保利（香港）投資有限公司

# Poly (Hong Kong) Investments Limited

Stock Code : 119

Annual Report 08

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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

HE Ping *(Chairman)*
CHEN Hong Sheng *(Vice-Chairman)*
WANG Xu *(Managing Director)*
XUE Ming
HAN Qing Tao
YE Li Wen
CHAN Tak Chi, William

### Non-Executive Director

IP Chun Chung, Robert*

### Independent Non-Executive Directors

YAO Kang, *J.P.**
LAM Tak Shing, Harry*
CHOY Shu Kwan*

* *members of the Audit Committee*

## COMPANY SECRETARY

TAI Kar Lei

## REGISTERED OFFICE

Room 2503, Admiralty Centre, Tower 1
18 Harcourt Road
Hong Kong

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
CITIC Ka Wah Bank Limited

## AUDITOR

PKF

## INVESTOR RELATIONS CONSULTANT

iPR Ogilvy Ltd.
Units 2608-10, 26/F
The Center
99 Queen's Road Central
Hong Kong

## SHARE REGISTRARS AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712-1716
17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

## STOCK CODE

119

## COMPANY WEBSITE

www.polyhongkong.com.hk
www.irasia.com/listco/hk/polyhk

# NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the Annual General Meeting of Poly (Hong Kong) Investments Limited (the "Company") will be held at Aberdeen Room, Level 3, JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong on 26th May, 2009 at 11:00 a.m. for the following purposes:

1. To receive and consider the audited financial statements and the reports of the directors and auditor for the year ended 31st December, 2008.

2. To declare a final dividend.

3. To elect directors and to authorise the board of directors to fix their remuneration.

4. To consider and, if thought fit, pass the following resolution as an Ordinary Resolution, Special Notice of Intention to propose which has been received pursuant to Sections 116C and 132(1) of the Companies Ordinance:–

   "That Messrs. PKF, the retiring Auditor who was appointed as Auditor by the Directors to fill the casual vacancy occasioned by the resignation of Messrs. Deloitte Touche Tohmatsu be and is hereby appointed as Auditor of the Company to hold office until the conclusion of the next Annual General Meeting at a fee to be agreed with the Directors."

5. To consider as special business and, if thought fit, pass with or without amendments the following resolutions as Ordinary Resolutions:

   (A) "**THAT**:

   (a) subject to paragraph (c) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be and is hereby generally and unconditionally approved;

   (b) the approval in paragraph (a) above shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

   (c) the aggregate nominal amount of the share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to a Rights Issue (as hereinafter defined) or the exercise of any option under the Share Option Scheme of the Company, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval shall be limited accordingly; and

# NOTICE OF ANNUAL GENERAL MEETING

(d) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or by any applicable laws to be held; and

(iii) the revocation or variation of this Resolution by an ordinary resolution of the shareholders of the Company in general meeting.

"Rights Issue" means an offer of shares open for a period fixed by the directors of the Company to holders of shares on the register on a fixed record date in proportion to their then holdings of such shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognized regulatory body or any stock exchange in, any territory outside Hong Kong)."

(B) "**THAT**:

(a) subject to paragraph (b) below, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase its own shares of HK$0.50 each (the "Shares"), subject to and in accordance with all applicable laws and the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, be and is hereby generally and unconditionally approved;

(b) the aggregate nominal amount of the Shares to be purchased by the Company pursuant to the approval in paragraph (a) above during the Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution and the said approval shall be limited accordingly; and

# NOTICE OF ANNUAL GENERAL MEETING

(c) for the purposes of this Resolution:

"Relevant Period" means the period from the passing of this Resolution until whichever is the earliest of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or by any applicable laws to be held; and

(iii) the revocation or variation of this Resolution by an ordinary resolution of the shareholders of the Company in general meeting."

(C) "**THAT** conditional upon the Resolutions numbered 5(A) and 5(B) respectively set out in the notice convening this meeting being passed, the general mandate granted to the directors of the Company to allot, issue and deal with additional shares pursuant to the Resolution numbered 5(A) be and is hereby extended by the addition thereto of an amount representing the aggregate nominal amount of the share capital of the Company purchased by the Company under the authority granted pursuant to the Resolution numbered 5(B), provided that such amount shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this Resolution."

By Order of the Board
**TAI Kar Lei**
*Company Secretary*

Hong Kong, 22nd April, 2009

*Notes:*

(1) A member entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote in his stead. A proxy need not be a member of the Company.

(2) In order to be valid, the form of proxy, together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or authority, must be deposited at the office of the Company's share registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

(3) A circular containing information concerning resolutions nos. 3 and 5 was sent to the shareholders together with 2008 Annual Report.

# CHAIRMAN'S STATEMENT

## RESULTS OF 2008

I hereby announce that the revenue of the Group for the financial year ended 2008 amounted to HK$3,324,368,000, representing an increase of 241% compared with 2007.

The profit attributable to shareholders amounted to HK$222,994,000, representing a decrease of 44% compared with 2007.

## PAYMENT OF DIVIDENDS

A final dividend of HK2 cents per share has been proposed by the Board of Directors.

## CORPORATE BACKGROUND

The Group is the sole overseas-listed company of "China Poly Group", one of the 141 large-scale central enterprises under the supervision of the State-owned Assets Supervision and Management Commission of the State Council of PRC. In 2008, China Poly Group was ranked 28 among the large-scale central enterprises in terms of total profits and was named by the State-owned Assets Supervision and Management Commission as one of the key real estate central enterprises. China Poly Group has always been providing sufficient support and recognition towards the development of the Group's real estate business. With the two capital injection in 06 and 08, the Group has become a property developer with real estate development, property investment and property management as its core businesses.

## BUSINESS REVIEW

In April 2008, the Group duly completed the acquisition of the entire equity in Shenzhen Poly Investments Co., Limited. The net assets of the Group have increased and its share capital and competitiveness have further expanded following the completion of capital injection for a real estate project by our parent company. The gross floor area of the Group's projects under construction and land reserves amounted to approximately 9,280,000 square meters.

The management of the Group has been closely monitoring the macroeconomic changes and endeavored to follow the economic development in order to capture new opportunities under the fierce market competition. In 2008, the management has adopted a strategic and forward-looking development plan with an aim to ensure stable development of the Company:

- Develop our business in an appropriate approach and avoid bidding for land at high prices. The premium land reserves of the Group situated in various major provinces and cities of the PRC, of which the investment properties mainly located in first-tier cities such as Beijing, Shanghai, Guangzhou and Shenzhen, while medium and high-end residential projects mainly located in the second-tier cities in Central and Southwestern Region. In 2008, the Group adopted a prudent approach in acquiring land reserves and strategically acquired a land parcel in prime locations with a constructible gross floor area of 470,000 square meters in Shanghai and Wuhan respectively at reasonable prices.

# CHAIRMAN'S STATEMENT

- Adopt flexible sales models and accelerate the sales of the existing projects. Since 2008, the international and domestic economic environment has been changing dramatically. The aim of the economic policies have been changed from fighting inflation to maintaining growth, the real estate policies have been changed from controlling growth to facilitating development and the real estate market have changed from recording stable trading volumes to recording decreases in both trading volumes and prices. The buyers took a wait-and-see attitude and the market remained sluggish. In 2008, the Group has adjusted its strategies in a timely manner and accelerated the sales of projects located in the city centre and medium to small ordinary commodity housings. The Group has also adopted different measures for its products, marketing, pricing and customers. For instance, the Group has attained satisfactory results by introducing bulk purchasing for the Shanghai Jinjue project, trying to provide apartments with sophisticated internal decorations for the Nanning Poly 21st Century project located in a second-tier city and promoting Poly national heirloom culture in certain projects. During the period, the Group has launched the sales of 10 new projects and achieved good results under such circumstance. The sales has met the expected target set at the beginning of the year and totaled RMB3.73 billion, representing an increase of 66% as compared with 2007.

- Maintain a healthy cash flow. Amidst the difficult economic environment, the management believes that maintaining a healthy cash flow would be a major goal of the Group currently and in the future. As a result, the Group has exercised tight control towards certain investment projects at the beginning of 2008 and adjusted its development progress in response to the market changes, including 1) slowdown the development of areas being severely impacted by the real estate market, such as Harbin, Wuhan and reduce the total investment; 2) remain sales-oriented, adjust the sales strategies of its products and boost the sales on the basis of reasonable pricing; 3) maintain our relationship with the banks and ensure the financing of all projects which have met the terms of loans without being affected by the credit crunch in 2008; and 4) obtain capital contribution from our parent company to increase the cash flow of the Group.

By adopting a series of measures in a proactive manner, the Group has effectively sustained the normal operations of its business and safeguarded the overall capital chain. Under the pressures from both deteriorating economic environment and adjustment of industry cycle, the Group has successfully minimized its corporate risks. In addition, the investment properties of the Group in the first-tier cities achieved satisfactory results. In 2008, Beijing Poly Plaza and Shanghai Stock Exchange building has also recorded higher rents and occupancy rate as compared with the past years.

# CHAIRMAN'S STATEMENT

## THE STRATEGY OF DEVELOPMENT

In the face of wide spreading global economic crisis, slowdown of domestic economic growth and uncertainties clouded over the real estate market in 2009, the Group will continue to closely monitor the economic development and adopt a prudent approach:

- Regarding our development strategies, the Group will continue to obtain support from its parent company as usual and discuss the feasibility of further injection of premium assets.

- Regarding the development of our existing projects, the Group will adhere to its principles of providing high quality products and services and continue to provide branded products with high cost performance. The Group believes that the corporate brand name, quality of products and cost performance will become the choosing indicators for the customers under the uncertain real estate market. In 2008, the projects developed by the Group in Shanghai, Nanning, Guangzhou, Wuhan, Harbin and Jinan have gained certain recognition in the market and were accredited with different awards and honors. In 2009, the Group will strive for offering products with cultural characteristics of Poly and consolidating its competitiveness.

- Regarding projects to be developed, the Group will develop in the centre of the first and second-tier cities in the PRC in a prudent manner and mainly focus on the development of residential projects. The Group will also increase the proportion of commercial products to an appropriate level to support the requirements for long-term development. In the opinion of the Group, the long-term development prospects of the PRC economy and real estate industry remain optimistic with the introduction of beneficial policies by the PRC government. The Group believes that "opportunities" come with "crises". In 2009, developers with limited capital, weak competitiveness and low resistance to continual operations and risks will be eliminated. During the reorganization of real estate industry, developers with strong competitive edges and capital position will be offered with suitable investment opportunities.

- Regarding property investment, the Group will endeavor to maintain stable income from its properties. Under the changing international and domestic economic environment, the Group expects that the vacancy rate of investment properties will inevitably increase and its rent will drop. By providing quality property management services for adding value to its properties and maintain a stable customer sources, the Group will be committed to maintain a higher occupancy rate.

# CHAIRMAN'S STATEMENT

## CORPORATE GOVERNANCE

The Group has strictly complied with all the requirements on the code provisions of the Code on Corporate Governance Practices set out in Appendix 14 of the Listing rules for the twelve months ended 31st December, 2008.

Accordingly, the Group considers that it has adopted sufficient measures to ensure that the corporate governance level of the Group is no less exacting than the requirements of the Code on Corporate Governance Practices.

## COMPANY PROSPECT

In the opinion of the Group, the continuous and steady growth of the PRC's economy, gradual increase in urban population, continual improvements of the old towns and the residents becoming more demanding on living quality and environment have provided with various development opportunities for the real estate industry in the PRC. Although the real estate market in the PRC have undergone adjustments for over a year, the real estate market has shown positive signs under the "RMB4,000 billion plan for stimulating economic" and credit easing policies issued by the PRC government recently. The Group believes that the steady growth of the PRC's economy will gradually revive investors' confidence towards the real estate market and the Group is optimistic about the long-term and healthy development of the real estate market in China.

Looking ahead, the addition of real estate projects into the Group's assets by the parent during the past two years gradually yields returns. The gain for each project has been emerging progressively since 2009. In 2009, the Group will newly offer 5 new projects and 16 projects for continuous launch with a saleable gross floor area of approximately 1,200,000 square meters. Operating revenue and profit of the Group are expected to grow steadily.

As the sole overseas flagship of the China Poly Group, the Group is confident about its future prospects of development. Looking forward, the Group will strive to grasp rare opportunities under the ever-changing circumstances and continuously solidify its leading position in the market, in order to maintain a constant and healthy development for the Group and in turn create fruitful returns for our shareholders.

## APPRECIATION

In the past year, with all employees' devoted efforts and cooperation, the Group was able to achieve satisfactory results and constantly develop under the global financial turmoil and rapid reorganization of the domestic real estate market. On behalf of the Board and the Shareholders, I would like to express my deepest gratitude to all of our dedicated employees.

**He Ping**
*Chairman*

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERALL OPERATING CONDITIONS

In 2008, the Group recorded a turnover of HK$3,324,368,000 (corresponding period in 2007: HK$973,860,000), representing an increase of 241% as compared with the corresponding period last year. Profit attributable to shareholders amounted to HK$222,994,000 (corresponding period in 2007: a profit of HK$401,196,000), representing a decrease of HK$178,202,000 as compared with the corresponding period last year. Basic earnings per share was HK12.22 cents (corresponding period in 2007: HK25.90 cents), while diluted earnings per share was HK12.07 cents (corresponding period in 2007: HK25.19 cents).

As at 31st December, 2008, total shareholders' equity of the Group amounted to HK$6,080,061,000 (31st December, 2007: HK$4,669,181,000) and net book asset value per share was HK$3.18 (31st December, 2007: HK$2.83).

# MANAGEMENT DISCUSSION AND ANALYSIS

## REAL ESTATE DEVELOPMENT BUSINESS

During the period, 11 new projects with a gross floor area of approximately 2,210,000 square meters have commenced construction works. 6 projects were launched continuously and 10 projects were newly launched with a pre-sale and sale area of approximately 570,000 square meters. 5 projects with a gross floor area of approximately 580,000 square meters have been completed and delivered.

As at 31st December, 2008, the Group had over 29 land reserves under different development stages and projects under construction with a gross floor area of approximately 9,280,000 square meters, representing an increase of 190% as compared with 3,200,000 square meters in 2007. Its regional distribution is as follows:

## REGIONAL DISTRIBUTION OF PROJECTS IN PROGRESS AND LAND RESERVES


| Gross Floor Area | Unit ('000 square meters) |
|---|---|
| First – Tier Cities | 1,837 |
| Second – Tier Cities in Central and South-western Region | 5,473 |
| Other Major Second – Tier Cities | 1,968 |
| **Total** | **9,278** |

# MANAGEMENT DISCUSSION AND ANALYSIS

## COMPARISON BETWEEN THE 2007 AND 2008 AGGREGATE GROSS FLOOR AREA OF PROJECTS UNDER CONSTRUCTION AND LAND RESERVES



### Sales

In 2008, the pre-sale and sale areas of the 16 projects totaled 573,000 square meters, representing an increase of 32% as compared with 435,000 square meters in 2007. The pre-sale and sale amount totaled RMB3.73 billion, representing an increase of 66% as compared with RMB2.25 billion in 2007. During the period, the sales of various projects recorded satisfactory results and met the expected target set at the beginning of the year:

- Projects located in Shanghai have recorded overwhelming market response. Town houses in Shanghai Poly Town Phase 1 comprising 86 units were sold out on the first day of launch. All 366 residential units of Shanghai Tang Dynasty Garden were also sold out on the first day of launch. Shanghai Poly Noble Duke was also the hotspot in Tang Town, Shanghai, which also accomplished remarkable results of sales.

- In Shenzhen and Guangzhou, although the real estate market was affected by the national macro-adjustment in the first half of 2008 and the market price generally went down significantly as a result of the global financial tsunami in the second half of the year, the sales of projects of the Group have recorded satisfactory sales with a slight downward adjustment of selling prices as compared with our expected target. The Group launched 616 units in Shenzhen Sea Songs Garden and recorded an accumulated sale of over 95%. Guangzhou City of Poly has even drawn a flock of purchasers queuing up and become the talk of the town.

# MANAGEMENT DISCUSSION AND ANALYSIS

- The Group has been a leading real estate developer in Central and South-Western Regions such as Nanning and Guiyang. The sales of the projects have recorded excellent results and well exceeded expectations. Over 90% of Guiyang Clouds Hill International comprising 320 units was sold out on the first day of launch. The Group launched 785 units in Guiyang Poly Newisland Phase 2 and recorded an accumulated sale of over 86%. The Group also launched 528 units in Nanning Poly Century at a higher price as compared with other projects in the same region and recorded an accumulated sale of over 62%.

- Except for the slowdown of sales in Harbin and Wuhan, the sales of other projects basically met our expectations. Jinan Poly Lotus comprising 546 units has well performed and over 70% of its units were sold out on the first day of launch with an accumulated sale of 94%.

In 2009, the Group will newly offer 5 projects for sale and 16 projects for continuous launch with a saleable gross floor area of 1,200,000 square meters for the year.

## Sale and Pre-sale for 2008/2009

| | | Sale and pre-sale area in 2008 ('000 square meter) | **Saleable area in 2009 ('000 square meter)** |
|---|---|---|---|
| **Launch in 2008** | | | |
| 1. | Shanghai Poly Town | 37 | **70** |
| 2. | Shanghai Tang Dynasty Garden | 29 | **–** |
| 3. | Shanghai Poly Noble Duke | 31 | **70** |
| 4. | Guangzhou City of Poly | 38 | **110** |
| 5. | Shenzhen Sea Songs Garden | 53 | **7** |
| 6. | Wuhan Poly Royal Palace | 53 | **100** |
| 7. | Chongqing Poly Spring Villa | 3 | **21** |
| 8. | Chongqing Emerald Valley | 62 | **80** |
| 9. | Guiyang Poly Newisland | 80 | **150** |
| 10. | Guiyang Clouds Hill International | 36 | **110** |
| 11. | Nanning Poly Century | 24 | **100** |
| 12. | Nanning Poly Upper House | 50 | **25** |
| 13. | Harbin Poly The Water's Fragrant Dike | 12 | **50** |
| 14. | Poly Harbin Contemporary No. 9 Park Life | 4 | **70** |
| 15. | Harbin Yi He Homeland Southern District | 10 | **3** |
| 16. | Jinan Poly Lotus | 51 | **21** |

# MANAGEMENT DISCUSSION AND ANALYSIS

| | Sale and pre-sale area in 2008 ('000 square meter) | **Saleable area in 2009 ('000 square meter)** |
|---|---|---|
| **New launch in 2009** | | |
| 1. Shanghai Poly Lakeside Garden | – | **19** |
| 2. Shanghai Poly Villa Garden | – | **12** |
| 3. Kunming Sunny Lake & Splendid Life | – | **50** |
| 4. Nanning Shan Shui Yi Cheng | – | **40** |
| 5. Jinan Poly Garden | – | **100** |
| **Total:** | 573 | **1,208** |

## Projects Under Construction

Currently, the Group has 19 projects under construction, of which 23.4% were located in the first-tier cities of the country, 60.0% were located in the central and south-western regions and 16.6% were located in other cities. During the period, 5 projects developed by the Group were completed and delivered, namely Shanghai Jinli Apartments, Shanghai Tang Dynasty Garden, Chongqing Spring Villa Phase 1, Emerald Valley Phase 2 and Harbin Yi He Homeland Southern District.

# MANAGEMENT DISCUSSION AND ANALYSIS

## SUMMARY FOR PROJECTS

### 1. Shanghai Poly Square

Shanghai Poly Square is situated in the Huangpu River in Lujiazui, Putong, Shanghai, the rarely beautiful view of the Huangpu River and district resources in the financial centre. The project, which has a site area of 27,000 square meters and an aggregate gross floor area of approximately 102,000 square meters, will comprise, a block of high-rise Grade A office, 4 multi-storey buildings of offices and shopping malls. The Group holds 90% of the interest in the project. The project has topped-out and is expected to be completed in 2010.

### 2. Shanghai Poly Town (Phases 1 to 3)

Shanghai Poly Town is situated in the central area of Jiading New City, Jiading District, Shanghai, occupying a site area of approximately 169,000 square meters. The residential area, which has an aggregate gross floor area of approximately 409,000 square meters, comprise an apartment area integrating both commercial, residential premises, town houses with ample services and facilities. In 2007, Shanghai Poly Town was awarded with "Homely Residential Area in China（中國親情式住宅小區）". In 2008, Shanghai Poly Town was awarded with the "Model of Social Harmony Award" by China Real Estate Business and IRETO. The Group holds 100% of interests in the project.

Phase 1 of the project has an aggregate gross floor area of approximately 113,000 square meters. The town houses have been completed and delivered while the residential premises are under the construction phase of main structure work. Phases 2 & 3 of the project have an aggregate gross floor area of 196,000 square meters and their construction works was commenced at the end of 2008. The whole project will be completed and delivered by the end of 2008 to early 2012 by phases. The project was launched for pre-sale in April 2008. As at the end of 2008, town houses and residential units with a gross floor area of approximately 36,000 square meters have sold out.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. Shanghai Poly Lakeside Garden (Phase 1) (originally the land parcel in Shanghai Jiading)

Shanghai Poly Lakeside Garden is situated in the southeast corner of Jiading New City, Jiading District, Shanghai, occupying a site area of approximately 119,000 square meters with an aggregate gross floor area of approximately 276,000 square meters. The project is located at the educational area with comprehensive facilities in Jiading New City. By linking the urban areas with the Shanghai Lightrail Line 11 being planned, this project is conveniently located and will become an important residential area of Jiading with approximately 2,300 households. The Group holds 100% of interests in the project.

Phase 1 of the project has an aggregate gross floor area of approximately 56,000 square meters and has commenced the piling works. It is intended that the pre-sale of the project will commence in October 2009 and will deliver by 2010.

## 4. Shanghai Poly Noble Duke (Phases 1 and 2)

Shanghai Poly Noble Duke is situated in the core zone of "new town", which is the focus of reconstruction under "the Eleventh Five-Year Plan", in the Tang Town of the Pudong New Area. Adjacent to Zhangjiang Hi-Tech Park（張江高科技園區）, the zone is situated near the extension lot of the Tang Town station of Metro Line No. 2. The project, which has a site area of approximately 75,000 square meters and an aggregate gross floor area of approximately 146,000 square meters, will be constructed into a medium and high-end residential area. The Group holds 50.1% of interests in the project.

The project is at the stage of main structure construction. It is expected that the construction of Phase 1 to be completed by the end of 2009 and Phase 2 to be completed in 2010. The pre-sale of the project commenced in September 2008 and as at the end of 2008, the accumulated sales of residential units amounted to a gross floor area of approximately 31,000 square meters.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 5. Guangzhou City of Poly (Phase 1)

Guangzhou City of Poly is situated in the automobile industry base of Huadou District, Guangzhou and is adjacent to the commercial and administration centre of the district. The project has a site area of approximately 249,000 square meters and an aggregate gross floor area of approximately 556,000 square meters. It will be developed into a residential complex comprising villas, condominiums and high-rise apartments. In 2008, Guangzhou City of Poly was awared with the "Golden Garden Award" and "Golden Planning Award" by Nanfang Metropolis News, and "The Most Popular Real Estate Award for 2008" by "Soufun". The Group holds 51% of interests in the project.

Phase 1 of the project with a gross floor area of approximately 223,000 square meters has topped-out. It is expected that the project will be completed in 2009. The pre-sales of Phase 1 commenced in September 2008, launching high-rise apartments with a gross floor area of approximately 94,000 square meters. As at the end of 2008, the accumulated sales amounted to a gross floor area of approximately 38,000 square meters.

