v) | Wheelock and Company Limited | 332,496,131 (70.37%) |
| (vi) | HSBC Trustee (Guernsey) Limited | 332,496,131 (70.37%) |
| (vii) | Harson Investment Limited | 38,036,250 (8.05%) |

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

All the interests stated above represented long positions and as at 31 December 2008, there were no short position interests recorded in the Register.

### (D) Directors' Interests in Competing Business

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

Three Directors of the Company, namely, Messrs S. T. H. Ng, T. Y. Ng and P. Y. C. Tsui, being also directors of the Company's parent company, namely, Wharf, and/or subsidiaries of Wharf, are considered as having an interest in Wharf under paragraph 8.10 of the Listing Rules.

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

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

## SUPPLEMENTARY CORPORATE INFORMATION *(Continued)*

### (D) Directors' Interests in Competing Business *(Continued)*

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

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

### (E) Major Customers and Suppliers

For the financial year ended 31 December 2008:

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

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

### (F) Bank Loans, Overdrafts and Other Borrowings

Particulars of any and all such bank loans, overdrafts and/or other borrowings of the Company and of the Group as at 31 December 2008 which are repayable on demand or within a period not exceeding one year are set out in Note 22 to the Financial Statements on page 55. Those which would fall due for repayment after a period of one year are particularised in Note 22 to the Financial Statements on page 55.

### (G) Interest Capitalised

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

### (H) Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules throughout the financial year ended 31 December 2008.

## SUPPLEMENTARY CORPORATE INFORMATION *(Continued)*

## (I) Disclosure Regarding Continuing Connected Transaction

Set out below is information in relation to a continuing connected transaction involving the Company and/or its subsidiaries, which was substantially disclosed in an announcement of the Company dated 2 April 2007 and is required under the Listing Rules to be disclosed in the Annual Report and Financial Statements of the Company:

*(I) Operations Agreement with the Wharf group*

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

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

The management fees payable under the Operations Agreement are subject to annual cap amounts and the total amount of fees paid by HHL to MPHML for the year ended 31 December 2008 amounted to HK$36.7 million.

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

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

*(II) Confirmation from Directors etc.*

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

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

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

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

## SUPPLEMENTARY CORPORATE INFORMATION *(Continued)*

### (I) Disclosure Regarding Continuing Connected Transaction *(Continued)*

*(II) Confirmation from Directors etc. (Continued)*

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

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

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

(3) The relevant cap amount has not been exceeded during the financial year ended 31 December 2008.

# 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") set out on pages 28 to 90, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated profit and loss account, the consolidated statement of recognised income and expense and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

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

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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

10 March 2009

# Consolidated Profit and Loss Account

For the year ended 31 December 2008

| | Note | 2008 HK$ Million | 2007 HK$ Million |
|---|---|---|---|
| **Turnover** | 1 | **664.2** | 671.1 |
| Other net income | 3 | **143.2** | 357.5 |
| Direct costs and operating expenses | | **(441.9)** | (327.9) |
| Selling and marketing expenses | | **(25.1)** | (23.8) |
| Administrative and corporate expenses | | **(16.3)** | (8.4) |
| Depreciation and amortisation | | **(36.1)** | (34.9) |
| **Operating profit** | 2 | **288.0** | 633.6 |
| Increase in fair value of investment properties | | **31.5** | 163.6 |
| Net other charge | 4 | **(47.5)** | (19.9) |
| | | **272.0** | 777.3 |
| Finance costs | 5 | **(67.1)** | (8.3) |
| Share of results after tax of | | | |
| Associate | | **(0.1)** | 4.4 |
| Jointly controlled entities | | **(10.9)** | (0.5) |
| Profit before taxation | | **193.9** | 772.9 |
| Taxation | 6(b) | **(24.3)** | (134.6) |
| **Profit for the year** | | **169.6** | 638.3 |
| **Profit attributable to:** | | | |
| **Equity shareholders** | 7 | **170.5** | 638.4 |
| **Minority interests** | | **(0.9)** | (0.1) |
| | | **169.6** | 638.3 |
| **Dividends attributable to equity shareholders** | 8 | | |
| Interim dividend paid | | **23.6** | 15.8 |
| Final dividend proposed | | **70.9** | 113.4 |
| | | **94.5** | 129.2 |
| **Earnings per share** | 9 | **HK$0.39** | HK$2.03 |

The notes and principal accounting policies on pages 34 to 90 form part of these financial statements.

# Consolidated Balance Sheet

As at 31 December 2008

| | Note | 2008 HK$ Million | 2007 HK$ Million |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | 10 | | |
| Investment properties | | **1,877.0** | 1,827.0 |
| Leasehold land | | **15.2** | 15.2 |
| Other properties, plant and equipment | | **80.4** | 104.9 |
| Interest in an associate | 12 | **0.7** | 0.8 |
| Interest in jointly controlled entities | 13 | **2,586.7** | 1,964.6 |
| Available-for-sale investments | 14 | **604.0** | 2,516.6 |
| Long term receivables | 15 | **0.5** | 1.7 |
| Employee retirement benefit assets | 16 | **—** | 8.5 |
| Derivative financial assets | 21 | **2.9** | — |
| | | **5,167.4** | 6,439.3 |
| **Current assets** | | | |
| Properties under development | 17 | **4,972.6** | 985.3 |
| Inventories | | **3.4** | 3.4 |
| Trade and other receivables | 18 | **105.3** | 425.2 |
| Pledged bank deposits | 19 | **—** | 452.4 |
| Bank deposits and cash | | **1,258.4** | 132.4 |
| | | **6,339.7** | 1,998.7 |
| **Current liabilities** | | | |
| Trade and other payables | 20 | **180.9** | 187.2 |
| Derivative financial liabilities | 21 | **165.8** | 106.5 |
| Bank loans | 22 | **—** | 1,278.9 |
| Taxation payable | 6(d) | **77.4** | 80.3 |
| | | **424.1** | 1,652.9 |
| **Net current assets** | | **5,915.6** | 345.8 |
| **Total assets less current liabilities** | | **11,083.0** | 6,785.1 |
| **Non-current liabilities** | | | |
| Employee retirement benefit liabilities | 16 | **3.6** | — |
| Derivative financial liabilities | 21 | **1.3** | — |
| Bank loans | 22 | **3,065.0** | 580.0 |
| Deferred taxation | 23 | **250.3** | 260.0 |
| | | **3,320.2** | 840.0 |
| **NET ASSETS** | | **7,762.8** | 5,945.1 |
| **Capital and reserves** | | | |
| Share capital | 25 | **236.3** | 157.5 |
| Reserves | | **6,830.7** | 5,590.6 |
| **Shareholders' equity** | 26(a) | **7,067.0** | 5,748.1 |
| Minority interests | 26(a) | **695.8** | 197.0 |
| **TOTAL EQUITY** | | **7,762.8** | 5,945.1 |

The notes and principal accounting policies on pages 34 to 90 form part of these financial statements.

**Gonzaga W. J. Li**
*Chairman*

**T. Y. Ng**
*Director*

# Company Balance Sheet

As at 31 December 2008

| | Note | **2008** *HK$ Million* | 2007 *HK$ Million (Restated)* |
|---|---|---|---|
| **Non-current assets** | | | |
| Interest in subsidiaries | 11 | **1,755.5** | 1,433.4 |
| **Current assets** | | | |
| Trade and other receivables | | **0.3** | 0.2 |
| Bank deposits and cash | | **1,063.3** | 15.9 |
| | | **1,063.6** | 16.1 |
| **Current liabilities** | | | |
| Trade and other payables | | **2.7** | 3.1 |
| Bank loan | 22 | **—** | 500.0 |
| | | **2.7** | 503.1 |
| **Net current assets/(liabilities)** | | **1,060.9** | (487.0) |
| **NET ASSETS** | | **2,816.4** | 946.4 |
| **Capital and reserves** | | | |
| Share capital | 25 | **236.3** | 157.5 |
| Reserves | 26(b) | **2,580.1** | 788.9 |
| **TOTAL EQUITY** | | **2,816.4** | 946.4 |

The notes and principal accounting policies on pages 34 to 90 form part of these financial statements.

**Gonzaga W. J. Li**
*Chairman*

**T. Y. Ng**
*Director*

# Consolidated Statement of Recognised Income and Expense

For the year ended 31 December 2008

| | Note | **2008** **HK$ Million** | 2007 HK$ Million |
|---|---|---|---|
| (Deficit)/surplus on revaluation of available-for-sale investments | 26 | **(649.4)** | 482.9 |
| Revaluation reserve transferred to the consolidated profit and loss account | | | |
| - on disposal of available-for-sale investments | 26 | **(333.3)** | (122.5) |
| - on impairment loss of available-for-sale investments | 26 | **47.5** | 19.9 |
| Exchange difference | 26 | **241.8** | 42.5 |
| Actuarial (losses)/gains on defined benefit pension schemes | 26 | **(14.7)** | 0.3 |
| Net (expense)/ income recognised directly in equity | | **(708.1)** | 423.1 |
| Profit for the year | 26 | **169.6** | 638.3 |
| Total recognised income and expense for the year | | | |
| Attributable to equity shareholders | | **(550.8)** | 1,061.5 |
| Attributable to minority interests | | **12.3** | (0.1) |
| Total | 26 | **(538.5)** | 1,061.4 |

The notes and principal accounting policies on pages 34 to 90 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2008

| | **2008** | 2007 |
|---|---|---|
| | ***HK$ Million*** | *HK$ Million* |
| **Cash used in operations** *(Note)* | **(3,164.9)** | (961.1) |
| Interest received | **14.4** | 51.8 |
| Interest paid on bank loans | **(62.0)** | (7.5) |
| Dividends received from associates | **—** | 4.4 |
| Dividend income from listed investments | **43.7** | 47.4 |
| Hong Kong profits tax paid | **(37.1)** | (43.8) |
| **Net cash used in operating activities** | **(3,205.9)** | (908.8) |
| **Investing activities** | | |
| Release/(placing) of pledged deposits | **452.4** | (452.4) |
| Purchase of fixed assets | **(30.1)** | (76.8) |
| Net (increase)/decrease in interest in an associate | **(6.5)** | 7.7 |
| Net increase in interest in jointly controlled entities | **(596.9)** | (1,957.2) |
| Decrease in long term receivables | **1.2** | 1.7 |
| Purchase of available-for-sale investments | **(12.3)** | (1,788.1) |
| Proceeds from sale of available-for-sale investments | **1,085.4** | 1,470.7 |
| (Payment on)/proceeds from forward foreign exchange contracts | **(105.7)** | 30.8 |
| **Net cash generated from/(used in) investing activities** | **787.5** | (2,763.6) |
| **Financing activities** | | |
| Net proceeds from shares issued under rights issue | **2,006.7** | — |
| Net drawdown of new bank loans | **1,188.2** | 1,858.9 |
| Issue of shares by a subsidiary to minority interests | **486.5** | 197.1 |
| Dividends paid | **(137.0)** | (91.4) |
| **Net cash generated from financing activities** | **3,544.4** | 1,964.6 |
| **Net increase/(decrease) in cash and cash equivalents** | **1,126.0** | (1,707.8) |
| **Cash and cash equivalents at 1 January** | **132.4** | 1,840.2 |
| **Cash and cash equivalents at 31 December** | **1,258.4** | 132.4 |

Cash and cash equivalents represent bank deposits and cash.

The notes and principal accounting policies on pages 34 to 90 form part of these financial statements.

# Note to the Consolidated Cash Flow Statement

For the year ended 31 December 2008

## Reconciliation of operating profit to cash used in operations

| | **2008** *HK$ Million* | 2007 *HK$ Million* |
|---|---|---|
| Operating profit | **288.0** | 633.6 |
| Depreciation and amortisation | **36.1** | 34.9 |
| Gain on disposal of available-for-sale investments | **(143.2)** | (356.7) |
| Release of deferred income | **—** | (0.8) |
| Dividend income from listed investments | **(42.9)** | (47.9) |
| Interest income | **(14.4)** | (50.6) |
| Increase in employee benefit liabilities/(assets) | **(2.6)** | (1.8) |
| Decrease in property held for sale | **—** | 4.7 |
| Increase in property under development | **(3,927.6)** | (985.3) |
| Increase in hotel consumables | **—** | (0.5) |
| Decrease/(increase) in trade and other receivables | **476.5** | (309.0) |
| Increase in trade and other payables | **1.2** | 37.5 |
| Increase in short-term derivative financial liabilities | **165.0** | 75.7 |
| (Decrease)/increase in amounts due to fellow subsidiaries (net) | **(1.0)** | 5.1 |
| **Cash used in operations** | **(3,164.9)** | (961.1) |

## 1. SEGMENT REPORTING

### (a) Business segments

*(i) Revenue and results*

| | Revenue | | Results | |
|---|---|---|---|---|
| | **2008** **HK$ Million** | 2007 *HK$ Million* | **2008** **HK$ Million** | 2007 *HK$ Million* |
| Hotel and restaurants | **472.4** | 438.3 | **161.1** | 147.7 |
| Property investment | **134.5** | 127.6 | **109.9** | 109.6 |
| Property development | **—** | 6.7 | **(7.9)** | 0.6 |
| | **606.9** | 572.6 | **263.1** | 257.9 |
| Investments and others | **57.3** | 98.5 | **33.4** | 381.8 |
| | **664.2** | 671.1 | **296.5** | 639.7 |
| Unallocated items | | | **(8.5)** | (6.1) |
| Operating profit | | | **288.0** | 633.6 |
| Increase in fair value of investment properties | | | **31.5** | 163.6 |
| Net other charge | | | **(47.5)** | (19.9) |
| | | | **272.0** | 777.3 |
| Finance costs | | | **(67.1)** | (8.3) |
| Associate | | | | |
| Property development | | | **(0.1)** | 4.4 |
| Jointly controlled entities | | | | |
| Property development | | | **(10.9)** | (0.5) |
| Profit before taxation | | | **193.9** | 772.9 |

## 1. SEGMENT REPORTING *(Continued)*

### (a) Business segments *(Continued)*

*(ii) Assets and liabilities*

| | Assets | | Liabilities | |
|---|---|---|---|---|
| | **2008** **HK$ Million** | 2007 HK$ Million | **2008** **HK$ Million** | 2007 HK$ Million |
| Hotel and restaurants | **133.4** | 171.3 | **100.1** | 121.4 |
| Property investment | **1,929.0** | 1,871.1 | **26.7** | 21.4 |
| Property development | **7,561.1** | 3,278.9 | **2.5** | 5.0 |
| Investments and others | **608.0** | 2,531.9 | **221.3** | 145.9 |
| | **10,231.5** | 7,853.2 | **350.6** | 293.7 |
| Unallocated | **1,275.6** | 584.8 | **3,393.7** | 2,199.2 |
| Total assets/liabilities | **11,507.1** | 8,438.0 | **3,744.3** | 2,492.9 |

Unallocated assets and liabilities mainly comprise corporate borrowings for financing purposes and cash.

*(iii) Other information*

| | Capital expenditure | | Increase in interest in jointly controlled entities | | Depreciation and amortisation | |
|---|---|---|---|---|---|---|
| | **2008** **HK$ Million** | 2007 HK$ Million | **2008** **HK$ Million** | 2007 HK$ Million | **2008** **HK$ Million** | 2007 HK$ Million |
| Hotel and restaurants | **10.9** | 76.4 | **—** | — | **36.1** | 34.9 |
| Property investment | **18.5** | 0.4 | **—** | — | **—** | — |
| Property development | **0.7** | — | **633.0** | 1,964.6 | **—** | — |
| Total | **30.1** | 76.8 | **633.0** | 1,964.6 | **36.1** | 34.9 |

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

## 1. SEGMENT REPORTING *(Continued)*

### (b) Geographical segments

| | Revenue | | Operating Profit | |
|---|---|---|---|---|
| | **2008** **HK$ Million** | 2007 *HK$ Million* | **2008** **HK$ Million** | 2007 *HK$ Million* |
| Hong Kong | **620.7** | 639.9 | **200.1** | 502.9 |
| China | **5.9** | 0.3 | **(1.0)** | — |
| Singapore | **37.6** | 30.9 | **88.9** | 130.7 |
| Turnover/operating profit | **664.2** | 671.1 | **288.0** | 633.6 |

| | Assets | |
|---|---|---|
| | **2008** **HK$ Million** | 2007 *HK$ Million* |
| Hong Kong | **3,162.2** | 3,759.5 |
| China | **7,758.2** | 3,386.3 |
| Singapore | **586.7** | 1,292.2 |
| Total | **11,507.1** | 8,438.0 |

| | Capital expenditure | | Increase in interest in jointly controlled entities | |
|---|---|---|---|---|
| | **2008** **HK$ Million** | 2007 *HK$ Million* | **2008** **HK$ Million** | 2007 *HK$ Million* |
| Hong Kong | **29.4** | 76.8 | **—** | — |
| China | **0.7** | — | **633.0** | 1,964.6 |
| Total | **30.1** | 76.8 | **633.0** | 1,964.6 |

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

## 2. OPERATING PROFIT

### (a) Operating profit is arrived at:

| | **2008** **HK$ Million** | 2007 HK$ Million |
|---|---|---|
| After charging: | | |
| Depreciation and amortisation | **36.1** | 34.9 |
| Staff costs | **120.0** | 104.2 |
| Including: | | |
| Contributions to defined contribution pension schemes (after deducting forfeiture of the Group's contribution of HK$0.3 million (2007: HK$0.4 million)) | **5.2** | 3.5 |
| Employee retirement benefit expense/(income) | **(2.1)** | (0.8) |
| Total pension cost | **3.1** | 2.7 |
| Cost of inventories sold | **—** | 32.0 |
| Auditors' remuneration | **1.8** | 0.6 |
| Net foreign exchange loss *(Note)* | **160.6** | 74.2 |
| and crediting: | | |
| Rental income less direct outgoings including contingent rentals HK$49.4 million (2007: HK$40.3 million) | **111.1** | 112.7 |
| Interest income on bank deposits | **14.4** | 50.6 |
| Dividend income from listed investments | **42.9** | 47.9 |

*Note:*

*Apart from the above net exchange difference, the Group also had a total exchange gain arising from the translation of the net investments in China subsidiaries and jointly controlled entities of HK$241.8 million (2007: HK$42.5 million), which has been dealt with as an equity movement.*

## 2. OPERATING PROFIT *(Continued)*

### (b) Directors' emoluments

| | Fees HK$000 | Basic salaries, housing and other allowances and benefits in kind HK$000 | Discretionary bonuses and/or performance related bonuses HK$000 | Retirement scheme contributions HK$000 | 2008 Total HK$000 | 2007 Total HK$000 |
|---|---|---|---|---|---|---|
| **Executive director** | | | | | | |
| G. W. J. Li | 40 | 780 | — | — | **820** | 820 |
| **Non-executive director** | | | | | | |
| T. Y. Ng | 55(v) | — | — | — | **55** | 55 |
| **Independent non-executive directors** | | | | | | |
| Michael T. P Sze | 55(v) | — | — | — | **55** | 36 |
| H. M. V. de Lacy Staunton | 40 | — | — | — | **40** | 40 |
| Brian S. K. Tang (i) | 17(v) | — | — | — | **17** | — |
| Clement Kam Hung Wong (ii) | 37 | — | — | — | **37** | — |
| **Past directors** | | | | | | |
| M. K. Tan (iii) | 34(v) | — | — | — | **34** | 55 |
| Brian S. Forsgate | — | — | — | — | **—** | 19 |
| | 278 | 780 | — | — | **1,058** | 1,025 |
| Total for 2007 | 245 | 780 | — | — | | 1,025 |

*Notes:*

(i) Mr. Brian S.K. Tang was appointed as a director of the Company effective from 8 September 2008.