## 6. Shenzhen Seas Songs Garden

Situated in Haibin Avenue（海濱大道）, Xixiang Town, Bao'an District, Shenzhen, Shenzhen Seas Songs Garden is adjacent to Bao'an New District with excellent seaview. The project has a site area of approximately 35,000 square meters and an aggregate gross floor area of approximately 91,000 square meters, which will be constructed into high-rise residential towers. The Group holds 51% of interests in the project.

The sales of the project commenced in April 2008. As at the end of 2008, the accumulated sales of residential units reached a gross floor area of approximately 52,000 square meters with a sales rate of about 95%. The construction of the project has been completed at the beginning of 2009 and the project has started to deliver.

# MANAGEMENT DISCUSSION AND ANALYSIS

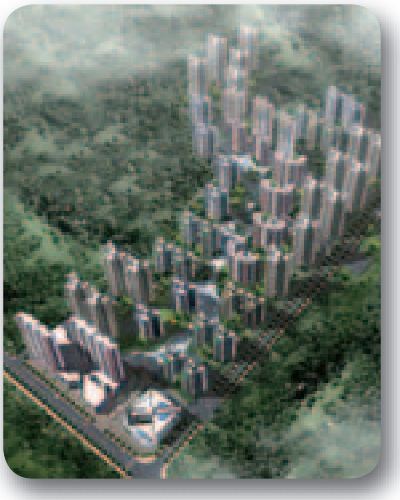
## 7. Wuhan Poly Cultural Plaza

Wuhan Poly Cultural Plaza is located in an interchange of Zhongnan Road and Mingzhu Road in Wuchang, Wuhan (at the central region of Hong Shan Plaza), which is opposite to the Hubei Provincial Government and closely adjacent to inner ring road（內環線）of the city and Metro Line No. 2 and 4. The project has a site area of approximately 12,000 square meters and an aggregate floor area amounting to approximately 143,000 square meters and the project will be constructed as a landmark commercial and office complex in Wuchang region. The Group holds 100% of interests in the project.

The project is under the construction phase of underground structure work and is expected to be completed in 2012.

## 8. Wuhan Poly Royal Palace (Phases 1 and 2)

Situated in Dongwu New Technology Development Zone（東湖新技術開發區）, Wuhan, Wuhan Poly Royal Palace is adjacent to the city metro and commands a panorama view of the renowned Dongwu scenic area on its north and the immense South Lake on its south. The project has a site area of approximately 212,000 square meters and an aggregate gross floor area of approximately 640,000 square meters and will be constructed into a medium and high-end scenic residential area. In 2009, Poly Royal Palace was awarded with the "Outstanding Project of Residence in China for 2009" in the 9th China Real Estate Industry Development Annual Conference, which is the only real estate in Wuhan being awarded with this award. The Group holds 100% of interests in the project.



Phase 1 of the project has an aggregate gross floor area of approximately 208,000 square meters which is under construction and is planned to be completed in 2009. The pre-sales of Phase 1 of the project has commenced in December 2007. As at the end of 2008, the accumulated pre-sales of residential units amounted to a gross floor area of approximately 63,000 square meters. Phase 2 of the project has an aggregate gross floor area of approximately 114,000 square meters. Its construction has officially commenced in the first half of 2008 and is expected to be completed in 2010.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 9. Chongqing Emerald Valley (Phases 3 and 4)

Chongqing Emerald Valley is situated in the North New District of Chongqing, which is a rare area having beautiful view with surrounding hills in the northern part of Chongqing. The project has a site area of approximately 523,000 square meters, with aggregate gross floor area of approximately 482,000 square meters. The project comprised medium and high-end residential development of town houses and homes with gardens and will become a small residential district in French style. The Group holds 30% of interests in the project.

The construction of Phase 1 of the project, which has area of approximately 108,000 square meters, was completed at the end of 2007. Construction of Phase 2 of the project, which has an area of approximately 62,000 square meters, was completed in 2008. Phase 3 of the project, which has an area of approximately 111,000 square meters, is expected to be completed in 2009. Phase 4 of the project is expected to be completed in 2010. As at the end of 2008, the accumulated pre-sales and sales of residential units amounted to a gross floor area of approximately 210,000 square meters.

## 10. Guiyang Poly Newisland (Phases 1 and 2)

Located in Wudang District, Guiyang, Guizhou Province, Guiyang Poly Newisland has a site area of approximately 482,000 square meters and gross floor area of approximately 1,005,000 square meters. It will be constructed into a large-scale hot spring cultural residential project. In December 2008, the project was awarded the silver medal of "International Garden Community"(「國際花園社區」) in the competition of "2008 International Garden City and International Garden Community"(「2008年度國際花園城市與國際花園社區」), organized by IFPRA(國際公園協會). It was the only property in the western region awarded a prize for the year and also the first residential project in Guizhou Province awarded such a big prize. In addition, "Poly International Hot Spring Center"(「保利國際溫泉中心」) of the project officially passed the assessment of the quality ranking of national tourist attraction on 7th December, 2008 and ranked 4A national tourist attraction. It has become the only 4A hot spring tourist attraction in Guizhou Province, or even the south-western region. The Group holds 66.5% of interests in the project.

# MANAGEMENT DISCUSSION AND ANALYSIS

The gross floor area of the Phase 1 of the project amounted to approximately 234,000 square meters and the construction of part of the high-rise units was completed and passed through inspection. The gross floor area of Phase 2 of the project amounted to approximately 188,000 square meters. The construction commenced in the first half of 2008 and is expected to be completed by the end of 2009. The sales of Phases 1 and 2 of the project commenced in mid-2007 and the second half of 2008 respectively. As at the end of 2008, the accumulated sales of residential units and villas amounted to a gross floor area of approximately 188,000 square meters.

## 11. Guiyang Clouds Hill International (Phase 1)

Located at the north-east side of Qianling Park of Guiyang and opposite to the Xiaoguan Lake, Guiyang Clouds Hill International is less than one kilometer from the provincial government and will be developed into a leisure and cultural residential zone. The project has a site area of approximately 156,000 square meters and an aggregate gross floor area of almost 670,000 square meters. The Group holds 60% of interests in the project.

Phase 1 of the project has a site area of approximately 66,000 square meters and a gross floor area of approximately 310,000 square meters. Its construction commenced in the first half of 2008 and is expected to be completed in 2011. The pre-sales of Phase 1 commenced in November 2008. As at the end of 2008, the accumulated sales of residential units amounted to a gross floor area of approximately 36,000 square meters.

## 12. Nanning Poly Upper House

Nanning Poly Upper House is situated in the base of the ASEAN countries liaison section of the ASEAN International Business Area（東盟商務區東盟各國聯絡部基地）, Fengling New District, Nanning. It has a site area of approximately 80,000 square meters and an aggregate gross floor area of approximately 127,000 square meters. The project is the first townhouses and commercial apartments introduced to Nanning. The Group holds 75% of interests in the project.

The construction of part of the residential area was completed at the end of 2008 and has started to deliver to buyers. The construction of the remaining of approximately 50,000 square meters will be completed in mid-2009.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 13. Nanning Poly 21st Century

Nanning Poly 21st Century is situated on the south side of Nanning Minzu Avenue in the Nanning ASEAN International Business Area. It has a site area of approximately 47,000 square meters and an aggregate gross floor area of approximately 190,000 square meters. It is positioned as a high-end energy-saving residential apartment area. The Group holds 75% of interests in the project.

The pre-sales of the project commenced in July 2008. As at the end of 2008, the accumulated sales of residence amounted to a gross floor area of approximately 24,000 square meters. The project is expected to be completed and delivered by the end of 2009.

## 14. Nanning Shan Shui Yi Cheng

Located in the Dong Gou Ling New District, Xingning District, Nanning, Nanning Shan Shui Yi Cheng is adjacent to the Xingning District Government. The project has a site area of approximately 67,000 square meters and an aggregate gross floor area of approximately 271,000 square meters. It is planned to construct a high-rise residential area with 21 buildings of 15-18 storeys. The Group holds 75% of interests in the project.

The construction of the project commenced in December 2008 and is expected to be completed in 2011. The pre-sales is scheduled to commence in mid-2009.

## 15. Kunming Sunny Lake & Splendid Life (Phases 1 and 2)

The project is located in Anning of Kunming, Yunnan. It has a site area of approximately 160,000 square meters and an aggregate gross floor area of approximately 279,000 square meters. It is planned to develop into an integrated high-end residential and commercial area.

The project is divided into two phases and is at the stage of construction. The construction of Phase 1 and Phase 2 is expected to be completed in 2009 and 2010 respectively. The Group holds 80% of interests in the whole project. The pre-sales of Phase 1 is scheduled to commence in the first half of 2009.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 16. Harbin Poly The Water's Fragrant Dike (Phases 1 and 2)

Harbin Poly The Water's Fragrant Dike is adjacent to the Harbin municipal government offices, with a financial and business service centre, Dragon Culture Theme Park（龍文化主題公園）and Songbei University Town（松北大學城）. The whole project has a site area of approximately 567,000 square meters and an aggregate gross floor area of approximately 703,000 square meters. It is planned to be developed into a large-scale low density residential area mainly comprising of villas. The Group holds 58% of interests in the project.

Phase 1 of the project has a site area of 122,000 square meters and a gross floor area of approximately 97,000 square meters. Construction of part of it commenced in the beginning of 2009 and has started to deliver. Phase 2 of the project has a site area of approximately 196,000 square meters and a gross floor area of approximately 179,000 square meters. Construction of Phase 2 commenced in mid-2008 and is at the stage of construction and is expected to be completed by the end of 2010. The pre-sales of Phase 1 commenced in September 2008. As at the end of 2008, the accumulated sales of residential units amounted to a gross floor area of approximately 12,000 square meters.

## 17. Poly Harbin Contemporary No. 9 Park Life (Phase 1)

Located in interchange of Longxiang Road and Xiangan Street North, Songbei, Poly Harbin Contemporary No. 9 Park Life is closely adjacent to Songbei Commercial Central District, Convention and Exhibition Centre and Oumeiya Science Park District（歐美亞科技園區）. The entire project has a site area of approximately 172,000 square meters and an aggregate gross floor area of approximately 281,000 square meters. It is planned to develop into a high quality residential community. The Group holds 51% of interests in the project.

Phase 1 of the project has a site area of approximately 133,000 square meters and a gross floor area of approximately 143,000 square meters. The project is currently under construction and will be completed in the second half of 2009. The pre-sales of Phase 1 commenced in October 2008 and as at the end of 2008, the accumulated sales of residential units amounted to a gross floor area of approximately 3,700 square meters.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 18. Jinan Poly Garden (Phase 1)

Jinan Poly Garden is situated at the eastern part of the Jinan High-tech Development Zone. The project, with a site area of approximately 83,000 square meters and an aggregate gross floor area of approximately 266,000 square meters, will be developed into a premium high-end residential area. The project will be developed in two phases. The Group holds 100% of interests in the project.

Phase 1 of the project has a site area of 49,000 square meters and an aggregate gross floor area of approximately 156,000 square meters. It is currently under construction and is expected to be completed at the end of 2009. The pre-sales of Phase 1 is intended to commence in the first half of 2009.

## 19. Jinan Poly Lotus

Located in Lixia District of Jinan, Jinan Poly Lotus is adjacent to Daming Lake. The project has a site area of 26,000 square meters and an aggregate gross floor area of approximately 84,000 square meters. It will be developed into a residential area. The Group holds 100% of interests in the entire project.

The project is currently under construction and is expected to be completed in 2010. The pre-sales of the project commenced in October 2008. As at the end of 2008, the accumulated sales of residential units amounted to an area of approximately 50,000 square meters.

# MANAGEMENT DISCUSSION AND ANALYSIS

## TABLE FOR PROJECTS UNDER CONSTRUCTION

unit:'000 square meters

| Project | Site Area | Aggregate Gross Floor Area | Group's Interest | Expected Completion and Delivery Year |
|---|---|---|---|---|
| **First-tier cities** | | | | |
| 1. Shanghai Poly Square | 27 | 102 | 90% | 2010 |
| 2. Shanghai Poly Town Phases 1, 2 & 3 | 136 | 309 | 100% | Phase 1 2009 |
| 3. Shanghai Poly Lakeside Garden Phase 1 (originally the land parcel in Shanghai Jiading) | 24 | 56 | 100% | 2010 |
| 4. Shanghai Poly Noble Duke Phases 1 & 2 | 75 | 146 | 50.1% | Phase 1 2009 |
| 5. Guangzhou City of Poly Phase 1 | 125 | 223 | 51% | 2009 |
| 6. Shenzhen Sea Songs Garden | 35 | 91 | 51% | 2009 |
| **Central and south-western region** | | | | |
| 7. Wuhan Poly Cultural Plaza | 12 | 143 | 100% | 2012 |
| 8. Wuhan Poly Royal Palace Phases 1 & 2 | 112 | 322 | 100% | Phase 1 2009 |
| 9. Chongqing Emerald Valley Phases 3 & 4 | 290 | 312 | 30% | Phase 3 2009 |
| 10. Guiyang Poly Newisland Phases 1 & 2 | 306 | 422 | 66.5% | 2009 |
| 11. Guiyang Clouds Hill International Phase 1 | 66 | 310 | 60% | 2011 |
| 12. Nanning Poly Upper House | 80 | 127 | 75% | 2009 |
| 13. Nanning Poly 21st Century | 47 | 190 | 75% | 2009 |
| 14. Nanning Shan Shui Yi Cheng | 67 | 271 | 75% | 2011 |
| 15. Kunming Sunny Lake & Splendid Life Phases 1 & 2 | 160 | 279 | 80% | Phase 1 2009 |
| **Other cities** | | | | |
| 16. Harbin Poly The Water's Fragrant Dike Phases 1 & 2 | 318 | 276 | 58% | Phase 1 2009 |
| 17. Poly Harbin Contemporary No.9 Park Life Phase 1 | 133 | 143 | 51% | 2009 |
| 18. Jinan Poly Garden Phase 1 | 49 | 156 | 100% | 2009 |
| 19. Jinan Poly Lotus | 26 | 84 | 100% | 2010 |
| **Total:** | 2,088 | 3,962 | | |

# MANAGEMENT DISCUSSION AND ANALYSIS

## LAND RESERVES

During 2008, the Group acquired a new land parcel located in Shanghai and Wuhan respectively, with a total site area of 240,000 square meters and a total constructible gross floor area of 470,000 square meters. In addition, the Group successfully acquired a parcel of land in Wudang District, Guiyang in February 2009. Adjacent to Guiyang Poly Newisland, the land has an area of approximately 448,000 square meters and a constructible gross floor area of 775,000 square meters. At present, the Group possesses land reserves of site area of approximately 2,700,000 square meters and planned gross floor area of approximately 5,320,000 square meters in 9 cities, which are sufficient for planned development in the coming two to three years.

# MANAGEMENT DISCUSSION AND ANALYSIS

## List of land reserves

| Land Parcel | | Site Area ('000 square meters) | Planned Aggregate Gross Floor Area ('000 square meters) | Group's Interest | Expected Construction Commencement Date |
|---|---|---|---|---|---|
| **First-tier cities** | | | | | |
| 1 | Shanghai Poly Town Phase 4 | 33 | 100 | 100% | 2009 or later |
| 2 | Shanghai Poly Lakeside Garden Phase 2 (originally the land parcel in Shanghai Jiading) | 95 | 220 | 100% | 2009 or later |
| 3 | Shanghai Tang Zhen Tang XingLu + | 120 | 241 | 50.1% | 1st half of 2009 |
| 4 | Shanghai Poly Villa Garden (originally the land parcel in Shanghai Jiangwang Xin Cheng) | 12 | 16 | 100% | 1st half of 2009 |
| 5 | Guangzhou City of Poly Phases 2 & 3 | 124 | 333 | 51% | 1st half of 2009 |
| **Central and south-western region** | | | | | |
| 6 | Wuhan Poly Royal Palace Phase 3 | 87 | 318 | 100% | 1st half of 2010 |
| 7 | Wuhan Yang Yuan | 30 | 84 | 51% | To be confirmed |
| 8 | Wuhan Jin Yin Tan + | 122 | 230 | 100% | To be confirmed |
| 9 | Chongqing Poly Spring Villa Phases 2 & 3 | 143 | 19 | 51% | 1st half of 2009 |
| 10 | Nanning Long Hu Lan Wan | 568 | 485 | 75% | 2nd half of 2009 |
| 11 | Guiyang Poly Newisland Phases 3 & 4 | 176 | 583 | 66.5% | 1st half of 2009 |
| 12 | Guiyang Clouds Hill International Phases 2 & 3 | 90 | 360 | 60% | 1st half of 2010 |
| 13 | Guiyang Wu Dang District South Eastern Part + | 448 | 775 | 66.5% | 1st half of 2010 |
| 14 | Guiyang Poly International Plaza | 21 | 243 | 66.5% | 1st half of 2009 |
| **Other Cities** | | | | | |
| 15 | Harbin Poly The Water's Fragrant Dike Phases 3 & 4 | 249 | 427 | 58% | 1st half of 2010 |
| 16 | Harbin Yi He Homeland Northern District | 78 | 365 | 51% | 2nd half of 2009 |
| 17 | Poly Harbin Contemporary No.9 Park Life Phase 2 | 39 | 138 | 51% | 1st half of 2010 |
| 18 | Jinan Poly Garden Phase 2 | 34 | 110 | 100% | 1st half of 2009 |
| 19 | Huizhou Bouluo County Project | 230 | 269 | 80% | 2nd half of 2009 |
| **Total:** | | 2,699 | 5,316 | | |

\+ *Acquired in 2008 and early 2009*


保利剧院
POLY THEATRE

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF PROPERTY INVESTMENT BUSINESS

With the consistently steady economic growth in China, quality commercial properties are highly demanded in the market. The Group owns a number of investment properties in Beijing, Shanghai, Wuhan, Shenzhen and Hong Kong. As at 31st December, 2008, the Group held a gross floor area of approximately 300,000 square meters, with the accumulated operating revenue for 2008 at RMB263.3 million. Such properties have continually recorded a high occupancy rate and have become a stable, long term source of income for the Group.

### List of Investment Properties

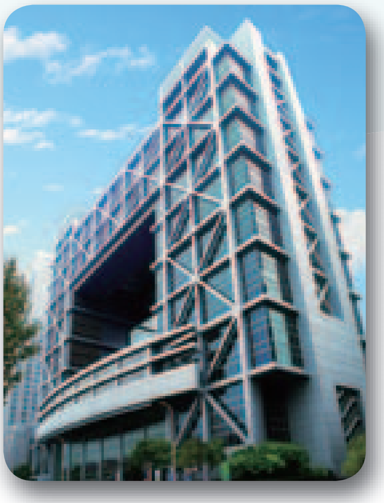
| **Location** | **Project** | **Gross Floor Area** ('000 square meters) | **Category** |
|---|---|---|---|
| Shanghai | Shanghai Stock Exchange building[#1] | 48 | Office building |
| Beijing | Poly Plaza[#2] | 71 | Office building, hotel and theatre |
| Beijing | Beijing Legend Garden Villas[#1] | 9 | Apartment, villa, commercial |
| Wuhan | Hubei Poly White Rose Hotel | 33 | Hotel |
| Hong Kong | 25th Floor, Tower 1, Admiralty Centre | 2 | Office building |
| Shenzhen | Shenzhen Poly Cultural Plaza | 135 | Mall, cinema, theatre, etc. |
| Total: | | 298 | |

#1 *Based on the gross floor area of the project held by the Group*

#2 *Based on the 75% equity interest of the building held by the Group*

# MANAGEMENT DISCUSSION AND ANALYSIS

## 1. Shanghai Stock Exchange Building



Shanghai Stock Exchange Building is situated in the financial district in Lujiazui, Pudong New District, Shanghai. Apart from being a prestigious Grade A office building, it also houses the Shanghai Stock Exchange and its tenants include financial institutions such as Credit Suisse, CITIC Securities and Hong Kong Hang Seng Bank, etc.

The Group holds a gross floor area of approximately 48,000 square meters of the building, approximately 2,000 square meters of which is for its own use and approximately 46,000 square meters for leasing.

As at 31st December, 2008, the rental income amounted to RMB88.6 million, an increase of 22.2% as compared to RMB72.47 million in the corresponding period last year. The occupancy rate remained at 98% and the average rental rate was RMB6.16/square meter/day, representing an increase of 12% as compared with the rental rate of RMB5.49/square meter/day in the corresponding period last year. The rental rate for new leases exceeded RMB8.2/square meter/day as a result of the robust economic development in Shanghai in 2008. Looking ahead in 2009, the rental rate for new leases and the overall occupancy rate may decrease slightly.

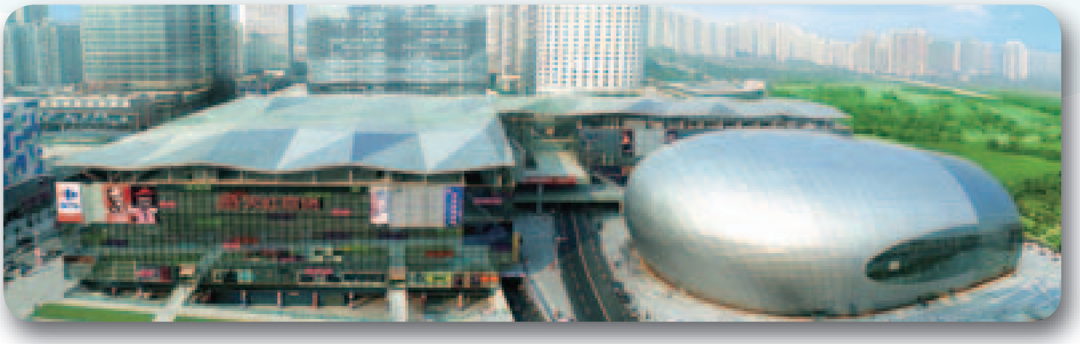
## 2. Beijing Poly Plaza

Poly Plaza situated in Beijing is located in a prime site adjacent to embassies of various countries in China and Central Business District (CBD). Poly Plaza is a composite architecture comprised of a four-star hotel with 292 standard rooms and deluxe rooms, offices with an area of 20,000 square meters and a theatre with over 1,300 seats.

As at the end of 2008, its turnover amounted to RMB130.50 million, representing an increase of 9.9% as compare with RMB118.80 million in the corresponding period last year. Poly Plaza was appointed as the designated Olympic Games hotel in 2008. The guest room occupancy rate maintained at approximately 70% for the year and the average room rate amounted to RMB825/day/room, representing an increase of 25% as compared with the average room rate of RMB659/day/room in the corresponding period last year. In the meantime, the office occupancy rate maintained at a high level of 99.7%.

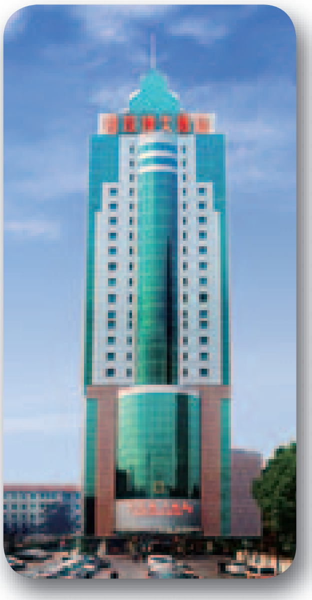
# MANAGEMENT DISCUSSION AND ANALYSIS

## 3. Shenzhen Poly Cultural Plaza



Shenzhen Poly Cultural Plaza is situated in the core area of Nanshan Commercial and Cultural Centre in Shenzhen. The Plaza, with an aggregate gross floor area of over 148,000 square meters (a mall area of approximately 13,000 square meters was sold), is a large scale cultural and commercial project with functions such as theatre, convention and exhibition, cinema, museum, recreation, entertainment, catering, shopping. Shenzhen Poly Cultural Plaza was opened for use in March 2008 and the rental income of the plaza amounted to RMB32.30 million in 2008. The Group holds 100% of interests in the project.