(ii) Mr. Clement Kam Hung Wong was appointed as a director of the Company effective from 1 February 2008.

(iii) Mr. M.K. Tan passed away on 14 August 2008.

(iv) There were 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 2008 and 31 December 2007.

(v) Includes Audit Committee Member's fee received by each of relevant Directors based on HK$15,000 per annum for the year ended 31 December 2008 (2007: HK$15,000 per annum).

## 2. OPERATING PROFIT *(Continued)*

### (c) Emoluments of the highest paid employees

Set out below are analyses of the emoluments (excluding amounts, if any, paid or payable by way of commissions on sales generated by the employees concerned) for the year ended 31 December 2008 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:

| | **2008** **HK$ Million** | 2007 *HK$ Million* |
|---|---|---|
| Basic salaries, housing allowances, and other allowances and benefits in kind | **5.0** | 4.8 |
| Retirement scheme contributions | **0.3** | 0.4 |
| Discretionary bonuses and/or performance-related bonuses | **1.0** | 1.0 |
| | **6.3** | 6.2 |

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

| **Bands** *(in HK$)* | **2008** ***Number of individuals*** | 2007 *Number of individuals* |
|---|---|---|
| Not more than $1,000,000 | **1** | 3 |
| $1,000,001 - $1,500,000 | **3** | 1 |
| $1,500,001 - $2,000,000 | **—** | 1 |
| $2,000,001 - $2,500,000 | **1** | — |

## 3. OTHER NET INCOME

| | **2008** ***HK$ Million*** | 2007 *HK$ Million* |
|---|---|---|
| Profit on disposal of available-for-sale investments - including HK$333.3 million (2007: HK$122.5 million) transferred from the investments revaluation reserve | **143.2** | 356.7 |
| Release of deferred income | **—** | 0.8 |
| | **143.2** | 357.5 |

## 4. NET OTHER CHARGE

Net other charge represents impairment loss on available-for-sale investments.

## 5. FINANCE COSTS

| | **2008** **HK$ Million** | 2007 HK$ Million |
|---|---|---|
| Interest on bank borrowings wholly repayable within five years | **64.8** | 6.2 |
| Other finance costs | **3.9** | 2.1 |
| Fair value changes on cross-currency interest rate swaps | **(1.6)** | — |
| | **67.1** | 8.3 |

## 6. TAXATION

(a) The provision for Hong Kong profits tax is 16.5% (2007: 17.5%) of the estimated assessable profits for the year.

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

| | **2008** **HK$ Million** | 2007 HK$ Million |
|---|---|---|
| **Current taxation** | | |
| Hong Kong Profits Tax | **53.2** | 101.7 |
| Overprovision in respect of prior years | **(19.2)** | (0.2) |
| | **34.0** | 101.5 |
| **Deferred taxation** | | |
| Origination and reversal of temporary differences | **(2.7)** | 4.5 |
| Change in fair value of investment properties | **5.2** | 28.6 |
| Effect on deferred tax balances at 1 January resulting from a change in tax rate | **(12.2)** | — |
| | **(9.7)** | 33.1 |
| Total tax charge | **24.3** | 134.6 |

## 6. TAXATION *(Continued)*

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

| | **2008** **HK$ Million** | 2007 *HK$ Million* |
|---|---|---|
| Profit before taxation | **193.9** | 772.9 |
| Notional tax on accounting profit calculated at applicable tax rates | **32.0** | 135.3 |
| Tax effect of non-deductible expenses | **15.4** | 20.3 |
| Tax effect of non-taxable revenue | **(17.6)** | (21.4) |
| Tax effect of unused tax losses not recognised | **25.9** | 0.7 |
| Prior-year tax loss utilised this year | **—** | (0.1) |
| Effect on deferred tax balances at 1 January resulting from a change in tax rate | **(12.2)** | — |
| Overprovision in respect of prior years | **(19.2)** | (0.2) |
| Actual total tax charge | **24.3** | 134.6 |

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

(e) No tax charge is included in the share of results after tax of an associate in 2008 (2007: HK$0.8 million).

## 7. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS

The profit attributable to equity shareholders for the year is dealt with in the financial statements of the Company to the extent of HK$0.3 million (2007: HK$43.3 million).

## 8. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

| | **2008** **HK$ Million** | 2007 *HK$ Million* |
|---|---|---|
| Interim dividend declared and paid of 5.0 cents (2007: 5.0 cents) per share | **23.6** | 15.8 |
| Final dividend of 15.0 cents proposed after the balance sheet date (2007: 24.0 cents) per share | **70.9** | 113.4 |
| | **94.5** | 129.2 |

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

(b) The final dividend of HK$113.4 million for 2007 was approved and paid in 2008.

## 9. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year attributable to equity shareholders of HK$170.5 million (2007: HK$638.4 million) and the weighted average of 439.8 million ordinary shares (2007: 315.0 million shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

| | **2008** ***Million*** | 2007 *Million* |
|---|---|---|
| Issued ordinary shares at 1 January | **315.0** | 315.0 |
| Effect of rights issue | **124.8** | — |
| Weighted average number of ordinary shares at 31 December | **439.8** | 315.0 |

For the year under review and the preceding year, there is no difference between the basic and diluted earnings per share.

## 10. FIXED ASSETS

| | Group | | | | |
|---|---|---|---|---|---|
| | Investment properties HK$ Million | Hotel property HK$ Million | Leasehold Land HK$ Million | Others HK$ Million | Total HK$ Million |
| **Cost or valuation** | | | | | |
| Balance at 1 January 2007 | 1,663.0 | 85.6 | 15.9 | 161.3 | 1,925.8 |
| Additions | 0.4 | 13.3 | — | 63.1 | 76.8 |
| Disposals | — | — | — | (3.2) | (3.2) |
| Revaluation surplus | 163.6 | — | — | — | 163.6 |
| Balance at 31 December 2007 and at 1 January 2008 | **1,827.0** | **98.9** | **15.9** | **221.2** | **2,163.0** |
| Additions | **18.5** | **—** | **—** | **11.6** | **30.1** |
| Disposals | **—** | **—** | **—** | **(0.4)** | **(0.4)** |
| Revaluation surplus | **31.5** | **—** | **—** | **—** | **31.5** |
| Balance at 31 December 2008 | **1,877.0** | **98.9** | **15.9** | **232.4** | **2,224.2** |
| **Accumulated depreciation and amortisation** | | | | | |
| Balance at 1 January 2007 | — | 67.5 | 0.7 | 116.0 | 184.2 |
| Charge for the year | — | 9.6 | — | 25.3 | 34.9 |
| Written back on disposals | — | — | — | (3.2) | (3.2) |
| Balance at 31 December 2007 and at 1 January 2008 | **—** | **77.1** | **0.7** | **138.1** | **215.9** |
| Charge for the year | **—** | **9.6** | **—** | **26.5** | **36.1** |
| Written back on disposals | **—** | **—** | **—** | **(0.4)** | **(0.4)** |
| Balance at 31 December 2008 | **—** | **86.7** | **0.7** | **164.2** | **251.6** |
| **Net book value** | | | | | |
| At 31 December 2008 | **1,877.0** | **12.2** | **15.2** | **68.2** | **1,972.6** |
| At 31 December 2007 | 1,827.0 | 21.8 | 15.2 | 83.1 | 1,947.1 |
| **The analysis of cost or valuation of the above assets is as follows:** | | | | | |
| 2008 valuation | **1,877.0** | **—** | **—** | **—** | **1,877.0** |
| Cost less provisions | **—** | **98.9** | **15.9** | **232.4** | **347.2** |
| | **1,877.0** | **98.9** | **15.9** | **232.4** | **2,224.2** |
| 2007 valuation | 1,827.0 | — | — | — | 1,827.0 |
| Cost less provisions | — | 98.9 | 15.9 | 221.2 | 336.0 |
| | 1,827.0 | 98.9 | 15.9 | 221.2 | 2,163.0 |

(a) Tenure of title to properties:

| | | | | | |
|---|---|---|---|---|---|
| *Long term lease held in Hong Kong* | | | | | |
| Over 50 years | **1,877.0** | **12.2** | **15.2** | **—** | **1,904.4** |

## 10. FIXED ASSETS *(Continued)*

(b) Properties revaluation

The Group's investment properties in Hong Kong have been revalued as at 31 December 2008 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 the PRC. Knight Frank has valued the investment properties on a market value basis and has taken into account the net income of the respective properties and allowing for reversionary potential.

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

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

| | **2008**<br>***HK$ Million*** | 2007<br>*HK$ Million* |
|---|---|---|
| Within 1 year | **41.4** | 71.2 |
| After 1 year but within 5 years | **21.2** | 35.6 |
| | **62.6** | 106.8 |

## 11. INTEREST IN SUBSIDIARIES

| | **Company** | |
|---|---|---|
| | **2008**<br>***HK$ Million*** | 2007<br>*HK$ Million* |
| Unlisted shares, at cost less provision | **—** | — |
| Amount due from subsidiaries | **5,202.6** | 3,600.5 |
| | **5,202.6** | 3,600.5 |
| Amount due to subsidiaries | **(3,447.1)** | (2,167.1) |
| | **1,755.5** | 1,433.4 |

Details of principal subsidiaries at 31 December 2008 are shown on pages 88 to 89.

Amounts due from subsidiaries are unsecured, non-interest bearing with no fixed terms of repayment and hence are classified as non-current as these are not expected to be recoverable within the next twelve months. Amounts due to subsidiaries are unsecured, non-interest bearing with no fixed terms of payment.

## 12. INTEREST IN AN ASSOCIATE

| | Group 2008 HK$ Million | Group 2007 HK$ Million |
|---|---|---|
| Share of net tangible assets | **0.7** | 0.8 |
| | **0.7** | 0.8 |

Details of associate at 31 December 2008 are shown on page 90.

(a) Summary financial information on an associate:

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Total** *HK$ Million* | **Attributable interest** *HK$ Million* | Total *HK$ Million* | Attributable interest *HK$ Million* |
| Assets | **167.7** | **33.5** | 249.6 | 49.9 |
| Liabilities | **(164.1)** | **(32.8)** | (245.5) | (49.1) |
| Equity | **3.6** | **0.7** | 4.1 | 0.8 |
| Revenues | **1.5** | **0.3** | 15.4 | 3.1 |
| Profit before taxation | **1.1** | **0.1** | 26.2 | 5.2 |
| Taxation | — | — | (3.8) | (0.8) |
| Profit after taxation | **1.1** | **0.1** | 22.4 | 4.4 |

## 13. INTEREST IN JOINTLY CONTROLLED ENTITIES

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$ Million*** | *HK$ Million* |
| Share of net tangible assets | **77.9** | 15.9 |
| Amounts due from jointly controlled entities | **2,508.8** | 1,948.7 |
| | **2,586.7** | 1,964.6 |

Details of principal jointly controlled entities at 31 December 2008 are shown on page 90.

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

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

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

## 13. INTEREST IN JOINTLY CONTROLLED ENTITIES *(Continued)*

### (b) Hangzhou Greentown Haiqi Real Estate Development Co., Ltd ("Greentown Haiqi")

The Group's interest in Greentown Haiqi is held under a joint venture agreement relating to a property development in Hangzhou in China. Throughout the joint venture period, the Group is entitled to share 40% of the financial results and net assets of Greentown Haiqi in accordance with the terms of the joint venture agreement. The Group's interest in Greentown Haiqi is held through a wholly-owned subsidiary which has contributed 40% of the registered capital. As neither the Group nor the joint venture partner have the ability to control the board of directors and economic activities of Greentown Haiqi, the Group accounts for its investments in Greentown Haiqi as a jointly controlled entity.

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

| | **2008**<br>***HK$ Million*** | 2007<br>*HK$ Million* |
|---|---|---|
| Assets | **2,821.7** | 1,965.0 |
| Liabilities | **(235.0)** | (0.4) |
| Equity | **2,586.7** | 1,964.6 |
| Revenues | **—** | — |
| Loss before taxation | **(10.9)** | (0.5) |
| Taxation | **—** | — |
| Loss after taxation | **(10.9)** | (0.5) |

## 14. AVAILABLE-FOR-SALE INVESTMENTS

| | **Group** | |
|---|---|---|
| | **2008**<br>***HK$ Million*** | 2007<br>HK$ Million |
| Listed investments stated at market value | | |
| - in Hong Kong | **—** | 1,149.9 |
| - outside Hong Kong | **597.0** | 1,344.1 |
| Unlisted investments | **7.0** | 22.6 |
| | **604.0** | 2,516.6 |

## 15. LONG TERM RECEIVABLES

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

## 16. EMPLOYEE RETIREMENT BENEFITS

### (a) Defined benefit pension schemes

The Group makes contributions to defined benefit pension schemes that provide pension benefits for certain employees upon retirement. The assets of the schemes are held separately by independently administered funds. The schemes are funded by contributions from both employers and employees. The contributions from employers are in accordance with recommendations made by actuaries based on their valuation. The latest valuations of the schemes as at 31 December 2008 were performed by Watson Wyatt Hong Kong Limited, using the projected unit credit method. The funding ratio of the principal scheme is 93.0%.

(i) The defined benefit pension schemes (liabilities)/assets amount recognised in the consolidated balance sheet is as follows:

| | **2008** **HK$ Million** | 2007 HK$ Million |
|---|---|---|
| Present value of funded obligations | **(51.4)** | (78.4) |
| Fair value of scheme assets | **47.8** | 86.9 |
| | **(3.6)** | 8.5 |

(ii) Scheme assets consist of the following:

| | **2008** **HK$ Million** | 2007 HK$ Million |
|---|---|---|
| Equity securities | **29.8** | 60.5 |
| Debt securities | **15.5** | 22.5 |
| Deposits and cash | **2.5** | 3.9 |
| | **47.8** | 86.9 |

## 16. EMPLOYEE RETIREMENT BENEFITS *(Continued)*

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

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

| | **2008** **HK$ Million** | 2007 *HK$ Million* |
|---|---|---|
| At 1 January | **78.4** | 76.9 |
| Net benefits paid and transferred | **(15.7)** | (15.3) |
| Employee contributions | **0.5** | 0.6 |
| Current service cost | **2.1** | 2.6 |
| Interest cost | **2.7** | 3.0 |
| Actuarial (gains)/losses | **(16.6)** | 10.6 |
| At 31 December | **51.4** | 78.4 |

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

| | **2008** **HK$ Million** | 2007 *HK$ Million* |
|---|---|---|
| At 1 January | **86.9** | 83.6 |
| Contributions paid | **0.5** | 0.7 |
| Net benefits paid and transferred | **(15.7)** | (15.3) |
| Employee contributions | **0.5** | 0.6 |
| Expected return on scheme assets | **6.9** | 6.4 |
| Actuarial (losses)/gains | **(31.3)** | 10.9 |
| At 31 December | **47.8** | 86.9 |

The Group expects to pay HK$1.2 million in contribution to the scheme in 2009.

## 16. EMPLOYEE RETIREMENT BENEFITS *(Continued)*

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

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$ Million*** | *HK$ Million* |
| Current service cost | **2.1** | 2.6 |
| Interest cost | **2.7** | 3.0 |
| Expected return on scheme assets | **(6.9)** | (6.4) |
| | **(2.1)** | (0.8) |

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

| | **2008** | 2007 |
|---|---|---|
| | ***HK$ Million*** | *HK$ Million* |
| Direct costs and operating expenses | **(1.9)** | (0.6) |
| Selling and marketing expenses | **(0.2)** | (0.2) |
| | **(2.1)** | (0.8) |
| Actual return on scheme assets | **(24.5)** | 17.3 |

(vi) The principal actuarial assumptions used as at 31 December 2008 (expressed as a range) are as follows:

| | | **2008** | 2007 |
|---|---|---|---|
| Discount rate at 31 December | | **1.2%** | 3.45-3.5% |
| Expected rate of return on scheme assets/plan assets | | **8%** | 7-8% |
| Future salary increases | 2008 | **N/A** | 3% |
| | 2009 | **1%** | 3% |
| | 2010 | **2%** | 3% |
| | onwards | **3%** | 3% |

The expected return on scheme assets is determined based on market expectation, at the beginning of the period, for returns net of administration costs, over the entire period of the related benefit obligations.

## 16. EMPLOYEE RETIREMENT BENEFITS *(Continued)*

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

(vii) Historical information:

| | **2008** **HK$ Million** | 2007 HK$ Million | 2006 HK$ Million |
|---|---|---|---|
| Present value of the defined benefit obligations | **(51.4)** | (78.4) | (76.9) |
| Fair value of scheme assets | **47.8** | 86.9 | 83.6 |
| (Deficit)/surplus in the schemes | **(3.6)** | 8.5 | 6.7 |
| Experience (gain)/loss on scheme liabilities | **(25.8)** | 10.6 | 3.5 |
| Experience (gain)/loss on scheme assets | **31.3** | (10.9) | (7.3) |

(viii) The Group recognised actuarial losses amounting to HK$14.7 million (2007: gains HK$0.3 million) for the year ended 31 December 2008 directly in the statement of recognised income and expense. The cumulative amount of actuarial losses recognised amounted to HK$18.0 million (2007: HK$3.3 million) as at 31 December 2008.

### (b) Defined contribution pension schemes

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

## 17. PROPERTIES UNDER DEVELOPMENT

(a) The carrying value of leasehold land included in properties under development is summarised as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$ Million*** | *HK$ Million* |
| Held outside Hong Kong | | |
| Long lease | **3,086.2** | — |
| Medium lease | **398.2** | — |
| | **3,484.4** | — |

(b) Properties under development included deposit of HK$1,472.4 million (2007: HK$985.3 million) paid for the acquisition for certain land sites located in Mainland China.

## 18. TRADE AND OTHER RECEIVABLES

### (a) Ageing analysis

Included in this item are trade receivables (net of allowance for doubtful debts) with the following ageing analysis as at 31 December 2008 as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$ Million*** | *HK$ Million* |
| Trade receivables | | |
| Due within 30 days | **75.1** | 64.2 |
| Due after 30 days but within 60 days | **1.1** | 2.9 |
| Due after 60 days but within 90 days | **0.7** | 0.4 |
| | **76.9** | 67.5 |
| Other receivables | **24.6** | 351.1 |
| Amounts due from fellow subsidiaries | **3.8** | 6.6 |
| | **105.3** | 425.2 |

The Group has defined credit policies for each of its core business. The general credit terms allowed range from 0 to 60 days. The amounts due from fellow subsidiaries are unsecured, interest free and recoverable on demand.

## 18. TRADE AND OTHER RECEIVABLES *(Continued)*

### (b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. At 31 December 2008 and 31 December 2007, no amounts of significant trade receivables were individually determined to be doubtful or impaired.