## 4. Hubei Poly White Rose Hotel



White Rose Hotel is situated in Wuhan, Hubei Province and is in close proximity to Hong Shan Plaza in town centre, with a gross floor area of approximately 33,000 square meters. White Rose Hotel is now closed temporarily for renovation. The hotel will be upgraded from four-star to five-star with 320 suites and catering and entertainment facilities after the renovation work. The renovation work is expected to be completed by the second quarter of 2009.

# MANAGEMENT DISCUSSION AND ANALYSIS

### 5. Beijing Legend Garden Villas

Beijing Legend Garden Villas is situated in the Tianzhu high-end villa district next to the capital airport. The villa is the first high-end foreigner-oriented real estate project in Beijing. It is surrounded by an exquisite natural environment and conveniently located with only 15 minutes drive from the 燕莎商圈. The Group holds this project for property investment purpose.

The Group held residential units and commercial property with an area of approximately 3,816 square meters and approximately 5,550 square meters respectively. As at 31st December, 2008, the income for the year amounted to RMB7.80 million.

### 6. 25th Floor, Tower 1, Admiralty Centre

Admiralty Centre situates above the MTR station in the financial hub in Hong Kong and is easily accessible. The Group owns the whole 25/F (representing an area of approximately 2,000 square meters) of tower 1, with half of which for self-use and the remaining half for lease.

As of 31st December, 2008, the aggregate rental income amounted to HK$4.50 million, representing an increase of 20% as compared with the corresponding period last year.

## REVIEW OF PROPERTY MANAGEMENT BUSINESS

Shanghai Poly Property Hotel Management Company Limited is a professional company held by the Group and principally engages in the management of hotels and high-end properties. The company won numerous awards and honors over the years, including the titles of the model unit of quality management, of services, and of integrity.

The property company realised an income of RMB34,810,000 in 2008 and managed over 40 property projects with an aggregate gross floor area of 3.69 million square meters, encompassing offices premises, hotels, shopping malls, villas and residentials.

# CORPORATE GOVERNANCE REPORT

This corporate governance report ("CG Report") presents the corporate governance matters during the period covering the financial period ended 31st December, 2008 and up to the date of the Annual Report to which this CG Report is inscribed ("CG Period") required to be disclosed under the Rules Governing the Listing of the Securities of The Stock Exchange of Hong Kong Limited ("Listing Rules").

## ADOPTION OF CORPORATE GOVERNANCE PRINCIPLES

The Board has adopted a set of corporate governance principles ("Principles") which aligns with the requirements set out in the Code on Corporate Governance Practices ("CG Code") (Appendix 14 of the Listing Rules) and the Model Code for Securities Transactions by Directors of Listed Issuers ("Securities Code") (Appendix 10 of the Listing Rules). During the CG Period, the Principles had been duly complied with.

## SECURITIES CODE

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Securities Code. Having made specific enquiry, all of the Directors have complied with the Company's code of conduct during the CG Period.

## BOARD OF DIRECTORS

For the year ended 31st December, 2008, the Board had held 4 physical meetings of the full Board of Directors. Out of the 4 full Board meetings, 2 of them were held to discuss and/or approve the annual and interim results of the Group, 1 meeting for considering the business and development of the Group while the remaining 1 meeting for considering the amendments of the Listing Rules.

# CORPORATE GOVERNANCE REPORT

For the year ended 31st December, 2008, the composition of the Board, and the respective attendances of the Directors at the above Directors' meetings are presented as follows:

| Director | Board capacity | Attendance<br>Full Board meetings |
|---|---|---|
| Mr. He Ping | ED & Chairman | 4/4 |
| Mr. Chen Hong Sheng | ED & Vice-Chairman | 4/4 |
| Mr. Wang Xu | ED & Managing Director | 4/4 |
| Mr. Xue Ming | ED | 4/4 |
| Mr. Han Qing Tao | ED | 4/4 |
| Mr. Ye Li Wen | ED | 4/4 |
| Mr. Chan Tak Chi, William | ED | 4/4 |
| Mr. Ip Chun Chung, Robert | Non-Executive Director ("NED") | 4/4 |
| Mr. Yao Kang, *J.P.* | Independent Non-Executive Director ("INED") | 4/4 |
| Mr. Lam Tak Shing, Harry | INED | 4/4 |
| Mr. Choy Shu Kwan | INED | 4/4 |

The Company has received from each of the independent non-executive directors a written confirmation of his independence pursuant to the requirements of the Listing Rules and considered that all of the independent non-executive directors are independent in accordance with the independence guidelines set out in the Listing Rules.

During the CG Period, none of the Directors above has or maintained any financial, business, family or other material/relevant relationship with any of the other Directors.

The appointment of the directorship were subject to, as to EDs, retirement, rotation and re-election at least once every 3 financial years and, as to NEDs and INEDs, their specific term of office or their retirement by rotation at annual general meeting of the Company, at which they being eligible can offer themselves for re-election.

The Board of Directors of the Company takes responsibility for all major matters of the Company, including the approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, financial information, appointment of directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the Managing Director and the senior management. Approval has to be obtained from the Board prior to any significant transactions entered into by the officers.

# CORPORATE GOVERNANCE REPORT

## REMUNERATION COMMITTEE

Since the Adoption Date, the Company had maintained a Remuneration Committee. The role and function of the Remuneration Committee includes:

- formulate remuneration policy;
- recommendation to the Board on the remuneration policy for the Directors;
- review of, approval of and recommendation for (if any) the remuneration package of each Director including benefits in kind, pension right, performance bonus payment and compensation payable;
- review and approval of the compensation payment to any Director upon his/her cessation of directorship in or employment with the Company; and
- engagement of external professional advisors to assist and/or advise the Remuneration Committee on its duties when necessary and reasonable.

Terms of reference of the Remuneration Committee had been compiled since the establishment of the Remuneration Committee and were endorsed and adopted by the Board of Directors of the Company.

During the CG Period, the Remuneration Committee held one committee meeting.

The composition of the Remuneration Committee is as follows:

| Member | Board capacity |
|---|---|
| Mr. Yao Kang, *J.P.* | INED |
| Mr. Lam Tak Shing, Harry | INED |
| Mr. Choy Shu Kwan | INED |
| Mr. He Ping | Chairman of the Board |
| Mr. Wang Xu | Managing Director |

The chairman of the Remuneration Committee since its establishment has been Mr. Yao Kang, *J.P.*.

# CORPORATE GOVERNANCE REPORT

The summary of the work performed by the Remuneration Committee for the financial period under review included:

- endorsement to the remuneration policy for the Directors;
- review and approval of the remuneration package of each Director including benefits in kind, pension right, bonus payment and compensation payable.

## DIRECTORS' EMOLUMENTS

The remuneration paid to and/or entitled by each of the Directors for the financial period under review is set out in note 11 to the financial statements in the Annual Report.

The share options granted to and/or entitled by the Directors during the financial period under review are set out in the section headed "Directors' Interests in Securities" in the Directors' Report of the Annual Report.

## NOMINATION OF DIRECTORS

The Board shall be composed of members with mixed skills and experience with appropriate weights necessary to accomplish the Group's business development, strategies, operation, challenges and opportunities. Each member of the Board shall possess, be recognised for and be able to exhibit high and professional standard of a set of core criteria of competence.

The Company had adopted a nomination policy for the criteria, procedures, and process of the appointment and removal of Directors.

Under the nomination policy, the board of EDs has been delegated the full power to the administration of the nomination policy and the appointment and the termination of Directors, where the full Board remains to have the full and overriding power and absolute right thereover.

During the CG Period, the EDs did not hold any meeting for the appointment and resignation of directors of the Company.

# CORPORATE GOVERNANCE REPORT

## AUDIT COMMITTEE

Throughout the CG Period, the Company had maintained an Audit Committee. The major role and function of the Audit Committee includes:

- monitoring the integrity of the financial statements of the Group;
- providing independent review and supervision of the effectiveness of the internal control of the Group;
- review of the adequacy of the external audits;
- review on the compliance issues with the Listing Rules and other compliance requirements;
- providing independent views on connected transactions and transactions involving materially conflicted interest;
- considering and reviewing the appointment of the Auditor and the audit fee.

Terms of reference of the Audit Committee had been compiled since the establishment of the Audit Committee and revised by the Board of Directors of the Company on 21st January, 2009.

During the CG Period, the Audit Committee had held 4 physical meetings for discussing and/or approving the final / interim results of the Group and for discussing the internal control of the Group.

The composition of the Audit Committee, and the respective attendances of the committee members are presented as follows:

| **Member** | **Board capacity** | **Attendance** |
|---|---|---|
| Mr. Yao Kang, *J.P.* | INED | 4/4 |
| Mr. Lam Tak Shing, Harry | INED | 4/4 |
| Mr. Choy Shu Kwan | INED | 4/4 |
| Mr. Ip Chun Chung, Robert | NED | 3/4 |

The chairman of the Audit Committee is Mr. Yao Kang, *J.P.*.

The report of the work performed by the Audit Committee for the financial period under review is set out in the section headed "Audit Committee Report" of this Annual Report.

# CORPORATE GOVERNANCE REPORT

## AUDITOR'S REMUNERATION

The analysis of the Auditor's remuneration for the financial period under review is presented as follows:

| | **Fee amount** |
|---|---|
| | HK$'000 |
| Audit services | 3,200 |
| Non-audit services | – |
| Total | 3,200 |

## ACKNOWLEDGEMENT OF RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibilities for preparing the financial statements of the Group. In preparing the accounts for the financial period under review, the Directors have:

- based on a going concern basis;
- selected suitable accounting policies and applied them consistently;
- made judgments and estimates that were prudent, fair and reasonable.

## REVIEW OF INTERNAL CONTROL

During the financial period under review, the Directors had arranged to conduct a review over the effectiveness of the internal control system of the Group including functions of financial, operation, compliance and risk management. The review showed a satisfactory control system. The review had been reported to the Audit Committee. The Directors had also, where necessary, initiated necessary improvement and reinforcement to the internal control system.

On behalf of the Board

**Wang Xu**
*Managing Director*

30th March, 2009

# CORPORATE GOVERNANCE REPORT

## AUDIT COMMITTEE REPORT

The Audit Committee of the Company was established on 19th March, 1999. Its composition shall be a minimum of 3 members of NEDs with a NED majority being INEDs. For the financial period under review, the Audit Committee comprised all the NED and INEDs of the Company at all times.

For the financial period under review, the Audit Committee had performed the following duties:

- reviewed and commented on the audited full year financial statements and the unaudited interim financial results of the Group of the financial period under review before submission to the Board for adoption and publication;
- endorsed the policy on the engagement of external auditor for non-audit services;
- met with the Auditor to discuss the financial matters of the Group that arose during the course of the audit process, and reviewed the findings, recommendations and representations of the Auditor;
- reviewed and approved the remuneration and the terms of engagement of the Auditor for both audit services and non-audit services for the financial period under review;
- reviewed the internal audit reports and the Company's statement on internal control.

After due and careful consideration of the reports from the management of the Group and the Auditor, the Audit Committee was of the view that no suspected irregularities, internal control deficiencies, or breach of regulations had been found except for the excess of annual cap for construction fee during the year. The Company has taken necessary measures to strengthen its system of internal control so as to ensure that it is adequate and effective.

Based on the reviews and discussions performed by the Audit Committee, the Audit Committee had:

- recommended to the Board for the approval of the audited financial statements of the financial period under review together with the Auditor's Report there attached, before the announcement of the annual results;
- recommended to the Board for the approval of the unaudited financial statements of the financial period under review before the announcement of the interim results; and
- recommended to the Board for the approval of the changes of auditors.
- recommended to the Board for the proposal for the re-appointment of PKF as the Auditor of the Company for the ensuing year in the forthcoming annual general meeting of the Company.

Audit Committee Members:
YAO Kang, *J.P. (chairman of the Audit Committee)*
LAM Tak Shing, Harry
CHOY Shu Kwan
IP Chun Chung, Robert

Hong Kong, 30th March, 2009

# DIRECTORS' PROFILE

## EXECUTIVE DIRECTORS

**HE Ping**, aged 63, has joined the Board since February 1993. He was appointed as the Chairman of the Company in October 2007. He graduated from Harbin Engineering Institute in the People's Republic of China (the "PRC") and had previously worked for the Embassy of the PRC to the United States of America. Mr. He is currently the Chairman of China Poly Group Corporation ("China Poly") and Poly (Hong Kong) Holdings Limited ("Poly Holdings"), controlling shareholders of the Company.

**CHEN Hong Sheng**, aged 59, has joined the Board since January 2004. He was appointed as the Vice-Chairman of the Company in October 2007. He graduated from Beijing Aviation Institute in the PRC. Mr. Chen has been a Director of China Poly since 1993. He is also the General Manager of China Poly and the Deputy Chairman and Manager of Poly Holdings. He is very experienced in management and trading.

**WANG Xu**, aged 49, was appointed as the Managing Director of the Company in October 2007. He is a Director and the Deputy General Manager of China Poly and Poly Holdings, both are substantial shareholders of the Company. Mr. Wang had been the Chairman of Poly Southern Group Corporation ("Poly Southern", a wholly-owned subsidiary of China Poly) during the period from March 2003 to September 2007.

**XUE Ming**, aged 47, was appointed as the Deputy Managing Director of the Company in May 2008. He holds a master's degree in Economics from Renmin University of China in the PRC. He is a senior economist with over 28 years' experience in management. He had worked with China Poly as a senior officer for the period from 1992 to 2002. He was the Deputy General Manager, the General Manager of Poly Shanghai Group（now known as Poly Property Group Co., Ltd. ("Poly Shanghai")） for the period from 2003 to 2005 and was the General Manager of Poly Shanghai in 2006. Mr. Xue is the Chairman of Poly Shanghai. He is also a Director and Deputy General Manager of Poly Holdings.

**HAN Qing Tao**, aged 48, was appointed as a Director of the Company in October 2007. He is a holder of Executive Master Degree of Business Administration. He has over 14 years' experience in finance and management. Mr. Han had been a Managing Director of Poly Southern during the period from December 2005 to September 2007.

**YE Li Wen**, aged 38, holds a bachelor degree from Dongbei University of Finance & Economics and a Master of Business Administration degree from Beijing University in the PRC. He had worked with China Poly as a senior officer for the period from 1994 to 2001. Mr. Ye has joined the Company as Manager in the Investments Department of the Company since 2001 and is the Deputy General Manager of the Company.

**CHAN Tak Chi, William**, aged 60, has joined the Board since March 2003. He holds a Bachelor of Business Administration from Asia International Open University, Macau. He is the Deputy General Manager and a Director of CITIC United Asia Investments Ltd., a wholly-owned subsidiary of China International Trust and Investment Corporation. Mr. Chan has over 18 years' experience in investment management.

# DIRECTORS' PROFILE

## NON-EXECUTIVE DIRECTOR

**IP Chun Chung, Robert**, aged 52, has joined the Board since January 2001 and is a member of the Audit Committee of the Company. Mr. Ip is a practising solicitor.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**YAO Kang**, *J.P.*, aged 84, has joined the Board since March 1999 and is the Chairman of the Audit Committee of the Company. Mr. Yao was a Director of John Swire & Sons (Hong Kong) Limited and Cathy Pacific Airways Limited. He was also Chairman of Paofoong Insurance Co., (HK) Ltd. and Taikoo Royal Insurance Co., Ltd.

**LAM Tak Shing, Harry**, aged 48, has joined the Board since January 2001 and is a member of the Audit Committee of the Company. Mr. Lam holds a Bachelor's Degree and a Master's Degree in Business Administration. Mr. Lam has over 28 years' experience in accounting and finance field with wide exposure in different nature of business. Mr. Lam is also an Independent Non-Executive Director of SMI Corporation Limited (Provisional Liquidator Appointed) and Datronix Holdings Limited.

**CHOY Shu Kwan**, aged 54, holds a Master degree in Business Administration and has over 30 years' extensive experience in financial business and investment management. Mr. Choy is also an Independent Non-Executive Director of Skyfame Realty (Holdings) Limited.

# DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements of Poly (Hong Kong) Investments Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December, 2008.

## PRINCIPAL ACTIVITIES

The Company is an investment holding company. The activities of its principal subsidiaries are set out in note 55 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31st December, 2008 are set out in the consolidated income statement on pages 53 to 54 of the annual report.

No interim dividend was paid during the year. The directors recommend the payment of a final dividend of HK$0.02 per share to the shareholders on 12th June, 2009.

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 39 to the consolidated financial statements.

## INVESTMENT PROPERTIES

At 31st December, 2008, the investment properties of the Group were revalued by an independent firm of professional surveyor and property valuer on an open market value basis at HK$3,392,821,000.

Details of these and other movements during the year in the investment properties of the Group are set out in note 18 to the consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 19 to the consolidated financial statements.

# DIRECTORS' REPORT

## DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserve available for distribution to shareholders as at 31st December, 2008 represented the accumulated profits of HK$116,599,000.

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors of the Company during the year and up to the date of this report were:

### Executive directors:

He Ping *(Chairman)*
Chen Hong Sheng *(Vice-Chairman)*
Wang Xu *(Managing Director)*
Xue Ming
Han Qing Tao
Ye Li Wen
Chan Tak Chi, William

### Non-executive director:

Ip Chun Chung, Robert

### Independent non-executive directors:

Yao Kang, *J.P.*
Lam Tak Shing, Harry
Choy Shu Kwan

# DIRECTORS' REPORT

In accordance with Article 116 of the Company's Articles of Association, Messrs. He Ping, Chen Hong Sheng, Ip Chun Chung, Robert and Lam Tak Shing, Harry will retire and being eligible, offer themselves for re-election.

The term of office of the non-executive director and each independent non-executive director is three years from 6th October, 2008, subject to retirement by rotation as required by the Company's Articles of Association.

None of the directors being proposed for re-election at the forthcoming annual general meeting has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

The Company has received an annual written confirmation from each of the independent non-executive directors concerning their independence and considered that the independent non-executive directors to be independent in accordance with the independence guidelines set out in the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules").

## DIRECTORS' INTERESTS IN SECURITIES

At 31st December, 2008, the interest and short positions of the directors and their associates in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

### Long position

#### *Ordinary shares of HK$0.5 each of the Company*

Mr. He Ping, Mr. Ye Li Wen and Mr. Chan Tak Chi, William are holding 4,500,000 shares (0.235%), 200,000 shares (0.010%) and 300,000 shares (0.015%) respectively in the issued share capital of the Company.

# DIRECTORS' REPORT

### *Share options of the Company*

| Name of director | Capacity | Number of options held | Number of underlying shares |
|---|---|---|---|
| He Ping | Beneficial owner | 18,400,000 | 18,400,000 |
| Chen Hong Sheng | Beneficial owner | 11,500,000 | 11,500,000 |
| Wang Xu | Beneficial owner | 3,000,000 | 3,000,000 |
| Xue Ming | Beneficial owner | 2,650,000 | 2,650,000 |
| Han Qing Tao | Beneficial owner | 1,600,000 | 1,600,000 |
| Ye Li Wen | Beneficial owner | 1,600,000 | 1,600,000 |
| Chan Tak Chi, William | Beneficial owner | 300,000 | 300,000 |
| Ip Chun Chung, Robert | Beneficial owner | 300,000 | 300,000 |
| Yao Kang, *J.P.* | Beneficial owner | 500,000 | 500,000 |
| Lam Tak Shing, Harry | Beneficial owner | 300,000 | 300,000 |
| Choy Shu Kwan | Beneficial owner | 600,000 | 600,000 |
| | | 40,750,000 | 40,750,000 |

Save as disclosed above, none of the directors nor their associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations as at 31st December, 2008.

## SHARE OPTIONS

Particulars of the Company's share option schemes are set out in note 40 to the consolidated financial statements.

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings set out in note 40, at no time during the year was the Company or any of its holding companies, fellow subsidiaries or subsidiaries, a party to any arrangement to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

# DIRECTORS' REPORT

## SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2008, the register of substantial shareholders maintained by the Company pursuant to section 336 of the SFO shows that, other than the interests disclosed above in respect of certain directors, the following shareholders had notified the Company of relevant interests in the issued share capital of the Company:

### Long position

#### *Ordinary shares of HK$0.5 each of the Company*

| Name of shareholder | Number of shares<br>Beneficial owner | <br>Held by controlled corporation(s) | <br>Total number of shares | Approximate percentage of the issued share capital of the Company |
|---|---|---|---|---|
| Congratulations Company Ltd. | 416,485,080 | – | 416,485,080 | 21.79% |
| Source Holdings Limited | 228,398,760 | 100,086,800 | 328,485,560 *(Note 1)* | 17.19% |
| Ting Shing Holdings Limited | – | 744,970,640 *(Note 2)* | 744,970,640 | 38.98% |
| Poly (Hong Kong) Holdings Limited | 107,929,476 | 744,970,640 *(Note 3)* | 852,900,116 | 44.63% |
| Poly Southern Group Limited | 253,788,246 | – | 253,788,246 | 13.28% |
| China Poly Group Corporation | – | 1,106,688,362 *(Note 4)* | 1,106,688,362 | 57.91% |
| Rich Champ Investments Ltd. | 269,000,000 | – | 269,000,000 | 14.08% |
| Yung Chi Kin | – | 269,000,000 *(Note 5)* | 269,000,000 | 14.08% |

*Notes:*

1. Source Holdings Limited is deemed by the SFO to be interested in 328,485,560 shares of the Company as a result of its direct holding of 228,398,760 shares and indirect holding of 100,086,800 shares through its wholly-owned subsidiaries, Musical Insight Holdings Limited and Wincall Holding Limited of 44,658,800 shares and 55,428,000 shares, respectively.

# DIRECTORS' REPORT

2. Ting Shing Holdings Limited is deemed by the SFO to be interested in 744,970,640 shares as a result of its indirect holding of 744,970,640 shares through its subsidiaries, Source Holdings Limited and Congratulations Company Ltd. of 328,485,560 shares and 416,485,080 shares, respectively.

3. Poly (Hong Kong) Holdings Limited is deemed by the SFO to be interested in 852,900,116 shares as a result of its direct holding of 107,929,476 shares and indirect holding of 744,970,640 shares through its wholly-owned subsidiary, Ting Shing Holdings Limited.

4. China Poly Group Corporation owns 100% of Poly (Hong Kong) Holdings Limited and Poly Southern Group Limited and is accordingly deemed by the SFO to be interested in the shares directly and indirectly owned by Poly (Hong Kong) Holdings Limited and Poly Southern Group Limited.

5. Mr. Yung Chi Kin is deemed by the SFO to be interested in the shares held by his wholly-owned company, Rich Champ Investments Ltd.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued shares or underlying shares of the Company as at 31st December, 2008.

## CONNECTED TRANSACTIONS

Details of the discloseable connected transactions for the year are set out in note 53 to the consolidated financial statements. In the opinion of the directors who do not have any interest in these transactions, the transactions were carried out on normal commercial terms and in the ordinary and usual course of business of the Group.

The independent non-executive directors of the Company had reviewed the on-going connected transactions set out in note 53 to the consolidated financial statements and in their opinion:

1. the on-going connected transactions were entered into in the ordinary and usual course of business of the Group;

2. the on-going connected transactions were conducted on normal commercial terms; and

3. the on-going connected transactions were entered into in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## DIRECTORS' INTERESTS IN CONTRACTS

There were no contracts of significance to which the Company or any of its holding companies, fellow subsidiaries or subsidiaries 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 year or at any time during the year.

# DIRECTORS' REPORT

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, both the aggregate sales attributable to the Group's five largest customers and the aggregate purchases attributable to the Group's five largest suppliers were less than 30% of the Group's sales and purchases, respectively.

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of their merit, qualifications and competence.

The emoluments of the directors of the Company are decided by the Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 40 to the consolidated financial statements.

## PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2008.

## AUDITOR

Messrs. PKF was appointed as the auditor of the Company on 21st January, 2009 to fill the casual vacancy occasioned by the resignation of Messrs. Deloitte Touche Tohmatsu on the same date.

A resolution will be submitted at the forthcoming annual general meeting of the Company to re-appoint Messrs. PKF as auditor of the Company.

On behalf of the Board

**Wang Xu**
*MANAGING DIRECTOR*

Hong Kong, 30th March, 2009

# INDEPENDENT AUDITOR'S REPORT

PKF
Accountants &
business advisers

大信梁學濂(香港)會計師事務所

26th Floor, Citicorp Centre
18 Whitfield Road
Causeway Bay
Hong Kong

香港
銅鑼灣
威非路道18號
萬國寶通中心26樓

**TO THE SHAREHOLDERS OF POLY (HONG KONG) INVESTMENTS LIMITED**
**保利(香港)投資有限公司**
*(Incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Poly (Hong Kong) Investments Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 53 to 181, which comprise the consolidated and the Company balance sheets as at 31st December, 2008, the consolidated income statement, the consolidated statement of changes in equity 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 CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated 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 the consolidated 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 consolidated financial statements based on our audit and to report our opinion 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.

# INDEPENDENT AUDITOR'S 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the consolidated 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 consolidated financial statements.

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st 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.

**PKF**
*Certified Public Accountants*

Hong Kong
30th March, 2009

# CONSOLIDATED INCOME STATEMENT

*For the year ended 31st December, 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 8 | **3,324,368** | 973,860 |
| Cost of sales | | **(2,520,748)** | (653,523) |
| Gross profit | | **803,620** | 320,337 |
| Net (decrease) increase in fair value of held-for-trading investments | | **(37,499)** | 24,344 |
| Other income | 9 | **136,077** | 80,105 |
| Selling expenses | | **(169,838)** | (82,645) |
| Administrative expenses | | **(385,426)** | (200,807) |
| Net increase in fair value of investment properties | 18 | **28,676** | 269,956 |
| Finance costs | 10 | **(75,831)** | (41,825) |
| Gain on disposal of interests in subsidiaries | 45 | **–** | 229,832 |
| Equity-settled share-based payment expenses | 40(b) | **(32,554)** | – |
| Discount on acquisition of interests in subsidiaries | 44(a) | **241,488** | – |
| Impairment loss on available-for-sale investments | 32(a) | **(141,437)** | – |
| Impairment loss on properties held for sale | | **(4,042)** | – |
| Impairment loss on short-term loan receivables | 31 | **(5,959)** | (180,703) |
| Impairment loss on trade and other receivables | 30 | **(4,609)** | (36,974) |
| Share of results of associates | 24 | **2,120** | 2,204 |
| Share of results of jointly controlled entities | 25 | **(5,682)** | – |
| Profit before taxation | 13 | **349,104** | 383,824 |
| Income tax expense | 14 | **(74,590)** | (165,134) |
| Profit for the year from continuing operations | | **274,514** | 218,690 |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | 15 | **–** | 207,864 |
| Profit for the year | | **274,514** | 426,554 |
| Attributable to: | | | |
| Equity holders of the Company | | **222,994** | 401,196 |
| Minority interests | | **51,520** | 25,358 |
| | | **274,514** | 426,554 |
| Dividends | 16 | **95,553** | 32,473 |

# CONSOLIDATED INCOME STATEMENT

*For the year ended 31st December, 2008*

| | Notes | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|---|
| Earnings per share | 17 | | |
| From continuing and discontinued operations | | | |
| – basic | | **12.22 cents** | 25.90 cents |
| – diluted | | **12.07 cents** | 25.19 cents |
| From continuing operations | | | |
| – basic | | **12.22 cents** | 13.93 cents |
| – diluted | | **12.07 cents** | 13.55 cents |

# CONSOLIDATED BALANCE SHEET

*As at 31st December, 2008*

| | Notes | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|---|
| **Non-Current Assets** | | | |
| Investment properties | 18 | **3,392,821** | 1,959,968 |
| Property, plant and equipment | 19 | **1,036,814** | 874,777 |
| Prepaid lease payments – non-current portion | 20 | **347,265** | 339,966 |
| Goodwill | 21 | **–** | – |
| Other intangible asset | 22 | **–** | – |
| Interests in associates | 24 | **66,815** | 61,635 |
| Interests in jointly controlled entities | 25 | **1,422** | – |
| Available-for-sale investments | 32 | **115,847** | 430,252 |
| Club membership | | **1,130** | 1,061 |
| Deposits paid for acquisition of land use rights | 26 | **1,275,637** | 263,494 |
| Deposit paid for investment in an available-for-sale investment | 27 | **–** | 32,482 |
| Deferred tax assets | 46 | **148,649** | 2,064 |
| | | **6,386,400** | 3,965,699 |
| **Current Assets** | | | |
| Properties under development | 28 | **11,284,857** | 3,972,770 |
| Properties held for sale | 28 | **509,694** | 113,608 |
| Other inventories | 29 | **28,045** | 14,798 |
| Trade and other receivables | 30 | **605,924** | 186,850 |
| Prepaid lease payments – current portion | 20 | **9,222** | 8,952 |
| Short-term loan receivables | 31 | **96,013** | 8,181 |
| Held-for-trading investments | 33 | **16,526** | 62,198 |
| Deposit paid for acquisition of a property development project | 34 | **45,506** | – |
| Amounts due from fellow subsidiaries | 35(a) | **53,771** | 35,591 |
| Amount due from a jointly controlled entity | 25 | **2,275** | – |
| Amounts due from minority shareholders of subsidiaries | 35(c) | **72,000** | 9,320 |
| Amount due from a related company | 35(b) | **6,826** | – |
| Taxation recoverable | | **35,683** | 1,202 |
| Pledged bank deposits | 36 | **51,491** | 6,679 |
| Bank balances, deposits and cash | 36 | **3,111,903** | 1,823,199 |
| | | **15,929,736** | 6,243,348 |

# CONSOLIDATED BALANCE SHEET

*As at 31st December, 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **Current Liabilities** | | | |
| Trade and other payables | 37 | **1,625,823** | 1,027,519 |
| Pre-sale deposits | | **1,738,770** | 508,598 |
| Property rental deposits | | **60,142** | 24,069 |
| Amount due to ultimate holding company | 35(a) | **826,216** | 775,048 |
| Amount due to an intermediate holding company | 35(a) | **1,536,464** | 332,262 |
| Amounts due to fellow subsidiaries | 35(a) | **201,493** | 195,081 |
| Amounts due to minority shareholders of subsidiaries | 35(c) | **920,960** | 369,861 |
| Amount due to an associate | 24 | **34,130** | – |
| Taxation payable | | **673,457** | 38,637 |
| Bank borrowings – due within one year | 38 | **1,552,831** | 307,260 |
| | | **9,170,286** | 3,578,335 |
| **Net Current Assets** | | **6,759,450** | 2,665,013 |
| **Total Assets Less Current Liabilities** | | **13,145,850** | 6,630,712 |
| **Capital and Reserves** | | | |
| Share capital | 39 | **955,524** | 824,379 |
| Reserves | | **5,124,537** | 3,844,802 |
| Equity attributable to equity holders of the Company | | **6,080,061** | 4,669,181 |
| Minority interests | | **1,076,983** | 317,565 |
| Total Equity | | **7,157,044** | 4,986,746 |
| **Non-Current Liabilities** | | | |
| Bank borrowings – due after one year | 38 | **5,245,345** | 1,180,979 |
| Loan from a fellow subsidiary | 42 | **162,203** | 143,703 |
| Deferred tax liabilities | 46 | **581,258** | 319,284 |
| | | **5,988,806** | 1,643,966 |
| | | **13,145,850** | 6,630,712 |

The financial statements on pages 53 to 181 were approved and authorised for issue by the Board of Directors on 30th March, 2009 and are signed on its behalf by:

**He Ping**
*Chairman*

**Wang Xu**
*Managing Director*

# BALANCE SHEET

*As at 31st December, 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Interests in subsidiaries | 23 | **160,056** | 160,056 |
| Deposit paid for investment in an available-for-sale investment | 27 | **–** | 32,482 |
| Amounts due from subsidiaries | 35(d) | **5,123,706** | 3,392,684 |
| Available-for-sale investments | 32 | **32,487** | – |
| | | **5,316,249** | 3,585,222 |
| **CURRENT ASSETS** | | | |
| Other receivables | | **7,314** | 10,438 |
| Bank balances, deposits and cash | 36 | **201,792** | 697,336 |
| | | **209,106** | 707,774 |
| **CURRENT LIABILITIES** | | | |
| Other payables | | **3,226** | 14,055 |
| Amounts due to subsidiaries | 35(d) | **297,351** | 775,180 |
| Bank borrowings – due within one year | 38 | **250,000** | 100,000 |
| | | **550,577** | 889,235 |
| **NET CURRENT LIABILITIES** | | **(341,471)** | (181,461) |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **4,974,778** | 3,403,761 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 39 | **955,524** | 824,379 |
| Reserves | 41 | **3,569,254** | 2,529,382 |
| | | **4,524,778** | 3,353,761 |
| **NON-CURRENT LIABILITY** | | | |
| Bank borrowings – due after one year | 38 | **450,000** | 50,000 |
| | | **4,974,778** | 3,403,761 |

**He Ping**
*Chairman*

**Wang Xu**
*Managing Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31st December, 2008*

| | Attributable to equity holders of the Company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Share option reserve HK$'000 | Hotel properties revaluation reserve HK$'000 | Translation reserve HK$'000 | Capital redemption reserve HK$'000 | PRC statutory reserves HK$'000 | Investment revaluation reserve HK$'000 | Other capital reserve HK$'000 | Asset revaluation reserve HK$'000 | Accumulated profits HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total HK$'000 |
| At 1st January, 2007 | 672,922 | 1,947,525 | 7,523 | 58,014 | 114,277 | 23,917 | 15,985 | – | 307,485 | – | 516,944 | 3,664,592 | 868,040 | 4,532,632 |
| Exchange differences arising on translation of net investment in foreign operations | – | – | – | – | 207,740 | – | – | – | – | – | – | 207,740 | 35,565 | 243,305 |
| Change in fair value of available-for-sale investments | – | – | – | – | – | – | – | (23,251) | – | – | – | (23,251) | – | (23,251) |
| Surplus arising on revaluation | – | – | – | 10,740 | – | – | – | – | – | – | – | 10,740 | 2,817 | 13,557 |
| Deferred tax asset arising on revaluation of hotel properties | – | – | – | 5,949 | – | – | – | – | – | – | – | 5,949 | 1,258 | 7,207 |
| Net income (expenses) recognised directly in equity | – | – | – | 16,689 | 207,740 | – | – | (23,251) | – | – | – | 201,178 | 39,640 | 240,818 |
| Profit for the year | – | – | – | – | – | – | – | – | – | – | 401,196 | 401,196 | 25,358 | 426,554 |
| Release upon disposal of subsidiaries | – | – | – | – | (59,262) | – | (5,563) | – | – | – | 5,563 | (59,262) | (591,511) | (650,773) |
| Total recognised income and expenses for the year | – | – | – | 16,689 | 148,478 | – | (5,563) | (23,251) | – | – | 406,759 | 543,112 | (526,513) | 16,599 |
| Exercise of share options | 16,957 | 30,875 | (4,183) | – | – | – | – | – | – | – | – | 43,649 | – | 43,649 |
| Issue of shares | 134,500 | 322,800 | – | – | – | – | – | – | – | – | – | 457,300 | – | 457,300 |
| Share issue expenses | – | (6,999) | – | – | – | – | – | – | – | – | – | (6,999) | – | (6,999) |
| Transfer | – | – | – | – | – | – | 13,270 | – | – | – | (13,270) | – | – | – |
| Dividends paid to minority shareholders of subsidiaries | – | – | – | – | – | – | – | – | – | – | – | – | (20,887) | (20,887) |
| Dividends paid (note 16) | – | – | – | – | – | – | – | – | – | – | (32,473) | (32,473) | – | (32,473) |
| Capital contribution by minority shareholders | – | – | – | – | – | – | – | – | – | – | – | – | 5,021 | 5,021 |
| Acquisition of additional interests in subsidiaries | – | – | – | – | – | – | – | – | – | – | – | – | (8,096) | (8,096) |
| At 31st December, 2007 and 1st January, 2008 | 824,379 | 2,294,201 | 3,340 | 74,703 | 262,755 | 23,917 | 23,692 | (23,251) | 307,485 | – | 877,960 | 4,669,181 | 317,565 | 4,986,746 |
| Exchange differences arising on translation of net investment in foreign operations | – | – | – | – | 212,056 | – | – | – | – | – | – | 212,056 | 31,419 | 243,475 |
| Change in fair value of available-for-sale investments | – | – | – | – | – | – | – | (205,526) | – | – | – | (205,526) | – | (205,526) |
| Surplus arising on revaluation | – | – | – | 11,692 | – | – | – | – | – | – | – | 11,692 | 3,066 | 14,758 |
| Deferred tax liability arising on revaluation of hotel properties | – | – | – | (2,923) | – | – | – | – | – | – | – | (2,923) | (766) | (3,689) |
| Increase in fair value of investment properties reclassified from property, plant and equipment | – | – | – | – | – | – | – | – | – | 7,731 | – | 7,731 | – | 7,731 |
| Deferred tax liability arising on revaluation | – | – | – | – | – | – | – | – | – | (1,933) | – | (1,933) | – | (1,933) |
| Net income (expenses) recognised directly in equity | – | – | – | 8,769 | 212,056 | – | – | (205,526) | – | 5,798 | – | 21,097 | 33,719 | 54,816 |
| Profit for the year | – | – | – | – | – | – | – | – | – | – | 222,994 | 222,994 | 51,520 | 274,514 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the year ended 31st December, 2008*

| | Attributable to equity holders of the Company | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Share option reserve HK$'000 | Hotel properties revaluation reserve HK$'000 | Translation reserve HK$'000 | Capital redemption reserve HK$'000 | PRC statutory reserves HK$'000 | Investment revaluation reserve HK$'000 | Other capital reserve HK$'000 | Asset revaluation reserve HK$'000 | Accumulated profits HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total HK$'000 |
| Total recognised income and expenses for the year | – | – | – | 8,769 | 212,056 | – | – | (205,526) | – | 5,798 | 222,994 | 244,091 | 85,239 | 329,330 |
| Recognition of equity-settled share-based payment expenses *(note 40)* | – | – | 32,554 | – | – | – | – | – | – | – | – | 32,554 | – | 32,554 |
| Exercise of share options | 4,250 | 7,395 | – | – | – | – | – | – | – | – | – | 11,645 | – | 11,645 |
| Issue of shares | 126,895 | 1,091,289 | – | – | – | – | – | – | – | – | – | 1,218,184 | – | 1,218,184 |
| Share issue expenses | – | (41) | – | – | – | – | – | – | – | – | – | (41) | – | (41) |
| Transfer | – | – | – | – | – | – | 47,867 | – | – | – | (47,867) | – | – | – |
| Dividends paid to a minority shareholder of a subsidiary | – | – | – | – | – | – | – | – | – | – | – | – | (1,836) | (1,836) |
| Dividends paid *(note 16)* | – | – | – | – | – | – | – | – | – | – | (95,553) | (95,553) | – | (95,553) |
| Capital contribution by minority shareholders | – | – | – | – | – | – | – | – | – | – | – | – | 37,200 | 37,200 |
| Acquisition of subsidiaries | – | – | – | – | – | – | – | – | – | – | – | – | 638,815 | 638,815 |
| **At 31st December, 2008** | **955,524** | **3,392,844** | **35,894** | **83,472** | **474,811** | **23,917** | **71,559** | **(228,777)** | **307,485** | **5,798** | **957,534** | **6,080,061** | **1,076,983** | **7,157,044** |

Included in other capital reserve at 31st December, 2008 is deemed capital contribution arising on acquisition of subsidiaries of HK$244,221,000 (2007: HK$244,221,000) and deemed capital contribution arising from interest-free loans provided by a fellow subsidiary of HK$62,678,000 (2007: HK$62,678,000).

The People's Republic of China, other than Hong Kong, (the "PRC") statutory reserves are reserves required by the relevant PRC laws applicable to the Group's PRC subsidiaries and associates.

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31st December, 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before taxation | | | |
| – continuing operations | | **349,104** | 383,824 |
| – discontinued operations | | **–** | 214,273 |
| Adjustments for:– | | | |
| Reversal of impairment loss previously recognised in respect of short-term loan receivables | | **(5,000)** | – |
| Reversal of other payable overprovided in previous years | | **(29,138)** | – |
| Impairment loss on short-term loan receivables | | **5,959** | 180,703 |
| Impairment loss on trade and other receivables | | **4,609** | 36,974 |
| Impairment loss on available-for-sale investments | | **141,437** | – |
| Impairment loss on properties held for sale | | **4,042** | – |
| Discount on acquisition of additional interest in a subsidiary | | **–** | (1,869) |
| Discount on acquisition of interests in subsidiaries | | **(241,488)** | – |
| Impairment loss on goodwill arising from acquisition of additional interest in a subsidiary | | **–** | 183 |
| Amortisation of other intangible asset | | **–** | 926 |
| Amortisation of prepaid lease payments | | **8,987** | 10,739 |
| Bank interest income | | **(19,746)** | (32,434) |
| Depreciation of property, plant and equipment | | **58,275** | 94,696 |
| Finance costs | | **66,962** | 63,277 |
| Loss on disposal of property, plant and equipment | | **1,460** | 1,392 |
| Gain on disposal of interests in subsidiaries | | **–** | (229,832) |
| Gain on disposal of subsidiaries included in profit for the year from discontinued operations | | **–** | (173,632) |
| Imputed interest expense | | **8,869** | 10,514 |
| Imputed interest income | | **–** | (7,521) |
| Net decrease (increase) in fair value of held-for-trading investments | | **37,499** | (24,344) |
| Net increase in fair value of investment properties | | **(28,676)** | (269,956) |
| Share of results of associates | | **(2,120)** | (5,727) |
| Share of results of jointly controlled entities | | **5,682** | – |
| Equity-settled share-based payment expenses | | **32,554** | – |
| Operating cash flows before movements in working capital | | **399,271** | 252,186 |
| Increase in properties under development | | **(2,586,247)** | (2,336,261) |
| Decrease in properties held for sale | | **1,287,060** | 227,926 |
| Increase in other inventories | | **(8,368)** | (14,316) |
| Increase in trade and other receivables | | **(296,598)** | (85,128) |
| Decrease in short-term loan receivables | | **2,222** | 34,993 |
| Increase in deposit paid for acquisition of a property development project | | **(45,506)** | – |
| (Increase) decrease in held-for-trading investments | | **(1,680)** | 4,526 |
| (Decrease) increase in trade and other payables | | **(660,146)** | 442,766 |
| Increase in pre-sale deposits | | **654,455** | 305,217 |
| Increase in property rental deposits | | **17,624** | 6,765 |
| Net cash used in operations | | **(1,237,913)** | (1,161,326) |
| PRC income tax paid | | **(92,071)** | (59,053) |
| Interest paid | | **(519,845)** | (63,277) |
| **NET CASH USED IN OPERATING ACTIVITIES** | | **(1,849,829)** | (1,283,656) |

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31st December, 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | **(106,871)** | (375,283) |
| Deposits paid for acquisition of land use rights | | **(561,433)** | (263,494) |
| Acquisition of subsidiaries (net of cash and cash equivalents acquired) | *44(a)* | **848,099** | (78,962) |
| Purchase of available-for-sale investments | | **–** | (32,482) |
| Acquisition of other intangible asset | | **–** | (17,567) |
| Purchase of additional interests in subsidiaries | *43* | **–** | (6,410) |
| Repayment from (advance to) fellow subsidiaries | | **7,355** | (5,681) |
| Purchase of investment properties | | **(1,852)** | (998) |
| Deposit paid for acquisition of property, plant and equipment | | **–** | (394) |
| Increase in short-term loan receivables | | **(34,129)** | – |
| Increase in interests in jointly controlled entities | | **(6,067)** | – |
| Net proceeds from disposal of subsidiaries | | **–** | 919,477 |
| (Increase) decrease in pledged bank deposits | | **(44,812)** | 91,734 |
| Repayment from related companies | | **–** | 50,786 |
| Bank interest income received | | **19,746** | 32,434 |
| Proceeds from disposal of investment properties | | **14,564** | 24,203 |
| Repayment from an associate | | **34,130** | 23,666 |
| Repayment from a jointly controlled entity | | **1,893** | – |
| (Advance to) repayment from minority shareholders of subsidiaries | | **(29,049)** | 19,926 |
| Dividends received from an associate | | **–** | 7,679 |
| Proceeds from disposal of property, plant and equipment | | **197** | 3,273 |
| Proceeds from disposal of held-for-trading investments | | **9,853** | – |
| **NET CASH FROM INVESTING ACTIVITIES** | | **151,624** | 391,907 |

# CONSOLIDATED CASH FLOW STATEMENT

*For the year ended 31st December, 2008*

| | Notes | 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| **FINANCING ACTIVITIES** | | | |
| Borrowings raised | | **4,310,978** | 1,958,919 |
| Proceeds from issue of shares | | **–** | 457,300 |
| Advance from intermediate holding company | | **–** | 313,034 |
| Advance from ultimate holding company | | **909** | 250,740 |
| (Repayment to) advance from fellow subsidiaries | | **(320,250)** | 117,620 |
| Advance from minority shareholders of subsidiaries | | **288,964** | 106,614 |
| Proceeds from exercise of share options | | **11,645** | 43,649 |
| Capital contribution by minority shareholders | | **37,200** | 5,021 |
| Repayment of borrowings | | **(1,352,326)** | (1,010,053) |
| Repayment to related companies | | **–** | (145,664) |
| Dividends paid | | **(95,553)** | (32,473) |
| Dividends paid to a minority shareholder of a subsidiary | | **(1,836)** | (20,887) |
| Share issue expenses | | **(41)** | (6,999) |
| **NET CASH FROM FINANCING ACTIVITIES** | | **2,879,690** | 2,036,821 |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **1,181,485** | 1,145,072 |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | | **1,823,199** | 631,967 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGE** | | **107,219** | 46,160 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR** | | **3,111,903** | 1,823,199 |
| **ANALYSIS OF THE BALANCE OF CASH AND CASH EQUIVALENTS,** | | | |
| Represented by:– | | | |
| – bank balances, deposits and cash | | **3,111,903** | 1,823,199 |

## MAJOR NON-CASH TRANSACTION

On 30th April, 2008, the Group completed the acquisition of the entire interest in Shenzhen Poly Investments Co., Limited ("Shenzhen Poly") at a total consideration by issuing 253,788,246 shares of the Company to Poly Southern Group Limited ("Poly Southern") or its nominees at HK$4.8 per share, representing the market price of the share at the date of completion. Details of the acquisition are stated in note 44(a).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 1. GENERAL

The Company is a public limited company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

In the opinion of the directors, the Company's ultimate holding company is China Poly Group Corporation ("China Poly"), a state-owned enterprise established in the PRC. Its parent is Poly (Hong Kong) Holdings Limited (formerly known as Ringo Trading Limited), a company incorporated in Hong Kong. China Poly and its affiliated companies, other than members of the Group, are hereinafter collectively referred to as China Poly Group. The addresses of the registered office and principal place of business of the Company are disclosed in the section of "Corporate Information" to the annual report.

The Company is an investment holding company. Its subsidiaries are engaged in property development, property investment and management, hotel operations and its related services, securities investment, construction services and financial services. In prior years, the Group was also engaged in the supply of electricity and gas. That operation was discontinued during the year ended 31st December, 2007 (see note 15).

## 2. STATEMENT OF COMPLIANCE

These consolidated 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 consolidated 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 (the "Listing Rules").

## 3. BASIS OF PREPARATION

### (a) Initial application of Hong Kong Financial Reporting Standards

In the current year, the Group has applied the following new amendments and interpretations ("new HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning 1st January, 2008.

| | |
|---|---|
| HKAS 39 and HKFRS 7 (Amendments) | Reclassification of Financial Assets |
| HKAS 39 and HKFRS 7 (Amendments) | Reclassification of Financial Assets – Effective Date and Transition |
| HK(IFRIC)-Int 11 | HKFRS 2 – Group and Treasury Share Transactions |
| HK(IFRIC)-Int 12 | Service Concession Arrangements |
| HK(IFRIC)-Int 14 | HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction |

The initial application of new HKFRSs does not necessitate material changes in the Group's accounting policies or retrospective adjustments of the comparatives presented.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 3. BASIS OF PREPARATION *(Continued)*

### (b) Hong Kong Financial Reporting Standards in issue but not effective

The following HKFRSs in issue at 31st December, 2008 have not been applied in the preparation of the consolidated financial statements for the year then ended since they were not yet effective for the annual period beginning on 1st January, 2008:–

| | |
|---|---|
| HKFRSs (Amendments) | Improvements to HKFRSs[1] |
| HKAS 1 (Revised) | Presentation of Financial Statements[2] |
| HKAS 23 (Revised) | Borrowing Costs[2] |
| HKAS 27 (Revised) | Consolidated and Separate Financial Statements[3] |
| HKAS 32 & 1 (Amendments) | Puttable Financial Instruments and Obligations Arising on Liquidation[2] |
| HKAS 39 (Amendment) | Eligible Hedged Items[3] |
| HKFRS 1 & HKAS 27 (Amendments) | Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2] |
| HKFRS 1 (Revised) | First-time Adoption of Hong Kong Financial Reporting Standards[3] |
| HKFRS 2 (Amendments) | Vesting Conditions and Cancellations[2] |
| HKFRS 3 (Revised) | Business Combinations[3] |
| HKFRS 8 | Operating Segments[2] |
| HK(IFRIC)-Int 13 | Customer Loyalty Programmes[4] |
| HK(IFRIC)-Int 15 | Agreements for the Construction of Real Estate[2] |
| HK(IFRIC)-Int 16 | Hedges of a Net Investment in a Foreign Operation[5] |
| HK(IFRIC)-Int 17 | Distributions of Non-cash Assets to Owners[3] |

1 *Effective for annual periods beginning on or after 1st January, 2009 except for the amendments to HKFRS 5, effective for annual periods beginning on or after 1st July, 2009*

2 *Effective for annual periods beginning on or after 1st January, 2009*

3 *Effective for annual periods beginning on or after 1st July, 2009*

4 *Effective for annual periods beginning on or after 1st July, 2008*

5 *Effective for annual periods beginning on or after 1st October, 2008*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 3. BASIS OF PREPARATION *(Continued)*

### (b) Hong Kong Financial Reporting Standards in issue but not effective *(Continued)*

HKAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary.

The HKFRS 2 (Amendments) clarify that vesting conditions are service conditions and performance conditions only. Any other conditions are non-vesting conditions. Where an award does not vest as a result of a failure to meet a non-vesting condition that is within the control of either the entity or the counterparty, this is accounted for as a cancellation.

The adoption of HKFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st July, 2009.

HKFRS 8, which will replace HKAS 14 Segment Reporting, specifies how an entity should report information about its operating segments, based on information about the components of the entity that is available to the chief operating decision maker for the purposes of allocating resources to the segments and assessing their performance. The standard also requires the disclosure of information about the products and services provided by the segments, the geographical areas in which the Group operates, and revenue from the Group's major customers.

HK(IFRIC)-INT 15 specifies the accounting treatment when an entity transfers to the buyer control and the significant risks and rewards of ownership of the work in progress in its current state as construction progresses. In this case, if all the criteria in paragraph 14 of HKAS 18 are met continuously as construction progresses, the entity shall recognise revenue by reference to the stage of completion using the percentage of completion method.

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES

### Measurement basis

The consolidated financial statements have been prepared on the historical cost basis except for investment properties, hotel properties, available-for-sale investments and held-for-trading investments, which are measured at their fair values or revalued amounts, as explained in the accounting policies set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the date that control commenced or up to the date that control ceased.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group’s equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority’s share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority’s interest in the subsidiary’s equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instrument issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "Business Combinations" are recognised at their fair values at the acquisition date, except for non-current assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-Current Assets Held for Sale and Discontinued Operations", which are recognised and measured at fair value less costs to sell.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interests of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

### Acquisition of additional interests in subsidiaries

On acquisition of additional interests in subsidiaries, goodwill was calculated as the difference between the consideration paid for the additional interests and the carrying amount of the net assets of the combining entities attributable to the additional interests acquired. If the additional interests in the net assets of the subsidiaries exceeds the consideration paid for the additional interests, the excess is recognised immediately in the profit and loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Goodwill

#### *Goodwill arising on acquisitions prior to 1st January, 2005*

Goodwill arising on an acquisition of net assets and operations of another entity for which the agreement date is before 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of the relevant acquiree at the date of acquisition.

For previously capitalised goodwill arising on acquisitions of net assets and operations of another entity after 1st January, 2001, the Group has discontinued amortisation from 1st January, 2005 onwards, and such goodwill is tested for impairment annually, and whenever there is an indication that the cash generating unit to which the goodwill relates may be impaired (see the accounting policy below).

#### *Goodwill arising on acquisitions on or after 1st January, 2005*

Goodwill arising on an acquisition of a business for which the agreement date is on or after 1st January, 2005 represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the relevant business at the date of acquisition. Such goodwill is carried at cost less any accumulated impairment losses.

Capitalised goodwill arising on an acquisition of a business is presented separately in the consolidated balance sheet.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Interests in subsidiaries

Interests in subsidiaries is included in the Company's balance sheet at cost less any identified impairment loss.

### Interests in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, investments in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of net asset of the associate, less any identified impairment loss.

When the Group's share of losses of an associate equals or exceeds its interest in that associate, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Interests in jointly controlled entities

Joint venture arrangements that involve the establishment of a separate entity in which venturers have joint control over the economic activity of the entity are referred to as jointly controlled entities.

The results and assets and liabilities of jointly controlled entities are incorporated in the consolidated financial statements using the equity method of accounting. Under the equity method, investments in jointly controlled entities are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the jointly controlled entities, less any identified impairment loss. When the Group's share of losses of a jointly controlled entity equals or exceeds its interest in that jointly controlled entity, the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that jointly controlled entity.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

When a group entity transacts with a jointly controlled entity of the Group, profits or losses are eliminated to the extent of the Group's interest in the jointly controlled entity.

### Jointly controlled operations

When a group entity undertakes its activities under joint venture arrangements directly, constituted as jointly controlled operations, the assets and liabilities arising from those jointly controlled operations are recognised in the balance sheet of the relevant company on an accrual basis and classified according to the nature of the item. The Group's share of the income from jointly controlled operations, together with the expenses that it incurs are included in the consolidated income statement when it is probable that the economic benefits associated with the transactions will flow to/from the Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of the assets' (disposal groups') previous carrying amount and fair value less costs to sell.

### Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable from sales of electricity, properties and goods, hotel operations, investments, services provided and subsidies received or receivable, net of discounts and sales related taxes.

(a) Income from sale of properties is recognised upon the execution of a binding sale agreement, the issue of an occupation permit and a completion certificate by the relevant government authorities and fulfilling the terms of the binding sale agreements. Payments received from the purchasers prior to this stage are recorded as pre-sale deposits and presented as current liabilities.

(b) Sales of electricity are recognised when electricity is generated and transmitted to the power grids operated by the power grid companies.

(c) Sales of goods are recognised when goods are delivered and title has passed.

(d) Building management service income is recognised over the relevant period in which the services are rendered.

(e) Revenue from hotel operations and related services is recognised when the relevant services are provided.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Revenue recognition *(Continued)*

(f) Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

(g) Dividend income from investments is recognised when the Group's rights to receive payment have been established.

(h) Rental income under operating leases are recognised in a straight-line basis over the term of the relevant lease.

(i) Consultancy fee income is recognised when the consultancy services are provided.

(j) Construction revenue is recognised on the percentage of completion method, measured by reference to (a) the proportion that contract costs incurred for work performed to date to estimated total contract costs or (b) the amount of work certified by independent engineer with reference to the completion of physical proportion of the contract work.

### Investment properties

Investment properties are properties held to earn rentals and/or capital appreciation.

On initial recognition, investment properties are measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use or no future economic benefits are expected from its disposals. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated income statement in the year in which the asset is derecognised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes, other than hotel properties and construction in progress, are stated at cost less subsequent accumulated depreciation and accumulated impairment losses.

Advantage has been taken of the transitional relief provided by paragraph 80A of HKAS 16 "Property, Plant and Equipment" from the requirement to make regular revaluations of the Group's buildings which had been carried at revalued amounts prior to 30th September, 1995, and accordingly no further revaluation of land and buildings is carried out. Prior to 30th September, 1995, the revaluation increase arising on the revaluation of these assets was credited to the revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the corresponding revaluation surplus is transferred to accumulated profits.

Hotel properties are stated in the balance sheet at their revalued amounts, being the fair value at the date of revaluation, less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using the fair values at the balance sheet date.

Any revaluation increase arising on the revaluation of hotel properties is credited to the hotel properties revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated income statement to the extent of the decrease previously charged. A decrease in net carrying amount arising on the revaluation of such buildings is dealt with as an expense to the extent that it exceeds the balance, if any, held on the hotel properties revaluation reserve relating to a previous revaluation of that asset.

Depreciation on revalued hotel properties is charged to profit or loss. On the subsequent sale or retirement of a revalued hotel property, the attributable revaluation surplus remaining in the hotel properties revaluation reserve is transferred directly to accumulated profits.

Depreciation is provided to write off the cost or fair value of items of property, plant and equipment, other than construction in progress, over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Property, plant and equipment *(Continued)*

Construction in progress represents property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated income statement in the year in which the item is derecognised.

### Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the balance sheet date, as measured by (a) the proportion that contract costs incurred for work performed to date to the estimated total contract costs or (b) the amount of work certified by independent engineer with reference to the completion of physical proportion of the contract work. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the remaining period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as an amount due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as an amount due to customers for contract work. Amounts received before the related work is performed are included in the consolidated balance sheet, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated balance sheet under trade and other receivables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Other intangible asset

Other intangible asset, which represents premium on acquisition of prepaid lease payments, are stated at cost and amortised over the remaining period of the lease on a straight line basis.

### Club membership

Club membership with indefinite life are stated at cost less identified impairment loss.

### Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as lessor*

Rental income from operating leases is recognised in the consolidated income statement on a straight-line basis over the term of the relevant lease.

#### *The Group as lessee*

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

#### *Leasehold land and building*

The land and building elements of a lease of land and building are considered separately for the purpose of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease and account for as property, plant and equipment. To the extent the allocation of the lease payments can be made reliably, leasehold interests in land are accounted for as operating leases.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

### Cash and cash equivalents

Cash and cash equivalents include cash in hand and at banks, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Retirement benefits scheme contributions

Payments to Group's defined contribution retirement benefits schemes and Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions. Payments made to state-managed retirement benefits schemes are dealt with as payments to defined contribution schemes where the Group's obligations under the schemes are equivalent to those arising in a defined contribution retirement benefit scheme.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

### Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Taxation *(Continued)*

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

### Properties held for sale

Properties held for sale are stated at the lower of cost and net realisable value.

### Properties under development

Properties under development developed for future sale in the ordinary course of business are included in current assets at the lower of cost and net realisable value. It comprises the consideration for development expenditure (which includes cost of land use rights, construction costs and capitalised interest) directly attributable to the development of the properties.

### Other inventories

Other inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when a group entity becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

### *Financial assets*

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

*Financial assets at fair value through profit or loss*

Financial assets at FVTPL represents financial assets held for trading.

A financial asset is classified as held for trading if:–

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of an identified portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

At each balance sheet date subsequent to initial recognition, financial assets at FVTPL are measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend earned on the financial assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

#### ***Financial assets*** *(Continued)*

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, short-term loan receivables, amounts due from subsidiaries, fellow subsidiaries, jointly controlled entity, minority shareholders of subsidiaries and related companies, pledged bank deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. (See accounting policy on impairment loss on financial assets below).

*Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at FVTPL and loans and receivables.

At each balance sheet date subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss (see accounting policy on impairment loss on financial assets below).

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition (see accounting policy on impairment loss on financial assets below).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

#### *Financial assets* *(Continued)*

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

*Impairment of financial assets*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:–

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables and short-term loan receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments of trade receivables in the portfolio past the average credit period of 30 to 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

***Financial assets*** *(Continued)*

*Impairment of financial assets (Continued)*

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables and loan receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable or a loan receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

#### *Financial liabilities and equity*

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified as other financial liabilities.

*Effective interest method*

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis.

*Other financial liabilities*

Other financial liabilities including trade payables, property rental deposits, amounts due to subsidiaries, ultimate holding company, intermediate holding company, fellow subsidiaries, minority shareholders of subsidiaries and associate, bank borrowings and loan from a fellow subsidiary are subsequently measured at amortised cost, using the effective interest method.

*Equity instruments*

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Financial instruments *(Continued)*

#### *Derecognition*

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

### Equity-settled share-based payment transactions

#### *Share options granted to employees after 7th November, 2002 and vested on or after 1st January, 2005*

The fair value of services received determined by reference to the fair value of share options granted at the grant date is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share option reserve).

At each balance sheet date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates during the vesting period, if any, is recognised in profit or loss, with a corresponding adjustment to share option reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated profits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### Equity-settled share-based payment transactions *(Continued)*

***Share options granted to employees on or before 7th November, 2002***

The financial impact of share options granted is not recorded in the consolidated financial statements until such time as the options are exercised, and no charge is recognised in the consolidated income statement in respect of the value of options granted. Upon the exercise of the share options, the resulting shares issued are recorded as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded as share premium. Options which lapse or are cancelled prior to their exercise date are deleted from the register of outstanding options.

### Government grants

Government grants are recognised as income over the periods necessary to match them with the related costs. Grants related to depreciable assets are presented as a deduction from the carrying amount of the relevant asset and are released to income over the useful lives of the assets. Grants related to expense items are recognised in the same period as those expenses are charged in the consolidated income statement and are reported separately as other income.

### Impairment losses other than goodwill (see the accounting policy in respect of goodwill above)

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. In addition, intangible assets with indefinite useful lives are tested for impairment annually, and whenever there is an indication that they may be impaired. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the reversal of the impairment loss is treated as a revaluation increase under that standard.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

### Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

#### *Estimated impairment on properties under development*

Management reviews the recoverability of the Group's properties under development of HK$11,284,857,000 (2007: HK$3,972,770,000) with reference to its intended use and current market environment whenever events or changes in circumstances indicate that the carrying amount of the assets exceeds its recoverable amount. Appropriate impairment for estimated irrecoverable amounts are recognised in profit and loss when there is objective evidence that the asset is impaired.

In determining whether impairment on properties under development is required, the Group takes into consideration the intended use of the properties, the current market environment, the estimated market value of the properties and/or the present value of future cash flow expected to receive. Impairment is recognised based on the higher of estimated future cash flow and estimated market value. If the market environment/circumstances changes significantly, resulting in a decrease in the recoverable amount of these properties interest, additional impairment loss may be required. No impairment is made on properties under development for the years ended 31st December, 2008 and 31st December, 2007.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 5. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

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

#### *Estimated impairment of short-term loan receivables and other receivables*

In determining whether there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31st December, 2008, the carrying amounts of short-term loan receivables and other receivables are HK$96,013,000 (2007: HK$8,181,000) (net of allowance for doubtful debts of HK$211,448,000 (2007: HK$210,489,000)) and HK$220,274,000 (2007: HK$123,315,000) (net of allowance for doubtful debts of HK$38,242,000 (2007: HK$36,164,000)), respectively.

#### *Fair value of available-for-sale investments*

As described in note 32, the directors of the Company use their judgement in selecting an appropriate valuation technique for financial instruments not quoted in an active market. Valuation techniques commonly used by market practitioners are applied.

For listed available-for-sale investments with lock-up period, the estimated fair values were calculated using the Black-Scholes Option Pricing Method based on assumptions supported, where possible, by observable market prices or rates. As at 31st December, 2007, the carrying amount of the listed available-for-sale investments with lock-up period is HK$429,185,000. The respective lock-up period was expired during the year ended 31st December, 2008. Details of the assumptions used are disclosed in note 32.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 38, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and accumulated profits.

The directors of the Company review the capital structure on a semi-annual basis. As part of this review, the directors consider the cost of capital and the risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total bank borrowings less bank balances, deposits and cash. Total capital is calculated as "equity", as shown in the consolidated balance sheet, plus net debt.

During 2008, the Group's strategy, which was unchanged from 2007 and the gearing ratios at 31st December, 2008 and 2007 were as follows:–

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Total bank borrowings *(note 38)* | **6,798,176** | 1,488,239 |
| Less: bank balances, deposits and cash | **(3,111,903)** | (1,823,199) |
| Net debt | **3,686,273** | (334,960) |
| Total equity | **7,157,044** | 4,986,746 |
| Total capital | **10,843,317** | 4,651,786 |
| Gearing ratio | **34%** | (7%) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 7. FINANCIAL INSTRUMENTS

### (a) Categories of financial instruments

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **THE GROUP** | | |
| **Financial assets** | | |
| Held-for-trading investments | **16,526** | 62,198 |
| Loans and receivables (including cash and cash equivalents) | **3,944,683** | 2,028,545 |
| Available-for-sale financial assets | **115,847** | 430,252 |
| **Financial liabilities** | | |
| Amortised cost | **11,859,474** | 4,275,363 |
| **THE COMPANY** | | |
| **Financial assets** | | |
| Loans and receivables (including cash and cash equivalents) | **5,325,498** | 4,090,061 |
| Available-for-sale financial assets | **32,487** | – |
| **Financial liabilities** | | |
| Amortised cost | **997,783** | 932,246 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies

The Group's major financial instruments include held-for-trading investments, available-for-sale financial assets, trade and other receivables, short-term loan receivables, amounts due from fellow subsidiaries, amount due from a jointly controlled entity, amounts due from minority shareholders of subsidiaries, amount due from a related company, pledged bank deposits, bank balances, deposits and cash, trade and other payables, property rental deposits, amount due to ultimate holding company, amount due to an intermediate holding company, amounts due to fellow subsidiaries, amounts due to minority shareholders of subsidiaries, amount due to an associate, loan from a fellow subsidiary and bank borrowings. The Company's major financial instruments include available-for-sale financial assets, amounts due from subsidiaries, other receivables, bank balances, deposits and cash, other payables, amounts due to subsidiaries and bank borrowings. Details of these financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

#### *Market risk*

The Group's activities expose it primarily to the financial risks of changes in interest rates, foreign currency rates and equity security prices. Market risk exposures are further measured by sensitivity analysis. There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk. Details of each type of market risks are described as follows:–

*(i)* *Currency risk*

The Group's revenue are mostly denominated in RMB, however, the Group also undertakes certain transactions denominated in foreign currencies, hence exposures to exchange risk. In addition, the currency risk also arises from funding to its subsidiaries in the PRC. These loans to its subsidiaries are normally denominated in RMB while the sources of funding are usually denominated in Hong Kong dollar. The Group currently does not use any derivative contracts to hedge against it exposure to currency risk. The management manages its foreign currency risk by closely monitoring the movement of the foreign currency rate and consider hedging significant foreign currency exposure should the need arise.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

***Market risk*** *(Continued)*

*(i) Currency risk (Continued)*

The following table details the Group's exposure as at 31st December, 2008 that the currency risk arising from recognised assets denominated in a currency other than the functional currency of the entity to which they relate.

| | **2008** | 2007 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| Bank balances, deposits and cash | **22,102** | 22,772 |
| Short-term loans to subsidiaries | **892,103** | – |
| Gross exposure arising from recognised assets | **914,205** | 22,772 |

The Company did not have any exposure to currency risk as all the financial assets and liabilities were denominated in its functional currency as at 31st December, 2008 and 2007.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

***Market risk*** *(Continued)*

*(i) Currency risk (Continued)*

The following table indicates the approximate change in the Group's profit after tax and accumulated profits in response to reasonably possible changes in foreign exchange rates. The sensitivity analysis includes balances between group companies where the denomination of the balances is in a currency other than the functional currencies of the lender or borrower.

| | **2008** | | 2007 | |
|---|---|---|---|---|
| | **Increase (decrease) in foreign exchange rate** | **Increase (decrease) in profit after tax and accumulated profits HK$'000** | Increase (decrease) in foreign exchange rate | Increase (decrease) in profit after tax and accumulated profits HK$'000 |
| Renminbi | **5%** | **52,003** | 5% | 1,216 |
| | **(5%)** | **(52,003)** | (5%) | (1,216) |

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

***Market risk*** *(Continued)*

*(ii) Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to pledged bank deposits and fixed-rate bank borrowings (see notes 36 and 38 for details of these deposits and borrowings). The Group aims at keeping borrowings at variable rates. Currently, the Group does not have hedging policy. However, the management monitors interest rate exposure and will consider hedging significant fixed rate bank borrowings should the need arise.

The Group is also exposed to cash flow interest rate risk in relation to amount due to ultimate holding company, amount due to an intermediate holding company, amounts due to fellow subsidiaries, amounts due to minority shareholders of subsidiaries, bank balances and variable-rate bank borrowings (see notes 35, 36 and 38 for details of these bank balances and borrowings). It is the Group's policy to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of HIBOR and benchmark rate arising from the Group's Hong Kong dollar and RMB borrowings.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for both derivatives and non-derivative instruments at the balance sheet date. The analysis is prepared assuming the amount of asset and liability outstanding at the balance sheet date was outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31st December, 2008 would decrease/increase by HK$24,126,000 (2007: decrease/increase by HK$1,070,000). This is mainly attributable to the Group's exposure to interest rates on its variable-rate bank borrowings and bank balances.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

***Market risk*** *(Continued)*

*(iii) Other price risk*

The Group is exposed to equity price risk through its investments in held-for-trading investments and listed available-for-sale investments. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on listed equity instruments quoted in the Stock Exchange. In addition, the Group has appointed a special team to monitor the price risk and will consider hedging the risk exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the reporting date.

If the prices of the respective equity instruments had been 5% higher/lower:–

- Profit for the year ended 31st December, 2008 increase/decrease by HK$620,000 (2007: increase/decrease by HK$2,084,000) as a result of the changes in fair value of held-for-trading investments; and
- Investment valuation reserve would increase/decrease by HK$4,111,000 (2007: increase/decrease HK$21,459,000) for the Group as a result of the changes in fair value of listed available-for-sale investments.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

#### *Credit risk*

As at 31st December, 2008, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties and financial guarantees provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Other than concentration of credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group does not have any other significant concentration of credit risk.

#### *Liquidity risk*

The Group has net current assets amounting to approximately HK$6,759,450,000 as at 31st December, 2008.

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The Group relies on bank borrowings as a significant source of liquidity. As at 31st December, 2008, the Group has available unutilised bank loan facilities of approximately HK$1,226,962,000 (2007: HK$915,385,000). Details of which are set out in note 38.