### (c) Trade receivables that are not impaired

As at 31 December 2008 and 31 December 2007, the Group assessed that of the total trade debtors and receivables, virtually all of them are neither past due nor impaired.

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

## 19. PLEDGED BANK DEPOSITS

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

## 20. TRADE AND OTHER PAYABLES

Included in this item are trade creditors with an ageing analysis as at 31 December 2008 as follows:

| | Group | |
|---|---|---|
| | **2008** **HK$ Million** | 2007 HK$ Million |
| Trade creditors | | |
| Due within 30 days | **12.5** | 15.0 |
| Due after 30 days but within 60 days | **8.0** | 6.1 |
| Due after 60 days but within 90 days | **0.9** | — |
| | **21.4** | 21.1 |
| Other payables and provisions | **121.9** | 118.2 |
| Amounts due to fellow subsidiaries | **8.6** | 12.4 |
| Amounts due to an associate | **29.0** | 35.5 |
| | **180.9** | 187.2 |

The amounts due to fellow subsidiaries and an associate are unsecured, interest free and repayable on demand. The above includes deposits received amounting to HK$1.8 million (2007: HK$9.8 million) which are expected to be settled after one year.

## 21. DERIVATIVE FINANCIAL INSTRUMENTS

| | **2008 Assets HK$ Million** | **2008 Liabilities HK$ Million** | 2007 Assets HK$ Million | 2007 Liabilities HK$ Million |
|---|---|---|---|---|
| At fair value through profit or loss (Note (c)) | | | | |
| Cross currency interest rate swaps | **2.9** | **1.3** | — | — |
| Forward foreign exchange contracts | **—** | **165.8** | — | 106.5 |
| Total | **2.9** | **167.1** | — | 106.5 |
| Analysis: | | | | |
| Current | **—** | **165.8** | — | 106.5 |
| Non-current | **2.9** | **1.3** | — | — |
| Total | **2.9** | **167.1** | — | 106.5 |

Analysis of the remaining maturities at 31 December 2008 of the above derivative financial instruments were as follows:

| | **2008 Assets HK$ Million** | **2008 Liabilities HK$ Million** | 2007 Assets HK$ Million | 2007 Liabilities HK$ Million |
|---|---|---|---|---|
| Cross currency interest rate swaps | | | | |
| Expiring after more than 1 year but within 5 years | **2.9** | **1.3** | — | — |
| | **2.9** | **1.3** | — | — |
| Forward foreign exchange contracts | | | | |
| Expiring within 1 year | **—** | **165.8** | — | 106.5 |
| | **—** | **165.8** | — | 106.5 |
| Total | **2.9** | **167.1** | — | 106.5 |

## 21. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

(a) The notional principal amounts of derivative financial instruments outstanding at 31 December 2008 were as follows:

| | **2008** **HK$ Million** | 2007 *HK$ Million* |
|---|---|---|
| Cross currency interest rate swaps | **2,302.2** | — |
| Forward foreign exchange contracts | **942.1** | 794.2 |

(b) Derivative financial assets represented the amounts the Group would receive whilst derivative financial liabilities represented the amounts the Group would pay if the position were closed at the balance sheet date.

(c) All the derivative financial instruments were not qualified for hedge accounting and their corresponding changes in fair values were recognised to profit and loss accounts.

## 22. BANK LOANS

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2008** **HK$ Million** | 2007 *HK$ Million* | **2008** **HK$ Million** | 2007 *HK$ Million* |
| Bank loans repayable: | | | | |
| Within 1 year or on demand | — | 1,278.9 | — | 500.0 |
| After 2 years but within 5 years | **3,065.0** | 580.0 | — | — |
| | **3,065.0** | 1,858.9 | — | 500.0 |
| Analysis: | | | | |
| Secured | **1,465.0** | 980.0 | — | — |
| Unsecured | **1,600.0** | 878.9 | — | 500.0 |
| | **3,065.0** | 1,858.9 | — | 500.0 |

(a) The Group's borrowings are denominated in Hong Kong dollars (after the effects of cross-currency interest rate swaps arrangements as detailed in Note 24(a)).

(b) At 31 December 2008, the Group's banking facilities in the amount of HK$1,465.0 million (2007: HK$1,100.0 million) were secured by certain fixed assets and certain available-for-sale investments with an aggregate carrying value of HK$2,174.1 million (2007: over certain available-for-sale investments with carrying value of HK$2,003.6 million) and were fully utilised (2007: HK$980.0 million).

## 23. DEFERRED TAXATION

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

| | Group | | | |
|---|---|---|---|---|
| | **Depreciation allowances in excess of the related depreciation** *HK$ Million* | **Revaluation of investment properties** *HK$ Million* | **Others** *HK$ Million* | **Total** *HK$ Million* |
| Balance at 1 January 2007 | 17.7 | 208.0 | 1.2 | 226.9 |
| Charged to the consolidated profit and loss account | 4.1 | 28.6 | 0.4 | 33.1 |
| Balance at 31 December 2007 and at 1 January 2007 | **21.8** | **236.6** | **1.6** | **260.0** |
| Credited to the consolidated profit and loss account | **(2.0)** | **(5.6)** | **(2.1)** | **(9.7)** |
| Balance at 31 December 2008 | **19.8** | **231.0** | **(0.5)** | **250.3** |

(b) No deferred tax assets and liabilities have been recognised by the Company as there were no material temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding tax bases at 31 December 2008 and 2007.

## 24. FINANCIAL RISK MANAGEMENT

The Group exposes to financial risks as to interest rate, foreign currency, liquidity and credit arises in the normal course of business. To manage these risk exposures, 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 impacts of fluctuations in interest rates and exchange rates. The financial 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 cautiously uses derivatives, principally forward currency contracts and cross currency interest rate swaps as appropriate for financing, hedging transactions and for managing 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 for speculative purposes.

### (a) Interest rate risk

The Group's main exposure to interest rate risk relates principally to Hong Kong dollar and US dollar borrowings. The Group has entered into a number of cross currency interest rate swaps with the financial effect of converting the US dollar borrowings into Hong Kong dollar 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 through regular review with a focus on reducing the Group's overall cost of funding as well as having regards to the floating/fixed rate mix appropriate to its current business portfolio.

As at 31 December 2008, after taking into account of cross-currency interest rate swaps, all the Group's borrowings were at floating rate, approximately 1.5% per annum (2007: 3.5 % per annum) (see Note 22(a)).

Based on the sensitivity analysis performed on 31 December 2008, it was estimated that a general increase/decrease of 1% interest rates would decrease/increase the Group's post-tax profit and total equity by approximately HK$22.1million (2007: HK$12.7 million). This takes into account the effect of interest bearing bank deposits.

The sensitivity analysis is determined assuming all other variables, including the amount of borrowings and bank deposits, held constant for the whole year and the change in interest rates are compared to the rates applicable at the balance sheet date and are applied to both derivative and non-derivative financial instruments in existence at that date. The analysis is performed on the same basis for 2007.

## 24. FINANCIAL RISK MANAGEMENT *(Continued)*

### (b) Foreign currency risk

The Group owns assets and conducts its business both in Hong Kong and China with its cash flows substantially denominated in Hong Kong dollars and RMB and exposes to foreign currency risk with respect to RMB related to its property development in 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 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 Hong Kong dollars, their borrowings will be either in Hong Kong dollars or US dollars. For managing the overall financing costs of existing and future capital requirement for the projects in China, the Group has adopted a diversified funding approach and entered into certain forward foreign exchange contracts with the financial effect of taking up JPY borrowings, the interest rate of which is relative lower but exposing the Group to exchange rate risk with respect to JPY.

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

| | 2008 | | | |
|---|---|---|---|---|
| | *USD Million* | *RMB Million* | *AUD Million* | *JPY Million* |
| **The Group** | | | | |
| Available-for-sale investments | **77.4** | — | — | — |
| Bank deposits and cash | **21.2** | — | — | — |
| Bank loans | **(295.2)** | — | — | — |
| Inter-company balances | — | **65.7** | — | — |
| Gross exposure arising from recognised assets and liabilities | **(196.6)** | **65.7** | — | — |
| Notional amount of forward foreign exchange contracts at fair value through profit or loss | **120.8** | — | — | **(12,771.9)** |
| Notional amount of cross currency interest rate swaps at fair value through profit or loss | **295.2** | — | — | — |
| Overall net exposure | **219.4** | **65.7** | — | **(12,771.9)** |

## 24. FINANCIAL RISK MANAGEMENT *(Continued)*

### (b) Foreign currency risk *(Continued)*

| | 2007 | | | |
|---|---|---|---|---|
| | *USD Million* | *RMB Million* | *AUD Million* | *JPY Million* |
| **The Group** | | | | |
| Available-for-sale investments | 175.2 | — | — | — |
| Bank deposits and cash | 73.3 | — | — | — |
| Bank loans | — | — | — | — |
| Inter-company balances | — | — | — | — |
| Gross exposure arising from recognised assets and liabilities | 248.5 | — | — | — |
| Notional amount of forward foreign exchange contracts at fair value through profit or loss | 66.1 | — | 39.0 | (12,771.9) |
| Notional amount of cross currency interest rate swaps at fair value through profit or loss | — | — | — | — |
| Overall net exposure | 314.6 | — | 39.0 | (12,771.9) |

During the year, and amount of HK$165.0 million (2007: HK$75.7 million) loss was recognised on the forward foreign exchange contracts.

Based on the sensitivity analysis performed on 31 December 2008, it was estimated that the approximate change in the Group's post-tax profit and total equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date are as follows:

– a 5% increase/decrease in the exchange rate of JPY against USD will decrease/increase the Group's post-tax profit and total equity by approximately HK$54.9 million (2007: HK$44.6 million).

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

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

In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies. Results of the analysis as presented above represent an aggregation of the effects on each of the Group entities' profit and equity measured in the respective functional currencies, translated into HKD at exchange rate ruling at the balance sheet date for presentation purpose. The analysis is performed on the same basis for 2007.

## 24. FINANCIAL RISK MANAGEMENT *(Continued)*

### (c) Equity price risk

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

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

Based on the sensitivity analysis performed on 31 December 2008, it is estimated that a 5% (2007: 10%) 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 are impairments but would increase/decrease the Group's total equity by HK$30.2 million (2007: HK$251.7 million). The analysis is performed on the same basis for 2007.

### (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 to maintain flexibility for meeting its liquidity requirements in the short and longer term. The Group's cash management are substantially centralised by the Group Treasury department, which regularly monitor 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 by the Company.

## 24. FINANCIAL RISK MANAGEMENT *(Continued)*

### (d) Liquidity risk *(Continued)*

The following tables detail the remaining contractual maturities at the balance sheet date of the Group's derivative an non-derivative financial liabilities, which are based on contractual undiscounted cash flows 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 2008** | | | | | | |
| Bank loans | **(3,065.0)** | **(3,241.5)** | **(46.6)** | **(46.4)** | **(3,148.5)** | **—** |
| Trade and other payables | **(143.2)** | **(139.9)** | **(135.0)** | **(3.7)** | **(1.2)** | **—** |
| Forward foreign exchange contracts at fair value through profit and loss | **(165.8)** | **(165.8)** | **(165.8)** | **—** | **—** | **—** |
| | **(3,374.0)** | **(3,547.2)** | **(347.4)** | **(50.1)** | **(3,149.7)** | **—** |
| At 31 December 2007 | | | | | | |
| Bank loans | (1,858.9) | (1,930.9) | (1,308.0) | (22.4) | (600.5) | — |
| Trade and other payables | (139.0) | (138.5) | (122.7) | (13.4) | (2.4) | — |
| Forward foreign exchange contracts at fair value through profit and loss | (106.5) | (106.5) | (106.5) | — | — | — |
| | (2,104.4) | (2,175.9) | (1,537.2) | (35.8) | (602.9) | — |

The contractual undiscounted cash flow for bank loans is after taking into account the effect of cross currency interest rate swaps.

## 24. FINANCIAL RISK MANAGEMENT *(Continued)*

### (e) Credit risk

The Group's credit risk is primarily attributable to rental, trade and other receivables and over-the-counter derivative financial instruments. The exposures to these credit risks are closely monitored on an ongoing basis by the 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.

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 balance sheet. Except for the financial guarantees given by the Company as set out in Note 28, the Group does not provide any other guarantee which would expose the Group or the Company to material credit risk.

### (f) Fair value estimation

Listed investments are stated at quoted market prices.

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

The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date. The fair value of cross currency interest rate swaps is determined based on the amount that the Group would receive or pay to terminate the swaps.

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 31 December 2007. Amounts due from/(to) subsidiaries are unsecured, interest free and have no fixed repayment terms. Given these terms it is not meaningful to disclose fair values.

## 24. FINANCIAL RISK MANAGEMENT *(Continued)*

### (g) Capital management

The Group's primary objective when managing capital are to safeguard the Group's ability to continue as a going concern to meet its financial obligations and continue to provide returns for shareholders 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 comprise shareholders' equity and minority interests.

The net debt-to-equity ratio as at 31 December 2008 and 2007 were as follows:

| | Group | |
|---|---|---|
| | **2008** | 2007 |
| | ***HK$ Million*** | *HK$ Million* |
| Total debts (Note 22) | **3,065.0** | 1,858.9 |
| Less: Bank deposits and cash | **(1,258.4)** | (584.8) |
| Net debt | **1,806.6** | 1,274.1 |
| Shareholders' equity | **7,067.0** | 5,748.1 |
| Total equity | **7,762.8** | 5,945.1 |
| Net debt-to-shareholders' equity ratio | **25.6%** | 22.2% |
| Net debt-to-total equity ratio | **23.3%** | 21.4% |

## 25. SHARE CAPITAL

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **No. of shares** | | No. of shares | |
| | ***Million*** | ***HK$ Million*** | *Million* | *HK$ Million* |
| Authorised | | | | |
| Ordinary shares of HK$0.50 each | **1,200.0** | **600.0** | 380.0 | 190.0 |
| Ordinary shares, issued and fully paid | | | | |
| At 1 January | **315.0** | **157.5** | 315.0 | 157.5 |
| Rights issue | **157.5** | **78.8** | — | — |
| At 31 December | **472.5** | **236.3** | 315.0 | 157.5 |

By an ordinary resolution passed at the extraordinary general meeting held on 3 March 2008, the Company's authorised ordinary share capital was increased to HK$600,000,000 by the creation of an additional 820,000,000 ordinary shares of HK$0.50 each, ranking pari passu with the existing ordinary shares of the Company in all respects. On 25 March 2008, 157,500,000 ordinary shares were issued at HK$12.80 per share on completion of a rights issue exercise.

## 26. CAPITAL AND RESERVES

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

## 26. CAPITAL AND RESERVES (Continued)

| | Share capital HK$ Million | Share premium HK$ Million | Investments revaluation reserve HK$ Million | Revenue reserve HK$ Million | Exchange reserve HK$ Million | Total shareholders' equity HK$ Million | Minority interests HK$ Million | Total equity HK$ Million |
|---|---|---|---|---|---|---|---|---|
| | Shareholders' equity | | | | | | | |
| **(a) The Group** | | | | | | | | |
| Balance at 1 January 2008 | 157.5 | 542.0 | 1,096.2 | 3,909.9 | 42.5 | 5,748.1 | 197.0 | 5,945.1 |
| Deficit on revaluation of available-for-sale investments | — | — | (649.4) | — | — | (649.4) | — | (649.4) |
| Transferred to the consolidated profit and loss account on disposal of available-for-sale investments | — | — | (333.3) | — | — | (333.3) | — | (333.3) |
| Transferred to the consolidated profit and loss account on impairment of available-for-sale investments | — | — | 47.5 | — | — | 47.5 | — | 47.5 |
| Exchange difference | — | — | — | — | 228.6 | 228.6 | 13.2 | 241.8 |
| Actuarial losses on defined benefit pension schemes | — | — | — | (14.7) | — | (14.7) | — | (14.7) |
| | — | — | (935.2) | (14.7) | 228.6 | (721.3) | 13.2 | (708.1) |
| Profit for the year | — | — | — | 170.5 | — | 170.5 | (0.9) | 169.6 |
| Total recognised income and expense | — | — | (935.2) | 155.8 | 228.6 | (550.8) | 12.3 | (538.5) |
| Shares issued by a subsidiary | — | — | — | — | — | — | 486.5 | 486.5 |
| Right issue | 78.8 | 1,927.9 | — | — | — | 2,006.7 | — | 2,006.7 |
| Dividends approved in respect of the previous year | — | — | — | (113.4) | — | (113.4) | — | (113.4) |
| Dividends declared in respect of the current year | — | — | — | (23.6) | — | (23.6) | — | (23.6) |
| Balance at 31 December 2008 | 236.3 | 2,469.9 | 161.0 | 3,928.7 | 271.1 | 7,067.0 | 695.8 | 7,762.8 |

## 26. CAPITAL AND RESERVES (Continued)

| | Share capital HK$ Million | Share premium HK$ Million | Revenue reserve HK$ Million | Total equity HK$ Million |
|---|---|---|---|---|
| **(b) The Company** | | | | |
| Balance at 1 January 2007 | 157.5 | 542.0 | 295.0 | 994.5 |
| Profit for the year | — | — | 43.3 | 43.3 |
| Dividends approved in respect of the previous year | — | — | (75.6) | (75.6) |
| Dividends declared in respect of the current year | — | — | (15.8) | (15.8) |
| Balance at 31 December 2007 | 157.5 | 542.0 | 246.9 | 946.4 |
| Balance at 1 January 2008 | **157.5** | **542.0** | **246.9** | **946.4** |
| Profit for the year | **—** | **—** | **0.3** | **0.3** |
| Rights issue | **78.8** | **1,927.9** | **—** | **2,006.7** |
| Dividends approved in respect of the previous year | **—** | **—** | **(113.4)** | **(113.4)** |
| Dividends declared in respect of the current year | **—** | **—** | **(23.6)** | **(23.6)** |
| Balance at 31 December 2008 | **236.3** | **2,469.9** | **110.2** | **2,816.4** |

(c) Reserves of the Company available for distribution to shareholders at 31 December 2008 amounted to HK$110.2 million (2007: HK$246.9 million).

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

(e) After the balance sheet date the directors proposed a final dividend of 15 cents per share (2007: 24 cents per share) amounting to HK$70.9 million (2007: HK$113.4 million). This dividend has not been recognised as a liability at the balance sheet date.

## 27. MATERIAL RELATED PARTY TRANSACTIONS

(a) During the financial year, there was in existence a management agreement with a subsidiary of the ultimate holding company for the management of the Group's hotel operations. Fees payable under this arrangement during the current year amounted to HK$36.7 million (2007: HK$34.8 million) which included management fees of HK$30.2 million (2007: HK$28.8 million) and marketing fees of HK$6.5 million (2007: HK$6.0 million). The management fees included a basic fee and an incentive fee which are calculated based on the relevant percentage of gross revenue and gross operating profit respectively. The marketing fee is calculated based on a percentage of gross revenue. Such transaction constitutes a connected transaction as defined under the Listing Rules.