Despite the Company has net current liabilities amounting to approximately HK$341,471,000 as at 31st December, 2008, the liquidity risk is considered not significant as the ultimate holding company has undertaken to provide continuing financial support to the Company to meet its liabilities as when they fall due.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

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

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

*Liquidity and interest risk tables*

**THE GROUP**

| | Weighted average effective interest rate % | Less than 1 month HK$'000 | 1-3 months HK$'000 | 3 months to 1 year HK$'000 | 1-5 years HK$'000 | 5+ years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2008 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and other payables | | 845,372 | 194,227 | 168,467 | 103,118 | 8,506 | 1,319,690 | 1,319,690 |
| Property rental deposits | | 569 | 1,138 | 13,997 | 37,376 | 7,062 | 60,142 | 60,142 |
| Amount due to ultimate holding company | | | | | | | | |
| – interest-free | | 159 | – | 69,152 | – | – | 69,311 | 69,311 |
| – variable rate | 6.31 | – | – | 786,744 | – | – | 786,744 | 756,905 |
| Amount due to an intermediate holding company | | | | | | | | |
| – interest-free | | – | – | 68,239 | – | – | 68,239 | 68,239 |
| – variable rate | 6.25 | – | 22,990 | 1,501,947 | – | – | 1,524,937 | 1,468,225 |
| Amounts due to fellow subsidiaries | | | | | | | | |
| – interest-free | | 4,073 | 35,153 | 133,029 | – | – | 172,255 | 172,255 |
| – variable rate | 4.78 | – | – | 30,111 | – | – | 30,111 | 29,238 |
| Amounts due to minority shareholders of subsidiaries | | | | | | | | |
| – interest-free | | 2,418 | 52,717 | 220,773 | – | – | 275,908 | 275,908 |
| – fixed rate | 6.85 | – | – | 72,012 | – | – | 72,012 | 69,055 |
| – variable rate | 6.68 | – | – | 600,060 | – | – | 600,060 | 575,997 |
| Bank loans | | | | | | | | |
| – fixed rate | 7.20 | – | – | – | 490,495 | – | 490,495 | 398,180 |
| – variable rate | 5.35 | 210,480 | 10,560 | 1,376,907 | 5,503,385 | 201,961 | 7,303,293 | 6,399,996 |
| Amount due to an associate | | – | – | 34,130 | – | – | 34,130 | 34,130 |
| Loan from a fellow subsidiary | 6.00 | – | – | – | – | 204,778 | 204,778 | 162,203 |
| | | 1,063,071 | 316,785 | 5,075,568 | 6,134,374 | 422,307 | 13,012,105 | 11,859,474 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

***Liquidity risk*** *(Continued)*

*Liquidity and interest risk tables (Continued)*

| | Weighted average effective interest rate % | Less than 1 month HK$'000 | 1-3 months HK$'000 | 3 months to 1 year HK$'000 | 1-5 years HK$'000 | 5+ years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2007 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| 2007 | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Trade and other payables | | 713,053 | 34,670 | 119,554 | 72,792 | 7,031 | 947,100 | 947,100 |
| Property rental deposits | | – | – | 15,392 | 8,677 | – | 24,069 | 24,069 |
| Amount due to ultimate holding company | | | | | | | | |
| – interest-free | | 299 | – | 63,940 | – | – | 64,239 | 64,239 |
| – variable rate | 8.47 | – | – | 771,014 | – | – | 771,014 | 710,809 |
| Amount due to an intermediate holding company | | | | | | | | |
| – fixed rate | 5.50 | – | 330,251 | – | – | – | 330,251 | 313,034 |
| – variable rate | 8.47 | – | – | 20,857 | – | – | 20,857 | 19,228 |
| Amounts due to fellow subsidiaries | | – | – | 195,081 | – | – | 195,081 | 195,081 |
| Amounts due to minority shareholders of subsidiaries | | 195,905 | 96,581 | 77,375 | – | – | 369,861 | 369,861 |
| Bank loans | | | | | | | | |
| – fixed rate | 7.58 | – | – | 114,938 | – | – | 114,938 | 106,838 |
| – variable rate | 7.54 | – | – | 215,526 | 1,148,311 | 121,665 | 1,485,502 | 1,381,401 |
| Loan from a fellow subsidiary | 6.00 | – | – | – | – | 180,000 | 180,000 | 143,703 |
| | | 909,257 | 461,502 | 1,593,677 | 1,229,780 | 308,696 | 4,502,912 | 4,275,363 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### (b) Financial risk management objectives and policies *(Continued)*

***Liquidity risk*** *(Continued)*

*Liquidity and interest risk tables (Continued)*

**THE COMPANY**

| | Weighted average effective interest rate % | Less than 1 month HK$'000 | 1-3 months HK$'000 | 3 months to 1 year HK$'000 | 1-5 years HK$'000 | 5+ years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2008 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| **2008** | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Other payables | | – | – | 107 | 325 | – | 432 | 432 |
| Amounts due to subsidiaries | | – | – | 297,351 | – | – | 297,351 | 297,351 |
| Bank loans | | | | | | | | |
| – variable rate | 2.20 | – | 50,275 | 202,842 | 467,331 | – | 720,448 | 700,000 |
| | | – | 50,275 | 500,300 | 467,656 | – | 1,018,231 | 997,783 |

| | Weighted average effective interest rate % | Less than 1 month HK$'000 | 1-3 months HK$'000 | 3 months to 1 year HK$'000 | 1-5 years HK$'000 | 5+ years HK$'000 | Total undiscounted cash flows HK$'000 | Carrying amount at 31.12.2007 HK$'000 |
|---|---|---|---|---|---|---|---|---|
| 2007 | | | | | | | | |
| **Non-derivative financial liabilities** | | | | | | | | |
| Other payables | | 2,969 | – | 4,097 | – | – | 7,066 | 7,066 |
| Amounts due to subsidiaries | | – | – | 775,180 | – | – | 775,180 | 775,180 |
| Bank loans | | | | | | | | |
| – variable rate | 6.40 | – | – | 106,404 | 53,202 | – | 159,606 | 150,000 |
| | | 2,969 | – | 885,681 | 53,202 | – | 941,852 | 932,246 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 7. FINANCIAL INSTRUMENTS *(Continued)*

### (c) Fair values

The fair values of financial assets and financial liabilities are determined as follows:–

- the fair values of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices and ask prices respectively;
- the fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input; and
- the fair values of listed available-for-sale investments with lock-up period are determined in accordance with the Black-Scholes Pricing Method based on assumptions supported, where possible, by observable market prices or rates.

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

## 8. REVENUE

Revenue represents the aggregate of the net amounts received and receivable from third parties, net of business tax payable and value added tax payable in the PRC. An analysis of the Group's revenue for the year, for both continuing and discontinued operations, is as follows:–

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| **Continuing operations** | | |
| Sales of properties | **2,761,165** | 481,139 |
| Rental income and building management service income | **272,924** | 158,805 |
| Income from hotel operations | **90,187** | 128,058 |
| Sales of goods | **117,116** | 114,341 |
| Construction revenue | **71,020** | 87,290 |
| Interest income from short-term loan receivables | **11,956** | 4,227 |
| | **3,324,368** | 973,860 |
| **Discontinued operations** | | |
| Sales of electricity and gas *(note 15(a))* | **–** | 472,520 |
| | **3,324,368** | 1,446,380 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 9. OTHER INCOME

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Reversal of impairment loss previously recognised in respect of short-term loan receivables | **5,000** | – | **–** | – | **5,000** | – |
| Reversal of other payable overprovided in previous years | **29,138** | – | **–** | – | **29,138** | – |
| Exchange gains | **58,772** | 15,230 | **–** | – | **58,772** | 15,230 |
| Sale of scrap materials | **–** | – | **–** | 3,480 | **–** | 3,480 |
| Bank interest income | **19,746** | 30,491 | **–** | 1,943 | **19,746** | 32,434 |
| Imputed interest income | **–** | 7,521 | **–** | – | **–** | 7,521 |
| Discount on acquisition of additional interest in a subsidiary *(note 43(a))* | **–** | 1,869 | **–** | – | **–** | 1,869 |
| Others | **23,421** | 24,994 | | 23,330 | **23,421** | 48,324 |
| | **136,077** | 80,105 | **–** | 28,753 | **136,077** | 108,858 |

## 10. FINANCE COSTS

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Interest on bank and other borrowings: | | | | | | |
| – wholly repayable within five years | **536,690** | 161,656 | **–** | 31,966 | **536,690** | 193,622 |
| – not wholly repayable within five years | **711** | 2,736 | **–** | – | **711** | 2,736 |
| Imputed interest expense on loan from a fellow subsidiary | **8,869** | 10,514 | **–** | – | **8,869** | 10,514 |
| Total borrowing costs | **546,270** | 174,906 | **–** | 31,966 | **546,270** | 206,872 |
| Less: amounts capitalised *(note 28)* | **(470,439)** | (133,081) | **–** | – | **(470,439)** | (133,081) |
| | **75,831** | 41,825 | **–** | 31,966 | **75,831** | 73,791 |

Borrowing cost capitalised during the year arose from specific borrowings.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 11. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the eleven (2007: thirteen) directors were as follows:–

| | | Other emoluments | | | | |
|---|---|---|---|---|---|---|
| **2008** | **Fees HK$'000** | **Salaries and other benefits HK$'000** | **Bonuses HK$'000** | **Equity-settled share-based payment expenses HK$'000** | **Retirement benefit scheme contributions HK$'000** | **Total emoluments HK$'000** |
| He Ping | **20** | **–** | **–** | **8,991** | **–** | **9,011** |
| Chen Hong Sheng | **20** | **–** | **–** | **4,339** | **–** | **4,359** |
| Wang Xu | **–** | **2,672** | **–** | **1,726** | **12** | **4,410** |
| Xue Ming | **–** | **1,737** | **–** | **1,524** | **12** | **3,273** |
| Hang Qing Tao | **–** | **1,469** | **–** | **920** | **12** | **2,401** |
| Ye Li Wen | **–** | **1,483** | **–** | **1,381** | **12** | **2,876** |
| Chan Tak Chi, William | **20** | **–** | **–** | **259** | **–** | **279** |
| Ip Chun Chung, Robert | **80** | **–** | **–** | **259** | **–** | **339** |
| Yao Kang, *J.P.* | **120** | **–** | **–** | **431** | **–** | **551** |
| Choy Shu Kwan | **80** | **–** | **–** | **372** | **–** | **452** |
| Lam Tak Shing, Harry | **80** | **–** | **–** | **259** | **–** | **339** |
| Total | **420** | **7,361** | **–** | **20,461** | **48** | **28,290** |

| | | Other emoluments | | | | |
|---|---|---|---|---|---|---|
| 2007 | Fees HK$'000 | Salaries and other benefits HK$'000 | Bonuses HK$'000 | Equity-settled share-based payment expenses HK$'000 | Retirement benefit scheme contributions HK$'000 | Total emoluments HK$'000 |
| Wang Jun | 20 | – | – | – | – | 20 |
| He Ping | 20 | – | – | – | – | 20 |
| Chen Hong Sheng | 20 | – | – | – | – | 20 |
| Wang Xu | – | 449 | 600 | – | 2 | 1,051 |
| Xue Ming | – | 572 | 390 | – | 2 | 964 |
| Hang Qing Tao | – | 246 | 330 | – | 2 | 578 |
| Ye Li Wen | – | 1,083 | 330 | – | 12 | 1,425 |
| Chan Tak Chi, William | 20 | – | – | – | – | 20 |
| Zhang Zhen Gao | 20 | – | – | – | – | 20 |
| Ip Chun Chung, Robert | 80 | – | – | – | – | 80 |
| Yao Kang, *J.P.* | 120 | – | – | – | – | 120 |
| Choy Shu Kwan | 80 | – | – | – | – | 80 |
| Lam Tak Shing, Harry | 80 | – | – | – | – | 80 |
| Total | 460 | 2,350 | 1,650 | – | 18 | 4,478 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 11. DIRECTORS' EMOLUMENTS *(Continued)*

*Note:–*

In each of the two years ended 31st December, 2008, no emoluments were paid by the Group to the directors, as an inducement to join or upon joining the Group or as a compensation for loss of office. None of the directors has waived any emoluments during each of the two years ended 31st December, 2008.

Bonus was determined with reference to the Group's operating results, individual performances and comparable market statistics.

## 12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2007: two) were directors of the Company whose emoluments are included in the disclosure in note 11 above. The emoluments of the remaining one (2007: three) highest paid individuals are as follows:–

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Salaries and other benefits | **1,483** | 3,076 |
| Bonuses | **–** | 650 |
| Equity-settled share-based payment expenses | **1,984** | – |
| Retirement benefits scheme contributions | **12** | 73 |
| | **3,479** | 3,799 |

The emoluments of the remaining one (2007: three) highest paid individuals were within the following bands:–

| | **2008 Number of employees** | 2007 Number of employees |
|---|---|---|
| Nil to HK$1,000,000 | **–** | – |
| HK$1,000,001 to HK$1,500,000 | **–** | 3 |
| HK$1,500,001 to HK$2,000,000 | **–** | – |
| HK$2,000,001 to HK$2,500,000 | **–** | – |
| HK$2,500,001 to HK$3,000,000 | **–** | – |
| HK$3,000,001 to HK$3,500,000 | **1** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 13. PROFIT BEFORE TAXATION

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Profit before taxation has been arrived at after charging and (crediting):– | | | | | | |
| Staff costs | | | | | | |
| – directors' emoluments *(note 11)* | **28,290** | 4,478 | **–** | – | **28,290** | 4,478 |
| – other staff costs | **107,556** | 60,867 | **–** | 19,528 | **107,556** | 80,395 |
| – other staff equity-settled share-based payment expenses | **12,093** | – | **–** | – | **12,093** | – |
| – other staff's retirement benefit scheme contributions | **20,139** | 4,007 | **–** | 3,243 | **20,139** | 7,250 |
| | **168,078** | 69,352 | **–** | 22,771 | **168,078** | 92,123 |
| Amortisation of other intangible asset (included in administrative expenses) | **–** | 926 | **–** | – | **–** | 926 |
| Amortisation of prepaid lease payments (included in administrative expenses) | **8,987** | 8,667 | **–** | 2,072 | **8,987** | 10,739 |
| Depreciation of property, plant and equipment | **58,275** | 42,550 | **–** | 52,146 | **58,275** | 94,696 |
| Total depreciation and amortisation | **67,262** | 52,143 | **–** | 54,218 | **67,262** | 106,361 |
| Auditor's remuneration | | | | | | |
| – current year | **3,200** | 5,057 | **–** | – | **3,200** | 5,057 |
| – under-provision in prior year | **195** | 515 | **–** | – | **195** | 515 |
| Cost of inventory recognised as expenses | **2,367,768** | 488,084 | **–** | 315,001 | **2,367,768** | 803,085 |
| Operating lease rentals in respect of | | | | | | |
| – rented premises | **6,517** | 2,128 | **–** | – | **6,517** | 2,128 |
| – equipment | **1,143** | 1,069 | **–** | – | **1,143** | 1,069 |
| Impairment loss on goodwill arising from acquisition of additional interest in a subsidiary (including in administrative expenses) *(note 43(b))* | **–** | 183 | **–** | – | **–** | 183 |
| Share of tax of associates (included in share of results of associates) | **4,232** | 303 | **–** | – | **4,232** | 303 |
| Loss on disposal of investment properties | **–** | 2,927 | **–** | – | **–** | 2,927 |
| Loss (gain) on disposal of property, plant and equipment | **1,460** | 1,421 | **–** | (29) | **1,460** | 1,392 |
| Property rental income and building management service income, net of direct expenses of HK$10,268,000 (2007: HK$4,876,000) | **(262,656)** | (153,929) | **–** | – | **(262,656)** | (153,929) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 14. INCOME TAX EXPENSE

| | Continuing operations | | Discontinued operations | | Consolidated | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| The charge comprises: | | | | | | |
| Hong Kong Profits Tax | **–** | – | **–** | – | **–** | – |
| PRC Enterprise Income Tax | | | | | | |
| – current year | **140,079** | 47,583 | **–** | 6,409 | **140,079** | 53,992 |
| – over-provision in prior year | **(6,619)** | – | **–** | – | **(6,619)** | – |
| | **133,460** | 47,583 | **–** | 6,409 | **133,460** | 53,992 |
| Land appreciation tax ("LAT") | **43,107** | 7,925 | **–** | – | **43,107** | 7,925 |
| Deferred taxation | | | | | | |
| – current year | **(101,977)** | 55,660 | **–** | – | **(101,977)** | 55,660 |
| – attributable to a change in tax rate | **–** | 53,966 | **–** | – | **–** | 53,966 |
| | **(101,977)** | 109,626 | **–** | – | **(101,977)** | 109,626 |
| | **74,590** | 165,134 | **–** | 6,409 | **74,590** | 171,543 |

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) of the estimated assessable profit for the year. No provision for Hong Kong Profits Tax has been made as there is no assessable profit for both years.

For the year ended 31st December, 2007, the provision of PRC Enterprise Income Tax is calculated at a range of 12% to 33% of the estimated assessable profit for the year in accordance with the relevant income tax rates and regulations in the PRC.

On 16th March, 2007, the PRC promulgated the Law of the People's Republic of China on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6th December, 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations will change the tax rate from a range of 12% to 33% to a range of 12% to 25% for certain subsidiaries from 1st January, 2008. The deferred tax balance has been adjusted to reflect the tax rates that are expected to apply to the respective periods when the asset is realised or the liability is settled.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 14. INCOME TAX EXPENSE *(Continued)*

Details of deferred taxation are set out in note 46.

Certain PRC subsidiaries are also subject to the PRC LAT which is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds from sales of properties less deductible expenditure including costs of land use rights and development and construction.

The tax charge for the year can be reconciled to the profit before taxation per the consolidated income statement as follows:–

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Profit before taxation: | | |
| – Continuing operations | **349,104** | 383,824 |
| – Discontinued operations | **–** | 214,273 |
| | **349,104** | 598,097 |
| Tax at PRC statutory tax rate of 25% (2007: 33%) | **87,276** | 197,372 |
| Tax effect of share of results of associates | **(2,306)** | (1,891) |
| Tax effect of expenses not deductible for tax purpose | **94,949** | 87,783 |
| Tax effect of income not taxable for tax purpose | **(117,267)** | (134,787) |
| Tax effect of tax losses not recognised | **9,996** | 3,226 |
| Tax effect of utilisation of tax losses previously not recognised | **(4,293)** | (1,190) |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(19,476)** | (32,913) |
| Effect of deferred tax assets/liabilities for current year resulting from change in applicable tax rate | **–** | (5,967) |
| Increase in opening deferred tax liabilities resulting from change in applicable tax rate | **–** | 53,966 |
| Effect of land appreciation tax | **(10,777)** | (1,981) |
| Land appreciation tax | **43,107** | 7,925 |
| Over-provision in prior year | **(6,619)** | – |
| Tax charge for the year | **74,590** | 171,543 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 15. DISCONTINUED OPERATIONS

On 5th July, 2007, the Group entered into a sale and purchase agreement (the "Agreement") to dispose its entire interest in seven wholly owned subsidiaries, namely The NCHK Power (Taicang) Limited ("NCHK Power"), Well United Investment Limited ("Well United"), Master Chief Holdings Limited ("Master Chief"), High Praise Developments Limited ("High Praise"), Green Island Developments Limited ("Green Island"), Golden Concord Energy (Jia Xing) Limited ("Golden Concord") and Giant Merit Development Limited ("Giant Merit"), together with their subsidiaries and associates (the "Energy Group"). The aggregate consideration comprised cash of HK$50,000,000 and shares equivalent to 21% of the total number of issued ordinary shares of the purchaser, GCL-Poly Energy Holdings Limited ("GCL-Poly").

On 24th October, 2007, the Group entered into a supplemental agreement with the purchaser to amend the terms of the Agreement. Ultimately, the Group would be received 19.69% of the issued ordinary shares of GCL-Poly before the initial public offering (the "IPO"), the interest in the GCL-Poly was diluted to 13.86% after the IPO. 91,919,487 shares of GCL-Poly with a lock-up period of six months which represented 9.45% of the issued ordinary shares of GCL-Poly, were received on 12th November, 2007, the date of completion, and the remaining 42,871,558 shares of GCL-Poly which represented 4.41% of the issued ordinary shares of GCL-Poly, would be received after the expiry of six months from the completion date.

NCHK Power, Well United and Master Chief are the legal and beneficial owners of 51%, 50.1% and 50.1% of the total paid-up capital of Taicang Poly Xiexin Thermal Power Co., Ltd ("Taicang Power"), Peixian Mine-site Environmental Cogen-power Co., Ltd ("Peixian Power") and Dongtai Suzhong Environmental Protection Co-generation Company Limited ("Dongtai Power"), respectively. High Priase and Green Island are the legal and beneficial owners of 29.4% and 36.75% of the total paid-up capital of Funing Golden Concord Environmental Protection Co-generation Company Limited ("Funing Power") and Western Xuzhou Environmental Protection Co-generation Co., Ltd ("Xuzhou Power"), respectively. Golden Concord and Giant Merit are the legal and beneficial owners of 25% and 26% of Jia Xing Golden Concord Environmental Protection Cogeneration Power Co., Ltd ("Jia Xing Power"), respectively. All subsidiaries and associates are engaged in the supply of electricity and gas operations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 15. DISCONTINUED OPERATIONS *(Continued)*

### (a) Consolidated income statement

The profit for the year from the discontinued operations is analysed as follows:–

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Profit of discontinued operations | – | 34,232 |
| Gain on disposal of discontinued operations | – | 173,632 |
| Presented in consolidated income statement | – | 207,864 |
| Attributable to:– | | |
| – Equity holders of the Company | – | 185,385 |
| – Minority interests | – | 22,479 |
| | – | 207,864 |

The results of the discontinued operations for the period from 1st January, 2007 to 12th November, 2007, which have been included in the consolidated income statement, were as follows:–

| | 1.1.2007 to<br>12.11.2007<br>HK$'000 |
|---|---|
| Revenue | 472,520 |
| Cost of sales | (383,765) |
| Gross profit | 88,755 |
| Other income | 28,753 |
| Administrative expenses | (48,424) |
| Finance costs | (31,966) |
| Share of results of associates | 3,523 |
| Profit before taxation | 40,641 |
| Income tax expense | (6,409) |
| Profit for the period | 34,232 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 15. DISCONTINUED OPERATIONS *(Continued)*

### (b) Consolidated cash flow statement

The cash flows of the discontinued operations for the period are as follows:–

| | 1.1.2007 to 12.11.2007 HK$'000 |
|---|---|
| Net cash used in operating activities | (42,889) |
| Net cash used in investing activities | (131,463) |
| Net cash from financing activities | 139,071 |

### (c) Consolidated balance sheet

The carrying amounts of the assets and liabilities of disposed subsidiaries at the date of disposal are disclosed in note 45.

## 16. DIVIDENDS

| | **2008** **HK$'000** | 2007 HK$'000 |
|---|---|---|
| Dividends recognised as distribution during the year: | | |
| 2007 final dividend of HK$0.05 (2007: HK$0.02 for 2006) per share | **95,553** | 32,473 |

No interim dividend was paid for both years.