(b) The Group has a tenancy agreement with Lane Crawford (Hong Kong) Limited, which is indirectly wholly owned by a trust of which the chairman of the Company's ultimate holding company is the settlor, in respect of the lease of shops situated on G/F, 1/F & 2/F of The Marco Polo Hongkong Hotel. The duration of tenancy is from 11 April 2003 to 10 April 2009. The rental income earned by the Group from the above agreement during the current year, including contingent rental income, amounted to HK$88.1 million (2007: HK$88.0 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

## 28. CONTINGENT LIABILITIES

As at 31 December 2008, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to bank overdrafts and credit facilities up to HK$3,968.1 million (2007: HK$503.1 million). Except for the above, the Company does not provide any other guarantee.

The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was HK$Nil (2007: HK$Nil).

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

## 29. COMMITMENTS

| | Group 2008 HK$ Million | Group 2007 HK$ Million |
|---|---|---|
| **(a) Capital commitments** | | |
| Contracted but not provided for | **1.6** | 9.0 |
| Authorised but not contracted for | **1.4** | 19.8 |
| | **3.0** | 28.8 |
| **(b) Properties under development** | | |
| Contracted but not provided for | **345.1** | 3,965.3 |
| Authorised but not contracted for | **13,583.2** | 11,914.0 |
| | **13,928.3** | 15,879.3 |
| **(c) Properties under development undertaken by jointly controlled entities attributable to the Group** | | |
| Contracted but not provided for | **746.0** | 1,126.8 |
| Authorised but not contracted for | **2,492.3** | 2,052.0 |
| | **3,238.3** | 3,178.8 |

Included in properties under development and those undertaken by jointly controlled entities are land costs of HK$951.6 million payable by instalments in 2009.

## 30. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued certain new and revised Hong Kong Financial Reporting Standards ("HKFRSs") and Interpretations that are first effective for the current accounting period of the Group, including HK(IFRIC) 14, HKAS 19 - the limit on a defined benefit asset, minimum funding requirements and their interaction. These HKFRSs developments have had no material impact on the Group's financial statements as either they were consistent with accounting policies already adopted by the Group or they were not relevant to the Group's operations.

The adoption of the new Interpretation to HKFRSs has had no significant impact on the financial statements of the Group for the years ended 31 December 2007 and 31 December 2008.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see Note 33).

## 31. POST BALANCE SHEET EVENTS

After the balance sheet date the Directors proposed a final dividend. Further details are disclosed in Note 8.

## 32. COMPARATIVE FIGURES

The amounts due from/to subsidiaries are now presented in interest in subsidiaries classified as non-current assets in the Company's balance sheet. Accordingly, the comparative figures have been reclassified to conform with the current year's presentation.

## 33. FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations that may impact the Group's financial statements, which have not been adopted since they are only effective after 31 December 2008.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| HK (IFRIC) 13 – Customer loyalty programmes | 1 July 2008 |
| HKAS 1 (Revised) - Presentation of financial statements | 1 January 2009 |
| HKAS 23 (Revised) – Borrowing costs | 1 January 2009 |
| HKAS 27 (Revised) – Consolidated and separate financial statements | 1 July 2009 |
| HKFRS 8 – Operating segments | 1 January 2009 |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that apart from improvements to HKFRS, and HK (IFRIC) 15 – Agreements for conclusion of real estate which may have some impact, the adoption of the other new standards and interpretation is unlikely to have a significant impact on the Group's results of operations and financial position.

## 34. PARENT AND ULTIMATE HOLDING COMPANY

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

## 35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 10 March 2009.

## (A) STATEMENT OF COMPLIANCE

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

## (B) BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate and jointly controlled entities.

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

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

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

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

## (C) BASIS OF CONSOLIDATION

### (i) Subsidiaries and minority interests

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

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised profits arising from intra-group transactions, are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

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

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

## (C) BASIS OF CONSOLIDATION *(Continued)*

### (ii) Associates and jointly controlled entities

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

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

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

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

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

## (C) BASIS OF CONSOLIDATION *(Continued)*

### (iii) Goodwill

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

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

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

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

## (D) FIXED ASSETS

### (i) Investment properties

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

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

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

### (ii) Hotel property

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

## (D) FIXED ASSETS *(Continued)*

### (iii) Other fixed assets

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

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

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

## (E) DEPRECIATION OF FIXED ASSETS

### (i) Investment properties

No depreciation is provided on investment properties.

### (ii) Hotel property

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

### (iii) Other fixed assets

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

## (F) IMPAIRMENT OF ASSETS

(i) Impairment of financial assets

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

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

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

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

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

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

## (G) LEASED ASSETS

### (i) Classification of leased assets

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

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

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

### (ii) Assets held for use in operating leases

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

### (iii) Operating lease charges

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

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

## (H) AVAILABLE-FOR-SALE INVESTMENTS

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

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

## (I) INVENTORIES

### (i) Property held for sale

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

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

### (ii) Property under development

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

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

## (I) INVENTORIES *(Continued)*

### (iii) Hotel consumables

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

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

## (J) DERIVATIVE FINANCIAL INSTRUMENTS

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

## (K) TRADE AND OTHER RECEIVABLES

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

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

## (L) TRADE AND OTHER PAYABLES

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

## (M) CASH AND CASH EQUIVALENTS

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

## (N) FOREIGN CURRENCIES

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

## (O) RECOGNITION OF REVENUE

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

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

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

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

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

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

## (P) BORROWING COSTS

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

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

## (Q) INCOME TAX

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

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

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

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

## (Q) INCOME TAX *(Continued)*

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

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

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

— in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously; or

— in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  — the same taxable entity; or

  — different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

## (R) EMPLOYEE RETIREMENT BENEFITS

(i) Defined contribution pension scheme

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

(ii) Defined benefit pension schemes

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

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

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

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

(iii) Mandatory Provident Fund

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

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

## (S) SEGMENT REPORTING

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

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

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

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

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

## (T) PROVISIONS AND CONTINGENT LIABILITIES

### (i) Financial guarantees issued

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

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

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

## (T) PROVISIONS AND CONTINGENT LIABILITIES *(Continued)*

### (ii) Other provisions and contingent liabilities

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

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

## (U) RELATED PARTIES

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

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

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

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

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

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

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

## (V) ACCOUNTING ESTIMATES AND JUDGEMENTS

### (i) Key sources of estimation uncertainty

Note 16 contains information about the assumptions and their risk factors relating to defined benefit pension scheme obligations. Other key sources of estimation uncertainty are as follows:

— *Assessment of provision for properties held under development*

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

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

— *Valuation of investment properties*

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

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

— *Assessment of classification of investments in jointly controlled entities*

The classification of investments in jointly controlled entities is based on management's assessment of whether there is joint control over the economic activity of the entity. In assessing joint control, management takes into account of the rights of each of parties over substantive operating decision; judgement is required to the extent to determine what constitutes the strategic financial and operating decisions essential to the accomplishment of the goals of the joint venture require the unanimous consent of the parties. Management also considers the terms of the shareholder agreements including the governance structure and the resolution of disputes between the parties, profit sharing arrangements and the termination provisions.

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

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

— *Assessment of impairment of non-current assets*

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

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

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

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

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

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

# Principal Subsidiaries, Associate and Jointly Controlled Entities

As at 31 December 2008

| Subsidiaries | Place of incorporation/ operation | Issued share capital (all being ordinary shares and fully paid up except otherwise stated)/registered and paid up capital | Effective equity interest to the Company | Principal activities |
|---|---|---|---|---|
| #Harbour Centre (Hong Kong) Limited | British Virgin Islands | 500 US$1 shares | 100% | Holding company |
| #Ocean New Investments Limited | British Virgin Islands | 500 US$1 shares | 100% | Holding company |
| Algebra Assets Limited | British Virgin Islands | 500 US$1 shares | 100% | Investment |
| Insight Ever International Limited | British Virgin Islands | 500 US$1 shares | 100% | Investment |
| Mandelson Investments Limited | British Virgin Islands | 500 US$1 shares | 100% | Investment |
| Manniworth Company Limited | Hong Kong | 10,000 HK$1 shares | 100% | Property investment |
| The Hongkong Hotel Limited | Hong Kong | 100,000 HK$1 shares | 100% | Hotel and property |
| Smooth Gain Investments Limited | Hong Kong | 1 HK$1 shares | 100% | Finance |
| #Superb Mind International Limited | British Virgin Islands | 500 US$1 shares | 100% | Holding company |
| Free Boost Investments Limited | Hong Kong | 1 HK$1 shares | 100% | Holding company |

| Subsidiaries | Place of incorporation/ operation | Issued share capital (all being ordinary shares and fully paid up except otherwise stated)/registered and paid up capital | Effective equity interest to the Company | Principal activities |
|---|---|---|---|---|
| 蘇州高龍房產發展有限公司 *(note (a))* | The People's Republic of China | RMB3,082,260,891 | 80% | Property development |
| Joinhill Investments Limited | Hong Kong | 1 HK$1 shares | 100% | Holding company |
| 南京聚龍房地產開發有限公司 *(note (b))* | The People's Republic of China | US$198,000,000 | 100% | Holding company |
| Cheer Sky Investment Limited | Hong Kong | 1 HK$1 shares | 100% | Holding company |
| 九龍倉（常州）置業有限公司 *(note (b))* | The People's Republic of China | US$199,800,000 | 100% | Property development |

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

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

*All the subsidiaries listed above were, as at 31 December 2008, indirectly held by the Company except where marked #, which are held directly by the Company.*

*Note:*
*(a) The nature of company is 台港澳與境內合資*
*(b) The nature of company is 台港澳法人獨資*