A final dividend for the year ended 31st December, 2008 of HK$0.02 (2007: HK$0.05) per share has been proposed by the board of directors and is subject to approval by the shareholders in the forthcoming general meeting.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 17. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share for the year is based on the following data:

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Earnings: | | |
| Profit for the year attributable to equity holders of the Company: | | |
| – Continuing operations | **222,994** | 215,811 |
| – Discontinued operations *(note 15(a))* | **–** | 185,385 |
| | **222,994** | 401,196 |

| | **2008** | 2007 |
|---|---|---|
| Number of shares: | | |
| Weighted average number of ordinary shares for the purpose of basic earnings per share | **1,825,039,971** | 1,548,790,810 |
| Effect of dilutive potential ordinary shares on share options | **22,494,260** | 43,832,205 |
| Weighted average number of ordinary shares for the purpose of diluted earnings per share | **1,847,534,231** | 1,592,623,015 |

The weighted average number of shares has been adjusted for the shares issued during two years ended 31st December, 2008 as set out in note 39.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 17. EARNINGS PER SHARE *(Continued)*

The basic and diluted earnings per share from discontinued operations based on the above data are as follows:–

| | **2008** | 2007 |
|---|---|---|
| From discontinued operations | | |
| – Basic | – | 11.97 cents |
| – Diluted | – | 11.64 cents |

## 18. INVESTMENT PROPERTIES

| | HK$'000 |
|---|---|
| **THE GROUP** | |
| FAIR VALUE | |
| At 1st January, 2007 | 1,566,695 |
| Exchange adjustments | 86,305 |
| Additions | 40,245 |
| Transfer from properties under development | 20,970 |
| Increase in fair value recognised in the consolidated income statement | 269,956 |
| Disposals | (24,203) |
| At 31st December, 2007 and 1st January, 2008 | 1,959,968 |
| Exchange adjustments | 136,846 |
| Acquired on acquisition of subsidiaries *(note 44(a))* | 1,252,921 |
| Additions | 1,852 |
| Transfer from property, plant and equipment | 27,122 |
| Increase in fair value recognised in the consolidated income statement | 28,676 |
| Disposals | (14,564) |
| **At 31st December, 2008** | **3,392,821** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 18. INVESTMENT PROPERTIES *(Continued)*

The fair values of the Group's investment properties at 31st December, 2008 and 2007 have been arrived at on the basis of a valuation carried out on that date by AA Property Services Limited, an independent professional surveyor and property valuer not connected with the Group. AA Property Services Limited is a member of the Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived by reference to comparable sales transactions as available in the relevant market.

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The carrying value of investment properties comprises:–

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Properties held under | | |
| – long-term leases in Hong Kong | **90,000** | 110,000 |
| – medium-term land use rights in the PRC | **3,302,821** | 1,849,968 |
| | **3,392,821** | 1,959,968 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 19. PROPERTY, PLANT AND EQUIPMENT

| | Hotel properties HK$'000 | Buildings HK$'000 | Furniture, fixtures and equipment HK$'000 | Motor vehicles HK$'000 | Plant and machinery HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **THE GROUP** | | | | | | | |
| COST OR VALUATION | | | | | | | |
| At 1st January, 2007 | 580,418 | 574,201 | 112,377 | 30,988 | 840,338 | 22,959 | 2,161,281 |
| Exchange adjustments | 42,167 | 28,906 | 9,814 | 1,970 | 50,801 | 1,957 | 135,615 |
| Additions | – | 6,968 | 21,489 | 2,858 | 17,120 | 326,848 | 375,283 |
| Transfer | – | 2,459 | – | – | 89,177 | (91,636) | – |
| Disposal of subsidiaries *(note 45)* | – | (403,204) | (12,391) | (6,701) | (787,370) | (255,811) | (1,465,477) |
| Disposals | – | – | (38,893) | (2,389) | (2,088) | – | (43,370) |
| At 31st December, 2007 and 1st January, 2008 | 622,585 | 209,330 | 92,396 | 26,726 | 207,978 | 4,317 | 1,163,332 |
| Exchange adjustments | 40,372 | 10,889 | 5,796 | 1,814 | 13,487 | 318 | 72,676 |
| Additions | – | 5,763 | 26,378 | 15,977 | 891 | 57,862 | 106,871 |
| Transfer | – | 419 | – | – | 1,840 | (2,259) | – |
| Acquired on acquisition of subsidiaries *(note 44(a))* | – | 35,236 | 8,393 | 19,116 | – | 3,008 | 65,753 |
| Disposals | – | (1,164) | (5,549) | (459) | (1,475) | – | (8,647) |
| Transfer to investment properties | – | (20,645) | – | – | – | – | (20,645) |
| **At 31st December, 2008** | **662,957** | **239,828** | **127,414** | **63,174** | **222,721** | **63,246** | **1,379,340** |
| Comprising: | | | | | | | |
| At cost | – | 239,828 | 127,414 | 63,174 | 222,721 | 63,246 | 716,383 |
| At valuation – 2008 | 662,957 | – | – | – | – | – | 662,957 |
| | 662,957 | 239,828 | 127,414 | 63,174 | 222,721 | 63,246 | 1,379,340 |
| DEPRECIATION | | | | | | | |
| At 1st January, 2007 | – | 120,594 | 94,396 | 7,373 | 220,074 | – | 442,437 |
| Exchange adjustments | 475 | 3,314 | 6,732 | 645 | 15,535 | – | 26,701 |
| Provided for the year | 13,082 | 20,941 | 6,402 | 6,381 | 47,890 | – | 94,696 |
| Eliminated on disposal of subsidiaries *(note 45)* | – | (67,714) | (5,227) | (3,594) | (146,482) | – | (223,017) |
| Eliminated on disposals | – | – | (36,469) | (1,684) | (552) | – | (38,705) |
| Eliminated on revaluation | (13,557) | – | – | – | – | – | (13,557) |
| At 31st December, 2007 and 1st January, 2008 | – | 77,135 | 65,834 | 9,121 | 136,465 | – | 288,555 |
| Exchange adjustments | 503 | 3,631 | 4,387 | 761 | 9,416 | – | 18,698 |
| Charge for the year | 14,255 | 9,696 | 10,816 | 7,446 | 16,062 | – | 58,275 |
| Eliminated on disposals | – | (202) | (5,082) | (442) | (1,264) | – | (6,990) |
| Eliminated on revaluation | (14,758) | – | – | – | – | – | (14,758) |
| Transfer to investment properties | – | (1,254) | – | – | – | – | (1,254) |
| **At 31st December, 2008** | **–** | **89,006** | **75,955** | **16,886** | **160,679** | **–** | **342,526** |
| CARRYING VALUES | | | | | | | |
| **At 31st December, 2008** | **662,957** | **150,822** | **51,459** | **46,288** | **62,042** | **63,246** | **1,036,814** |
| At 31st December, 2007 | 622,585 | 132,195 | 26,562 | 17,605 | 71,513 | 4,317 | 874,777 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 19. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:–

| | |
|---|---|
| Hotel properties | 2% |
| Buildings | 2% – 18% |
| Furniture, fixtures and equipment | 20% |
| Motor vehicles | 20% |
| Plant and machinery | 5% – 23% |

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| The carrying value of hotel properties and buildings located at:– | | |
| – Long-term leases in Hong Kong | **21,534** | 22,100 |
| – Medium-term land use rights in the PRC | **792,245** | 732,680 |
| | **813,779** | 754,780 |

The fair value of the Group's hotel properties at 31st December, 2008 was arrived at on the basis of a valuation carried out on that date by AA Property Services Limited, an independent professional surveyor and property valuer not connected with the Group. AA Property Services Limited is a member of the Hong Kong Institute of Surveyors, and have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations. The valuation was arrived by the income approach, whereby the income derived from the hotel operations with regard to past trading accounts are capitalised at an appropriate of rate of return to arrive at the value of the property interests with due allowance for outgoings and expenses.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 20. PREPAID LEASE PAYMENTS

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| The Group's prepaid lease payments comprise:– | | |
| – Long-term leases in Hong Kong | **87,673** | 89,978 |
| – Medium-term land use rights in the PRC | **268,814** | 258,940 |
| | **356,487** | 348,918 |
| Analysed for reporting purposes as:– | | |
| Current asset | **9,222** | 8,952 |
| Non-current asset | **347,265** | 339,966 |
| | **356,487** | 348,918 |

## 21. GOODWILL

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| COST | | |
| At 1st January | **–** | 7,491 |
| Eliminated on disposal of subsidiaries *(note 45)* | **–** | (7,491) |
| At 31st December | **–** | – |
| IMPAIRMENT | | |
| At 1st January | **–** | 6,474 |
| Eliminated on disposal of subsidiaries *(note 45)* | **–** | (6,474) |
| At 31st December | **–** | – |
| CARRYING VALUES | | |
| At 31st December | **–** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 22. OTHER INTANGIBLE ASSET

The movement of other intangible asset is set out below:–

| | The Group | | |
|---|---|---|---|
| | **Premium on prepaid lease payments** | **Customer list** | **Total** |
| | HK$'000 | HK$'000 | HK$'000 |
| COST | | | |
| At 1st January, 2007 | 65,012 | – | 65,012 |
| Additions | – | 17,567 | 17,567 |
| Eliminated on disposal of subsidiaries *(note 45)* | (65,012) | (17,567) | (82,579) |
| **At 31st December, 2007 and 31st December, 2008** | – | – | – |
| AMORTISATION | | | |
| At 1st January, 2007 | 1,626 | – | 1,626 |
| Charge for the year | 926 | – | 926 |
| Eliminated on disposal of subsidiaries *(note 45)* | (2,552) | – | (2,552) |
| **At 31st December, 2007 and 31st December, 2008** | – | – | – |
| CARRYING VALUES | | | |
| **At 31st December, 2007 and 31st December, 2008** | – | – | – |

Other intangible asset of the Group consists of premium on acquisition of prepaid lease payments which is to be amortised on the same basis as the related prepaid lease payments over 40 years.

In addition, the Group acquired a customer list with indefinite useful life from an independent third party which is stated at cost less accumulated impairment loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 23. INTERESTS IN SUBSIDIARIES

| | The Company | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **160,056** | 160,056 |

Details of the Company's principal subsidiaries at 31st December, 2008 are set out in note 55.

## 24. INTERESTS IN ASSOCIATES/AMOUNT DUE TO AN ASSOCIATE

### Interests in associates

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Cost of unlisted investments in associates | **20,158** | 19,127 |
| Share of post-acquisition profits and reserves, net of dividends received | **46,657** | 42,508 |
| | **66,815** | 61,635 |

In June 2007, the Group disposed of its entire interest in the issued share capital of Bright Able Developments Limited ("Bright Able"), as set out in note 45. The principal asset of which is its interest in 49% equity interests in Loyal Way (China) Group Limited ("Loyal Way").

In November 2007, the Group disposed of its entire interest in the issued share capital of High Praise and Green Island, as set out in notes 15 and 45. The principal assets of which are their interests in 29.4% and 36.75% of Funning Power and Xuzhou Power, respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 24. INTERESTS IN ASSOCIATES/AMOUNT DUE TO AN ASSOCIATE *(Continued)*

The summarised combined financial information in respect of the Group's associates is set out below:–

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Total assets | **1,991,945** | 1,804,464 |
| Total liabilities | **(1,778,891)** | (1,638,067) |
| Net assets | **213,054** | 166,397 |
| Group's share of net assets of associates | **66,815** | 61,635 |
| Revenue | **535,645** | 500,958 |
| (Loss)/profit for the year | **(50,418)** | 17,869 |
| Group's share of results of associates for the year | | |
| – continuing operations | **2,120** | 2,204 |
| – discontinued operations *(note 15(a))* | **–** | 3,523 |
| | **2,120** | 5,727 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 24. INTERESTS IN ASSOCIATES/AMOUNT DUE TO AN ASSOCIATE

*(Continued)*

Details of the Group's principal associate as at 31st December, 2008 are as follows:–

| Name of associate | Place of establishment/ operation | Proportion of ownership interest: Group's effective interest | Held by the Company | Held by a subsidiary | Principal activities |
|---|---|---|---|---|---|
| 重慶綠地東原房地產開發有限公司 | PRC | **30%** | – | 30% | Property development |

### Amount due to an associate

| | **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Amount due to an associate | **34,130** | – |

Amount due to an associate is unsecured, interest-free and repayable on demand.

## 25. INTERESTS IN JOINTLY CONTROLLED ENTITIES/AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY

### Interests in jointly controlled entities

| | The Group **2008 HK$'000** | 2007 HK$'000 |
|---|---|---|
| Cost of unlisted investments in jointly controlled entities | **7,305** | – |
| Share of post-acquisition losses and reserves, net of dividends received | **(5,883)** | – |
| | **1,422** | – |

The Group's jointly controlled entities are indirect equity interest of 35% and 30% in 廣州保利南方文化傳播有限公司 and 深圳市保利劇院演出經營有限公司 respectively. They were acquired through acquisition of Shenzhen Poly as stated in note 44(a).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 25. INTERESTS IN JOINTLY CONTROLLED ENTITIES/AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY *(Continued)*

### Interests in jointly controlled entities *(Continued)*

The summarised combined financial information in respect of the Group's jointly controlled entities is set out below:–

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Total assets | 11,926 | – |
| Total liabilities | (7,404) | – |
| Net assets | 4,522 | – |
| Group's share of net assets of jointly controlled entities | 1,422 | – |
| Revenue | 26,715 | – |
| Loss for the year | (5,254) | – |
| Group's share of results of jointly controlled entities for the year | (5,682) | – |

Details of the Group's jointly controlled entities as at 31st December, 2008 are as follows:–

| | | Proportion of ownership interest | | | |
|---|---|---|---|---|---|
| Name of jointly controlled entity | Place of establishment/ operation | Group's effective interest | Held by the Company | Held by a subsidiary | Principal activities |
| 廣州保利南方文化傳播有限公司 | PRC | 35% | – | 35% | Cultural mass media |
| 深圳市保利劇院演出經營有限公司 | PRC | 30% | – | 30% | Theatre management |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 25. INTERESTS IN JOINTLY CONTROLLED ENTITIES/AMOUNT DUE FROM A JOINTLY CONTROLLED ENTITY *(Continued)*

### Amount due from a jointly controlled entity

| | 2008 | 2007 |
|---|---|---|
| | HK$'000 | HK$'000 |
| Amount due from a jointly controlled entity | 2,275 | – |

Amount due from a jointly controlled entity is unsecured, interest-free and repayable on demand.

## 26. DEPOSITS PAID FOR ACQUISITION OF LAND USE RIGHTS

The deposits were paid by the Group to a PRC government authority and an independent third party in connection with the bidding of two (2007: one) pieces of land and the acquisition of five (2007: one) pieces of land, respectively in the PRC for property development purpose.

## 27. DEPOSIT PAID FOR INVESTMENT IN AN AVAILABLE-FOR-SALE INVESTMENT

At 31st December, 2007, the deposit was paid by the Group to a bank which acted as an agent, in connection with the investment in a private company which was under the process of being established in the PRC. The Group holds 9% of the total paid-up capital of the established company, which engages in the provision of financial management services. The deposit was reclassified to available-for-sale investment during the year ended 31st December, 2008.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 28. PROPERTIES UNDER DEVELOPMENT/PROPERTIES HELD FOR SALE

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Properties under development comprises:– | | |
| Land, construction costs and capitalised expenditures | **10,619,793** | 3,879,423 |
| Interest capitalised | **665,064** | 93,347 |
| | **11,284,857** | 3,972,770 |

The capitalisation rate of borrowings was 7.07% for the year ended 31st December, 2008 (2007: 7.4%).

During the year, interest of HK$470,439,000 (2007: HK$129,203,000) were capitalised in properties under development.

Properties under development under current assets are expected to realise after twelve months from the balance sheet date.

The amount of certain properties held for sale which carried at net realisable value was HK$4,380,000 (2007: Nil), while the remaining balance of HK$505,314,000 (2007: HK$113,608,000) carried at cost.

## 29. OTHER INVENTORIES

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Raw materials | **15,349** | 12,704 |
| Work in progress | **387** | 603 |
| Finished goods | **12,309** | 1,491 |
| | **28,045** | 14,798 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 30. TRADE AND OTHER RECEIVABLES

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Trade receivables | **398,565** | 71,182 |
| Less: Allowance for doubtful debts | **(12,915)** | (7,647) |
| | **385,650** | 63,535 |
| Other receivables (net of allowance of HK$38,242,000 (2007: HK$36,164,000)) | **220,274** | 123,315 |
| Total trade and other receivables | **605,924** | 186,850 |

The credit terms in connection with sales of properties granted to the customers are set out in the sale and purchase agreements and vary from agreements. There is no concentration of credit risk with respect to trade receivables arise from sales of properties as the Group has numerous customers. In respect of sales of goods granted to trade customers, the Group allows an average credit period of 30 to 90 days. The following is an aged analysis of trade receivables net of allowance for doubtful debts at the balance sheet date:–

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 0 to 30 days | **333,241** | 48,445 |
| 31 to 90 days | **19,034** | 10,805 |
| More than 90 days | **33,375** | 4,285 |
| | **385,650** | 63,535 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

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

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of HK$33,375,000 (2007: HK$4,285,000) which are past due at the balance sheet date for which the Group has not provided for impairment loss. The Group does not hold any collateral over these balances. The balance arises from sales of properties and sales of goods of HK$31,006,000 (2007: Nil) and HK$2,369,000 (2007: HK$4,285,000) respectively. Based on past experience, the directors consider that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered to be fully recoverable.

### Aging of trade receivables which are past due but not impaired

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| 91-365 days | **33,375** | 4,285 |

### Movement in the allowance for doubtful debts of trade receivables

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Balance at beginning of the year | **7,647** | 6,374 |
| Exchange adjustments | **659** | 463 |
| Impairment losses recognised on receivables | **4,609** | 2,936 |
| Amounts recovered during the year | **–** | (2,126) |
| Balance at end of the year | **12,915** | 7,647 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 31. SHORT-TERM LOAN RECEIVABLES

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Loan to New City *(note a)* | **15,703** | 15,703 |
| Loan to Tong Sun *(note a)* | **165,000** | 165,000 |
| Other loans *(note b)* | **35,745** | 37,967 |
| Loan to Reserve Centre of Land and Mineral Resources of Guiyang *(note c)* | **91,013** | – |
| | **307,461** | 218,670 |
| Less: Impairment losses recognised | **(211,448)** | (210,489) |
| | **96,013** | 8,181 |

Movement in the allowance of short-term loan receivables

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Balance at beginning of the year | **210,489** | 29,786 |
| Impairment losses recognised on receivables *(note b)* | **5,959** | 180,703 |
| Reversal of impairment losses previously recognised *(note b)* | **(5,000)** | – |
| Balance at the end of the year | **211,448** | 210,489 |

*Notes:–*

(a) The Group owns a 49% equity interest in Tong Sun of US$49 (approximately HK$382). The short-term loan receivables represent shareholders' loan to Tong Sun of HK$165,000,000 (2007: HK$165,000,000), net of allowance of HK$165,000,000 (2007: HK$165,000,0000), and a loan to New City of HK$15,703,000 (2007: HK$15,703,000), net of allowance of HK$15,703,000 (2007: HK$15,703,000). New City and its subsidiaries are collectively referred to as the "New City Group", which held 51% equity interest in Tong Sun. In previous years, the New City Group has invested in a property development project, China Securities Plaza in Beijing, the PRC (the "Project"). Tong Sun is a company incorporated in Samoa which holds 66% of the registered capital of Beijing Zhong Zheng Real Estate Development Co. Ltd. 北京中証房地產開發有限公司 ("Beijing Zhong Zheng"), a sino-foreign co-operative joint venture established in the PRC for the development of the Project.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 31. SHORT-TERM LOAN RECEIVABLES *(Continued)*

*Notes:– (Continued)*

(a) *(Continued)*

In accordance with an agreement dated 8th May, 2004 (the "Agreement"), the Group subscribed for 49 new ordinary shares (which were subsequently reclassified as "Class A Ordinary Shares" for which the Group is entitled to receive a preferred dividend distribution) in Tong Sun at a subscription price of US$49 and would advance an interest-free shareholders loan of HK$165,000,000 to Tong Sun to finance exclusively the working capital of the Project.

In addition, the Group advanced a loan to New City ("New City loan"), which bears interest at 6% per annum in accordance with the Agreement. The shareholder's loan and New City loan are secured by shares in New City.

In accordance with the terms of the shareholders' agreement of Tong Sun, the dividend policy of Tong Sun is to distribute at the end of each financial year a cash dividend equivalent to the total amount of surplus/profits of that financial year available for distribution to its shareholders in accordance with the applicable laws of Samoa. Out of such distributable dividends, the Group will be entitled to receive a preferred dividend distribution of up to HK$94,600,000 (together with the repayment of the shareholders loan and the New City loan (and interest accrued thereon)) in priority to the dividend payment to the New City Group of up to HK$136,000,000. In addition, the loan advanced by the New City Group in the sum of approximately HK$184,000,000 ("New City Group loan") will only be repaid to the New City Group after the full repayment and payment of the shareholders loan and the New City loan (and all interest accrued thereon) and the payment of the said distribution of HK$94,600,000 to the Group.

After the payment in full of the said preferred dividend payments and the repayment of the shareholder's loan, the New City loan (and all interest accrued thereon) to the Group and the repayment of the New City Group loan to the New City Group, any further distribution by Tong Sun will be distributed and paid to the Group and the New City Group in the proportion of 25% and 75%, respectively.

In accordance with the relevant transitional provision in HKAS 39, the Group measured the interest-free non-current loan to Tong Sun of HK$165,000,000 initially at fair value. For the year ended 31st December 2006, the loan to Tung Sun was discounted at an effective rate of 6% up to 30th June, 2006.

Since Beijing Zhong Zheng has difficulty to realise its asset, it has financial difficulty to repay loan to Tong Sun. In turn, Tong Sun has also financial difficulty to repay loan to the Group and New City. In the opinion of the directors of the Company, Tong Sun and New City have liquidity problem to repay the loans to the Group. Accordingly, the Group has made full impairment losses on the shareholders' loan to Tong Sun of HK$165,000,000 and the loan to New City of HK$15,703,000 during the year ended 31st December, 2007.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 31. SHORT-TERM LOAN RECEIVABLES *(Continued)*

*Notes:– (Continued)*

(b) The other loans carry interest at 12% (2007: 12%) per annum and repayable on demand. Included in other loans of HK$35,745,000 as at 31st December, 2008 is an amount of HK$8,181,000 brought forward from 31st December, 2007 of which an amount of HK$2,222,000 was received during the year ended 31st December, 2008. The directors considered that the remaining balance of HK$5,959,000 was unable to be collected and made an impairment loss of HK$5,959,000 during the year ended 31st December, 2008. In addition, during the year ended 31st December, 2008, the Group further negotiated and agreed with the borrower regarding the repayment schedule of the other loan of HK$5,000,000, which was impaired in previous years, and thus the directors considered to make an reversal of impairment losses of HK$5,000,000 during the year ended 31st December, 2008.

(c) The amount was advanced to a government authority, the Reserve Centre of Land and Mineral Resources of Guiyang, for the development of infrastructure of a piece of land located at Xiaogulong of Wudang District, Guiyang City, Guizhou Province, the PRC (中國貴州省貴陽市烏當區小谷龍). The amount is unsecured, interest-bearing at benchmark rate of the People's Bank of China and expected to be repayable within one year.

## 32. AVAILABLE-FOR-SALE INVESTMENTS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Listed investments:– | | | | |
| – Interests in equity securities listed in Hong Kong *(note a)* | **82,222** | 429,185 | **–** | – |
| Unlisted securities:– | | | | |
| – Equity securities *(note b)* | **33,625** | 1,067 | **32,487** | – |
| | **115,847** | 430,252 | **32,487** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 32. AVAILABLE-FOR-SALE INVESTMENTS *(Continued)*

*Notes:–*

(a) The interests in listed equity securities represent the share consideration received and receivable on the disposal of the Energy Group as set out in notes 15 and 45 and are measured at fair value at each balance sheet date. The fair values of the listed equity securities at the completion date of the disposal on 12th November, 2007 and at 31st December, 2007 and at 31st December 2008, were HK$452,436,000, HK$429,185,000 and HK$82,222,000 respectively.