# Schedule of Principal Properties

As at 31 December 2008

| Address | Lot Number | Year of Completion/ Expected Completion | Lease Expiry | Site Area (Sq.Ft.) | Appoximate Gross Floor Areas (Sq.Ft.) | | | | | Stage of Completion | Effective Equity Interest to the Company |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Office | Retail | Residential | Hotel Apartments | Hotel (No.of Rooms) | | |
| **Investment properties** | | | | | | | | | | | |
| The Marco Polo Hongkong Hotel, Harbour City, Tsimshatsui (Commercial Section) | KML 91 S.A. & KML 10 S.B. | 1969 | 2863 | *(a)* | 34,000 | 172,000 | — | — | — | N/A | 100% |
| Various units of Star House, 3 Salisbury Road, Kowloon | KML 10 S.A. | 1966 | 2863 | N/A | — | 50,780 | — | — | — | N/A | 100% |
| **Hotel property** | | | | | | | | | | | |
| The Marco Polo Hongkong Hotel, Harbour City, Tsimshatsui | KML 91 S.A. & KML 10 S.B. | 1969 | 2863 | 58,814 | — | — | — | — | 553,000 (664 rooms) | N/A | 100% |
| **Properties under development** | | | | | | | | | | | |
| Changzhou Dinosaur Park Project China Dinosaur Park, Xinbei District, Changzhou, Jiangsu Province | N/A | 2014 | 2047/77 | 4,427,804 | — | — | 7,838,000 | — | 843,000 (405 rooms) | Planning stage | 100% |
| Suzhou Industrial Park Project | | | | | | | | | | | |
| Xinghu Jie, | N/A | 2013 | 2047/77 | 229,069 | 1,890,000 | — | 1,890,000 | — | — | Planning stage | 80% |
| Xiandai Da Dao Suzhou Industrial Park, Suzhou | N/A | 2013 | 2,077 | 5,425,454 | — | — | 9,765,000 | — | — | Planning stage | 80% |

| Address | Lot Number | Year of Completion/ Expected Completion | Lease Expiry | Site Area (Sq.Ft.) | Appoximate Gross Floor Areas (Sq.Ft.) Office | Retail | Residential | Hotel Apartments | Hotel (No.of Rooms) | Stage of Completion | Effective Equity Interest to the Company |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Properties under development undertaken by jointly controlled entities** | | | | | | | | | | | |
| Chongqing Jiangbei City Project Zone B of Jiangbei City, Jiang Bei District, Chongqing | N/A | 2014 | 2057 | 1,002,408 | — | — | 2,524,000* | — | — | Planning stage | 55% |
| Hangzhou CBD Project Qianjiang New City Shangcheng District, Hangzhou, Zhejiang Province | N/A | 2013 | 2047/77 | 906,921 | — | 44,429# | 849,745# | 185,162# | 175,544# (128 rooms)# | Substructure in progress | 40% |

*(a) Part of The Marco Polo Hongkong Hotel building*
* *being 55%attributable to the Group*
\# *being 40%attributable to the Group*

# Ten-Year Financial Summary

| HK$ Million | 2008 | 2007 | 2006 | 2005 | 2004 |
|---|---|---|---|---|---|
| **Summary of profit and loss Account** | | | | | |
| Turnover | **664.2** | 671.1 | 920.9 | 526.8 | 445.0 |
| Group profit/(loss) before investment property revaluation | **133.3** | 503.4 | 344.9 | 293.4 | 249.0 |
| Net investment properties revaluation surplus *(Note a)* | **37.2** | 135.0 | 77.8 | 223.7 | 122.7 |
| Group profit/(loss) attributable to equity shareholders | **170.5** | 638.4 | 422.7 | 517.1 | 371.7 |
| Dividends attributable to to equity shareholders | **94.5** | 129.2 | 91.4 | 53.6 | 53.6 |
| **Summary of Balance sheet** | | | | | |
| Fixed assets | **1,972.6** | 1,947.1 | 1,741.6 | 1,637.3 | 1,092.1 |
| Interest in an associate | **0.7** | 0.8 | 0.8 | 14.6 | 42.4 |
| Interest in jointly controlled entities | **2,586.7** | 1,964.6 | — | — | — |
| Available-for-sale investments | **604.0** | 2,516.6 | 1,490.0 | 922.8 | 820.4 |
| Properties under development/for sale | **4,972.6** | 985.3 | 4.7 | 240.0 | — |
| Bank deposits and cash | **1,258.4** | 584.8 | 1,840.2 | 1,519.6 | 1,737.5 |
| Other assets | **112.1** | 438.8 | 91.5 | 113.7 | 63.5 |
| Total assets | **11,507.1** | 8,438.0 | 5,168.8 | 4,448.0 | 3,755.9 |
| Bank loans | **(3,065.0)** | (1,858.9) | — | — | — |
| Other liabilities | **(679.3)** | (634.0) | (390.8) | (351.7) | (250.3) |
| Net assets | **7,762.8** | 5,945.1 | 4,778.0 | 4,096.3 | 3,505.6 |
| Share capital | **236.3** | 157.5 | 157.5 | 157.5 | 157.5 |
| Reserves | **6,830.7** | 5,590.6 | 4,620.5 | 3,938.8 | 3,348.1 |
| Shareholders' equity | **7,067.0** | 5,748.1 | 4,778.0 | 4,096.3 | 3,505.6 |
| Minority interests | **695.8** | 197.0 | — | — | — |
| Total equity | **7,762.8** | 5,945.1 | 4,778.0 | 4,096.3 | 3,505.6 |
| **Financial Data** | | | | | |
| *Per share data* | | | | | |
| Earnings/(loss) per share (HK$) | **0.39** | 2.03 | 1.34 | 1.64 | 1.18 |
| Net assets per share (HK$) | **16.43** | 18.87 | 15.17 | 13.00 | 11.13 |
| Dividends per share (Cents) | **20.00** | 29.00 | 29.00 | 17.00 | 17.00 |
| *Financial ratios* | | | | | |
| Net debt to shareholder' equity (%) | **25.6%** | 22.2% | N/A | N/A | N/A |
| Net debt to total equity (%) | **23.3%** | 21.4% | N/A | N/A | N/A |
| Return on shareholders' equity (%) | **2.4%** | 11.1% | 8.8% | 12.6% | 10.6% |
| Dividend cover (Times) | **1.8** | 4.9 | 4.6 | 9.6 | 6.9 |

| *HK$ Million* | 2003 | 2002 | 2001 | 2000 | 1999 |
|---|---|---|---|---|---|
| **Summary of profit and loss Account** | | | | | |
| Turnover | 308.7 | 335.2 | 404.1 | 431.4 | 412.3 |
| Group profit/(loss) before investment property revaluation | 169.4 | 12.8 | (113.1) | 114.5 | 116.0 |
| Net investment properties revaluation surplus *(Note a)* | — | — | — | — | — |
| Group profit/(loss) attributable to equity shareholders | 169.4 | 12.8 | (113.1) | 114.5 | 116.0 |
| Dividends attributable to to equity shareholders | 53.6 | 53.6 | 53.6 | 53.6 | 53.6 |
| **Summary of Balance sheet** | | | | | |
| Fixed assets | 2,541.8 | 2,404.6 | 2,774.1 | 2,949.2 | 2,897.8 |
| Interest in associates | 387.9 | 884.2 | 897.0 | 1,173.6 | 1,116.5 |
| Interest in jointly controlled entities | — | — | — | — | — |
| Available-for-sale investments | 550.0 | 523.0 | 851.5 | 890.0 | 929.1 |
| Properties under development / for sale | — | — | — | — | — |
| Bank deposits and cash | 1,277.4 | 572.8 | 868.3 | 332.4 | 149.8 |
| Other assets | 44.2 | 37.8 | 42.7 | 50.2 | 34.1 |
| Total assets | 4,801.3 | 4,422.4 | 5,433.6 | 5,395.4 | 5,127.3 |
| Bank loans | — | — | — | — | — |
| Other liabilities | (114.7) | (182.7) | (625.4) | (435.6) | (371.4) |
| Net assets | 4,686.6 | 4,239.7 | 4,808.2 | 4,959.8 | 4,755.9 |
| Share capital | 157.5 | 157.5 | 157.5 | 157.5 | 157.5 |
| Reserves | 4,529.1 | 4,082.2 | 4,650.7 | 4,802.3 | 4,598.4 |
| Shareholders' equity | 4,686.6 | 4,239.7 | 4,808.2 | 4,959.8 | 4,755.9 |
| Minority interests | — | — | — | — | — |
| Total equity | 4,686.6 | 4,239.7 | 4,808.2 | 4,959.8 | 4,755.9 |
| **Financial Data** | | | | | |
| *Per share data* | | | | | |
| Earnings/(loss) per share (HK$) | 0.54 | 0.04 | (0.36) | 0.36 | 0.37 |
| Net assets per share (HK$) | 14.88 | 13.46 | 15.26 | 15.75 | 15.10 |
| Dividends per share (Cents) | 17.00 | 17.00 | 17.00 | 17.00 | 17.00 |
| *Financial ratios* | | | | | |
| Net debt to shareholder' equity (%) | N/A | N/A | N/A | N/A | N/A |
| Net debt to total equity (%) | N/A | N/A | N/A | N/A | N/A |
| Return on shareholders' equity (%) | 3.6% | 0.3% | (2.4%) | 2.3% | 2.4% |
| Dividend cover (Times) | 3.2 | 0.2 | (2.1) | 2.1 | 2.2 |

*Note:*

*(a) Net investment properties revaluation surplus is after deferred tax.*

*(b) Certain figures have been reclassified or restated to comply with the prevailing HKFRSs. The figures for the years ended 31 December 1999 to 2003 are stated on the basis of the Company's previous accounting policies for investment and hotel properties, which were changed with effective from 1 January 2005 (with 2004 figures restated).*