Since part of the share consideration has not yet been received and those shares received have a lock up period, the market values of the shares at 12th November, 2007 and 31st December, 2007 were adjusted by a discount for the restriction. The discount is arrived at based on fair value of put option derived from Black-Scholes Option Pricing Method calculated by RHL Appraisal Ltd, an independent professional valuers not connected with the Group. RHL Appraisal Ltd is a member of the Hong Kong Institute of Surveyors, and have appropriate qualifications. The inputs into the model were as follows:–

| | 12.11.2007 | 31.12.2007 |
|---|---|---|
| Stock price as at valuation date | 4.1 | 3.74 |
| Strike price | 4.1 | 3.74 |
| Expected volatility | 66.03% | 63.94% |
| Risk free rate | 1.11% | 2.11% |
| Fair value per option | HK$0.74 | HK$0.56 |
| Fair value per share | HK$3.36 | HK$3.32 |
| Discount factor | 18.13% | 14.86% |

As the related shares are newly listed in Hong Kong, the volatility is derived by using the historical volatility for the past 6 months of four comparable listed companies.

The change in fair value of HK$346,963,000 (2007: HK$23,251,000) of which the amount of HK$205,526,000 (2007: HK$23,251,000) was debited to investment revaluation reserve and impairment loss of HK$141,437,000 (2007: Nil) was recognised in the income statement for the year ended 31st December, 2008.

(b) The unlisted equity securities represent investments in unlisted equity securities in the PRC and are measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 33. HELD-FOR-TRADING INVESTMENTS

The amounts represent investments in equity securities listed in Hong Kong. The fair values of these securities are based on bid market prices quoted on the Stock Exchange.

## 34. DEPOSIT PAID FOR ACQUISITION OF A PROPERTY DEVELOPMENT PROJECT

At 31st December, 2008, the amount represented deposit paid by the Group in connection with the acquisition of a property development project in the PRC. The property development project was at a preliminary stage whereas certain preliminary construction work started. The related capital commitments were set out in note 48. Such amount will be transferred to properties under development upon the completion of acquisition.

## 35. AMOUNT(S) DUE FROM (TO) FELLOW SUBSIDIARIES/MINORITY SHAREHOLDERS OF SUBSIDIARIES/ULTIMATE HOLDING COMPANY/ INTERMEDIATE HOLDING COMPANY/SUBSIDIARIES/RELATED COMPANY

### (a) Amount(s) due from (to) fellow subsidiaries/ultimate holding company/ intermediate holding company

**THE GROUP**

The amounts due from (to) fellow subsidiaries are unsecured, interest-free and repayable on demand except for an amount of HK$29,238,000 due to a fellow subsidiary, which carries interest at 90% of benchmark rate (2007: The amounts due from (to) fellow subsidiaries are unsecured, interest-free and repayable on demand).

The amount due to an intermediate holding company is unsecured, interest-free and repayable on demand except for an amount HK$1,468,225,000 which carries interest at benchmark rate plus 1% and repayable within one year (2007: HK$313,034,000 carried interest at a fixed rate of 5.5% and the remaining balance of HK$19,228,000 carried interest at benchmark rate plus 1%).

The amount due to ultimate holding company is unsecured, interest-free and repayable on demand except for an amount of HK$648,464,000 and HK$108,441,000 (2007: HK$710,809,000 and Nil), which carries interest at benchmark rate plus 1% and repayable within one year and repayable on demand respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 35. AMOUNT(S) DUE FROM (TO) FELLOW SUBSIDIARIES/MINORITY SHAREHOLDERS OF SUBSIDIARIES/ULTIMATE HOLDING COMPANY/INTERMEDIATE HOLDING COMPANY/SUBSIDIARIES/RELATED COMPANY *(Continued)*

### (b) Amount due from a related company

**THE GROUP**

The amount due from a related company is unsecured, interest-free and repayable on demand.

### (c) Amounts due from (to) minority shareholders of subsidiaries

**THE GROUP**

The amounts due from minority shareholders of subsidiaries are unsecured, interest-free and repayable on demand.

The amounts due to minority shareholders of subsidiaries are unsecured, interest-free and repayable on demand except for the amounts of HK$69,055,000, HK$128,060,000 and HK$447,937,000, which carry interest at fixed rate of 6.85%, variable rates of benchmark rate plus 1% and benchmark rate plus 1.5% respectively (2007: The amounts due to minority shareholders of subsidiaries are unsecured, interest-free and repayable on demand).

### (d) Amounts due from (to) subsidiaries

**THE COMPANY**

The amounts due from (to) subsidiaries are unsecured, interest-free and repayable on demand.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 36. PLEDGED BANK DEPOSITS AND BANK BALANCES, DEPOSITS AND CASH

**THE GROUP**

Pledged bank deposits represents deposits pledged to banks to secure general banking facilities granted to the Group. Deposits amounting to HK$51,491,000 (2007: HK$6,679,000) have been pledged to secure general banking facilities and are classified as current assets.

Bank balances include HK$312,800,000 (2007: HK$760,758,000) which carry interest at fixed rates ranging from 1.18% to 4.5% (2007: 2.25% to 6.25%) and HK$2,796,789,000 (2007: HK$1,061,902,000) which carry interest at variable rates ranging from 0.36% to 1.68% (2007: 2% to 6%).

The pledged bank deposits carry interest at variable rates ranging from 0.36% to 0.72% (2007: at a fixed rate of 0.72%). The pledged bank deposits will be released upon settlement of relevant bank borrowings.

**THE COMPANY**

Bank balances carry interest at market rates ranging from 0.36% to 2.96% (2007: 2% to 4%).

## 37. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade and other payables at the balance sheet date:–

| | **The Group** | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| 0 to 30 days | **937,051** | 609,237 |
| 31 to 90 days | **11,829** | 6,780 |
| More than 90 days | **73,772** | 61,292 |
| Total trade payables | **1,022,652** | 677,309 |
| Bills payable, aged within 90 days | **–** | 1,068 |
| Other payables | **603,171** | 349,142 |
| | **1,625,823** | 1,027,519 |

The average credit period is 90 days. The Group has financial risk management policies in place to ensure that all payable is within the credit time frame.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 38. BANK BORROWINGS

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Bank loans | | | | |
| – secured *(note 50)* | **6,547,891** | 1,488,239 | **700,000** | 150,000 |
| – unsecured | **250,285** | – | **–** | – |
| | **6,798,176** | 1,488,239 | **700,000** | 150,000 |

The bank loans are repayable as follows:–

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| On demand or within one year | **1,552,831** | 307,260 | **250,000** | 100,000 |
| In more than one year, but not more than two years | **2,381,565** | 127,755 | **300,000** | 50,000 |
| In more than two years, but not more than three years | **2,407,586** | 932,721 | **150,000** | – |
| In more than three years, but not more than four years | **144,090** | 3,524 | **–** | – |
| In more than four years, but not more than five years | **171,682** | 3,842 | **–** | – |
| In more than five years | **140,422** | 113,137 | **–** | – |
| | **6,798,176** | 1,488,239 | **700,000** | 150,000 |
| Less: Amount due within one year shown under current liabilities | **(1,552,831)** | (307,260) | **(250,000)** | (100,000) |
| Amount due after one year | **5,245,345** | 1,180,979 | **450,000** | 50,000 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 38. BANK BORROWINGS *(Continued)*

The Group's bank loans include HK$204,778,000 and HK$193,402,000 fixed-rate borrowings which carry interest at 8.694% per annum and 5.4% per annum respectively (2007: HK$106,838,000 fixed-rate borrowings which carry interest at 7.6% per annum). The Group's bank loans also include HK$700,000,000 (2007: HK$150,000,000) and HK$5,699,996,000 (2007: HK$1,231,401,000) variable-rate borrowings which carry interest at HIBOR plus 1.2% to HIBOR plus 1.25% and ranging from 90% of benchmark rate to 115% of benchmark rate respectively (2007: HIBOR plus 1.25% and ranging from 90% of benchmark rate to 110% of benchmark rate respectively).

As at the balance sheet date, the Group has the following undrawn borrowing facilities:–

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Variable rate | | |
| – expiring beyond one year | **1,226,962** | 915,385 |

During the year, the Group obtained new loans in the amount of HK$4,310,978,000 (2007: HK$1,958,919,000). The loans bear interest at market rates and will be repayable varying from 2009 to 2013. The proceeds were used to finance property development.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 38. BANK BORROWINGS *(Continued)*

The Group's certain banking facilities of HK$900,000,000, of which the outstanding balances as at 31st December, 2008 were HK$700,000,000, are subject to the fulfillment of convenants relating to the following ratios and conditions, which are commonly found in lending arrangements with financial institutions:–

(a) the consolidated tangible net worth shall not be at any time be less than a range from HK$2,000 million to HK$2,800 million;

(b) the gearing ratio (the consolidated net total liabilities to consolidated tangible net worth) shall not at any time exceed the ratio of a range from 0.65:1.0 to 1.1:1.0;

(c) the ratio of secured debts to consolidated tangible net worth shall not at any time exceed the ratio of 0.4:1;

(d) the interest coverage ratio shall not be less than a range from 1.5 to 2.0; and

(e) maintain the listing status of the Company on the Stock Exchange.

The banks have granted the Group a wavier for a period up to 30th June, 2009 for the non-compliance of the above conditions set out in (b), (c) and (d) on 23rd December, 2008 and 29th December, 2008.

If the Group were to beach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 7.

At 31st December, 2008 and 31st December, 2007, none of the above covenants except for those conditions have been waived relating to drawn down facilities had been beached.

The Company's variable rate borrowings carry interest at HIBOR plus 1.2% to HIBOR plus 1.25% (2007: HIBOR plus 1.25%).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 39. SHARE CAPITAL

| | Number of ordinary shares | Amount |
|---|---|---|
| | | HK$'000 |
| Ordinary share of HK$0.50 each | | |
| Authorised:– | | |
| At 1st January, 2007 | 2,000,000,000 | 1,000,000 |
| Increase on 10th December, 2007 *(note a)* | 2,000,000,000 | 1,000,000 |
| **At 31st December, 2007 and 31st December, 2008** | **4,000,000,000** | **2,000,000** |
| Issued and fully paid:– | | |
| At 1st January, 2007 | 1,345,843,800 | 672,922 |
| Exercise of share options *(note b)* | 33,915,000 | 16,957 |
| Subscription of shares *(note c)* | 269,000,000 | 134,500 |
| At 31st December, 2007 and 1st January, 2008 | 1,648,758,800 | 824,379 |
| Exercise of share options *(note b)* | 8,500,000 | 4,250 |
| Issue of shares *(note d)* | 253,788,246 | 126,895 |
| **At 31st December, 2008** | **1,911,047,046** | **955,524** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 39. SHARE CAPITAL *(Continued)*

During the two years ended 31st December, 2008, the following changes in the share capital of the Company took place:–

(a) On 10th December, 2007, the authorised share capital of the Company was increased from HK$1,000,000,000 divided into 2,000,000,000 ordinary shares of HK$0.5 each to HK$2,000,000,000 by the creation of 2,000,000,000 new shares of HK$0.5 each.

(b) 8,500,000 (2007: 33,915,000) share options were exercised by the eligible option holders, resulting in the issue of 8,500,000 (2007: 33,915,000) ordinary shares of HK$0.5 each in the Company at a total consideration of HK$11,645,000 (2007: HK$43,649,000).

(c) On 13th April, 2007, the Company issued 269,000,000 shares of HK$0.5 each of the Company at a subscription price of HK$1.7 each to Rich Champ Investments Ltd., a company beneficially owned by Mr. Yung Chi Kin, an independent third party. The Company received HK$457,300,000 in relation to the share subscription.

(d) On 30th April, 2008, the Company alloted 253,788,246 shares of HK$0.5 each of the Company at HK$4.8 each, representing the market price of the share at the date of completion, for the acquisition of Shenzhen Poly *(note 44(a))*.

The shares issued during the year rank pari passu in all respects with the then existing shares.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 40. SHARE OPTION SCHEMES

Details of the equity-settled share option schemes adopted by the Company are as follows:–

### (a) Poly HK Old Scheme

The Poly HK Old Scheme was adopted on 16th June, 1993 for the primary purpose of providing incentives to directors and eligible employees and terminated on 28th May, 2003. Under the Poly HK Old Scheme, the Company could grant options to the directors and the employees of the Company or its subsidiaries to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted. Options proposed to be granted had to be accepted within 30 days from the date of offer. The granted options are exercisable during the period commencing on the date one year after the date of grant and expiring on the date ten years after the date of grant.

The exercise price was determined by the directors of the Company, and shall not be less than the higher of the nominal value of the Company's shares on the date of grant, and 80% of the average closing price of the shares for the five business days immediately preceding the date of offer.

Upon termination of the Poly HK Old Scheme, no further options may be offered thereunder. However, in respect of the outstanding options, the provisions of the Poly HK Old Scheme shall remain in force. The outstanding options granted under the Poly HK Old Scheme shall continue to be subject to the provisions of the Poly HK Old Scheme.

At 31st December, 2008, the number of shares in respect of which options had been granted under the Poly HK Old Scheme and remained outstanding was approximately 0.4% (2007: 1%) of the shares of the Company in issue at that date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 40. SHARE OPTION SCHEMES *(Continued)*

### (a) Poly HK Old Scheme *(Continued)*

The following table discloses details of the Company's options under the Poly HK Old-scheme held by employees (including directors) and movement in such holdings during each of the two years ended 31st December, 2008:–

| | Date of grant | Exercise price per share HK$ | Exercisable period | Outstanding at 1.1.2007 | Exercised during the year | Lapsed during the year | Outstanding at 1.1.2008 | Exercised during the year | Outstanding at 31.12.2008 |
|---|---|---|---|---|---|---|---|---|---|
| Category 1: Directors | | | | | | | | | |
| He Ping | 3.9.1997 | 5.175 | 3.9.1998 – 2.9.2007 | 6,000,000 | – | (6,000,000) | – | – | – |
| | 5.6.1998 | 1.370 | 5.6.1999 – 4.6.2008 | 4,500,000 | – | – | 4,500,000 | (4,500,000) | – |
| | 30.11.2000 | 0.740 | 30.11.2001 – 29.11.2010 | 5,000,000 | – | – | 5,000,000 | – | 5,000,000 |
| Wang Jun *(note i)* | 3.9.1997 | 5.175 | 3.9.1998 – 2.9.2007 | 6,000,000 | – | (6,000,000) | – | – | – |
| | 5.6.1998 | 1.370 | 5.6.1999 – 4.6.2008 | 4,500,000 | (4,500,000) | – | – | – | – |
| | 30.11.2000 | 0.740 | 30.11.2001 – 29.11.2010 | 5,000,000 | (5,000,000) | – | – | – | – |
| Li Shi Liang *(note ii)* | 30.11.2000 | 0.740 | 30.11.2001 – 29.11.2010 | 5,000,000 | – | (5,000,000) | – | – | – |
| Zhang Zhen Gao *(note iii)* | 3.9.1997 | 5.175 | 3.9.1998 – 2.9.2007 | 3,600,000 | – | (3,600,000) | – | – | – |
| | 5.6.1998 | 1.370 | 5.6.1999 – 4.6.2008 | 2,000,000 | – | – | 2,000,000 | (2,000,000) | – |
| | | | | 41,600,000 | (9,500,000) | (20,600,000) | 11,500,000 | (6,500,000) | 5,000,000 |
| Category 2: Employees | 3.9.1997 | 5.175 | 3.9.1998 – 2.9.2007 | 4,680,000 | (720,000) | (3,960,000) | – | – | – |
| | 5.6.1998 | 1.370 | 5.6.1999 – 4.6.2008 | 2,000,000 | – | – | 2,000,000 | (2,000,000) | – |
| | 30.11.2000 | 0.740 | 30.11.2001 – 29.11.2010 | 3,065,000 | (65,000) | – | 3,000,000 | – | 3,000,000 |
| | | | | 9,745,000 | (785,000) | (3,960,000) | 5,000,000 | (2,000,000) | 3,000,000 |
| Total all categories | | | | 51,345,000 | (10,285,000) | (24,560,000) | 16,500,000 | (8,500,000) | 8,000,000 |

*Notes:–*

(i) Mr. Wang Jun resigned as director of the Company with effect from 16th October, 2007.

(ii) Mr. Li Shi Liang deceased on 5th July, 2006 and the share options granted to him was lapsed with effect from 27th February, 2007.

(iii) Mr. Zhang Zhen Gao resigned as director of the Company with effect from 16th October, 2007.

(iv) The options granted on 3rd September, 1997 and remained unexercised were lapsed on 3rd September, 2007.

(v) All options granted on 5th June, 1998 were exercised or cancelled before the lapse date of 5th June, 2008.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 40. SHARE OPTION SCHEMES *(Continued)*

### (a) Poly HK Old Scheme *(Continued)*

The share options under the Poly HK Old Scheme were vested at the grant date.

In respect of the share options exercised during the year, the weighted average closing price of the shares immediately before the dates of exercise was HK$4.63 (2007: HK$6.46).

The closing price of the Company's shares immediately before the dates in which the options were exercised ranged from HK$4.51 to HK$4.82 for the year ended 31st December, 2008 (2007: ranged from HK$5.20 to HK$11.24).

### (b) Poly HK New Scheme

As approved by the shareholders of the Company at the annual general meeting held on 28th May, 2003, the Company has terminated the Poly HK Old Scheme and adopted the Poly HK New Scheme, which is in accordance with the revised Chapter 17 of the Listing Rules effective on 1st September, 2001.

The purpose of the Poly HK New Scheme is to provide incentives to eligible participants, and will expire on 27th May, 2013. According to the Poly HK New Scheme, the Board of Directors of the Company may grant options to (i) any director and employee of the Company or subsidiaries, or an entity in which the Group holds an interest ("Affiliate"); (ii) any customer, supplier, agent, partner, consultant, adviser or shareholder of or contractor to the Group or an Affiliate; (iii) the trustee of any trust the beneficiary of which or any discretionary trust the discretionary objects of which include any director, employee, customer, supplier, agent, partner, consultant, adviser or shareholder of or contractor to the Group or an Affiliate; or (iv) a company beneficially owned by any director, employee, consultant, customer, supplier, agent, partner, shareholder, adviser of or contractor to the Group or an Affiliate to subscribe for shares in the Company for a consideration of HK$1 for each lot of share options granted.

Share option granted should be accepted within 28 days from the date of grant. The Board of Directors may at its absolute discretion determine the period during which a share option may be exercised, such period should expire no later than 10 years from the date of grant of the relevant option. The Board of Directors may also provide restrictions on the exercise of a share option during the period a share option may be exercised.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 40. SHARE OPTION SCHEMES *(Continued)*

### (b) Poly HK New Scheme *(Continued)*

The exercise price is determined by the Board of Directors of the Company, and shall not be less than the highest of: (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the Company's shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the share.

The maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Poly HK New Scheme and any other share option schemes of the Company shall not, in aggregate, exceed 30% of the total number of shares in issue.

The total number of shares issued and to be issued upon exercise of the options granted to each individual under the Poly HK New Scheme and any other share option schemes of the Company (including both exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue.

Pursuant to a resolution passed at the annual general meeting of the Company held on 29th May, 2008, a refreshment of the Poly HK New Scheme mandate was approved. The total number of shares to be allotted and issued pursuant to the grant or exercise of the options under the Poly HK New Scheme shall not exceed 10% of the total number of shares in issue as at 29th May, 2008.

At 31st December, 2008 the number of shares in respect of which options had been granted under the Poly HK New Scheme and remained outstanding was approximately 2.8% (2007: 1%) of the Company in issue at that date.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 40. SHARE OPTION SCHEMES *(Continued)*

### (b) Poly HK New Scheme *(Continued)*

The following table discloses details of the Company's options under the Poly HK New Scheme held by employees (including directors) and movement in such holdings during each of the two years ended 31st December, 2008:–

| | Date of grant | Exercise price per share HK$ | Exercisable period | Outstanding at 1.1.2007 | Exercised during the year | Outstanding at 1.1.2008 | Granted during the year | Outstanding at 31.12.2008 |
|---|---|---|---|---|---|---|---|---|
| Category 1: Directors | | | | | | | | |
| He Ping | 14.7.2005 | 1.270 | 14.7.2005 – 13.7.2015 | 8,900,000 | – | 8,900,000 | – | 8,900,000 |
| | 29.4.2008 | 4.790 | 29.4.2008 – 28.4.2013 | – | – | – | 4,500,000 | 4,500,000 |
| Wang Jun *(note i)* | 14.7.2005 | 1.270 | 14.7.2005 – 13.7.2015 | 8,900,000 | (8,900,000) | – | – | – |
| Li Shi Liang *(note ii)* | 14.7.2005 | 1.270 | 14.7.2005 – 13.7.2015 | 8,000,000 | (8,000,000) | – | – | – |
| Chen Hong Sheng | 14.7.2005 | 1.270 | 14.7.2005 – 13.7.2015 | 8,000,000 | – | 8,000,000 | – | 8,000,000 |
| | 29.4.2008 | 4.790 | 29.4.2008 – 28.4.2013 | – | – | – | 3,500,000 | 3,500,000 |
| Wang Xu *(note iii)* | 29.4.2008 | 4.790 | 29.4.2009 – 28.4.2013 | – | – | – | 3,000,000 | 3,000,000 |
| Xue Ming *(note iii)* | 29.4.2008 | 4.790 | 29.4.2009 – 28.4.2013 | – | – | – | 2,650,000 | 2,650,000 |
| Han Qing Tao *(note iii)* | 29.4.2008 | 4.790 | 29.4.2009 – 28.4.2013 | – | – | – | 1,600,000 | 1,600,000 |
| Ye Li Wen | 14.7.2005 | 1.270 | 14.7.2005 – 13.7.2015 | 900,000 | (900,000) | – | – | – |
| | 29.4.2008 | 4.790 | 29.4.2008 – 28.4.2013 | – | – | – | 1,600,000 | 1,600,000 |
| Chan Tak Chi, William | 14.7.2005 | 1.270 | 14.7.2005 – 13.7.2015 | 300,000 | (300,000) | – | – | – |
| | 29.4.2008 | 4.790 | 29.4.2008 – 28.4.2013 | – | – | – | 300,000 | 300,000 |
| Ip Chun Chung, Robert | 14.7.2005 | 1.270 | 14.7.2005 – 13.7.2015 | 300,000 | (300,000) | – | – | – |
| | 29.4.2008 | 4.790 | 29.4.2008 – 28.4.2013 | – | – | – | 300,000 | 300,000 |
| Yao Kang, *J.P.* | 14.7.2005 | 1.270 | 14.7.2005 – 13.7.2015 | 500,000 | (500,000) | – | – | – |
| | 29.4.2008 | 4.790 | 29.4.2008 – 28.4.2013 | – | – | – | 500,000 | 500,000 |
| Lam Tak Shing, Harry | 14.7.2005 | 1.270 | 14.7.2005 – 13.7.2015 | 300,000 | (300,000) | – | – | – |
| | 29.4.2008 | 4.790 | 29.4.2008 – 28.4.2013 | – | – | – | 300,000 | 300,000 |
| Choy Shu Kwan | 14.7.2005 | 1.270 | 14.7.2005 – 13.7.2015 | 300,000 | – | 300,000 | – | 300,000 |
| | 29.4.2008 | 4.790 | 29.4.2008 – 28.4.2013 | – | – | – | 300,000 | 300,000 |
| | | | | 36,400,000 | (19,200,000) | 17,200,000 | 18,550,000 | 35,750,000 |
| Category 2: Employees | 14.7.2005 | 1.270 | 14.7.2005 – 13.7.2015 | 4,430,000 | (4,430,000) | – | – | – |
| | 29.4.2008 | 4.790 | 29.4.2008 – 28.4.2013 | – | – | – | 3,500,000 | 3,500,000 |
| | 29.4.2008 | 4.790 | 29.4.2009 – 28.4.2013 | – | – | – | 14,750,000 | 14,750,000 |
| Total all categories | | | | 40,830,000 | (23,630,000) | 17,200,000 | 36,800,000 | 54,000,000 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 40. SHARE OPTION SCHEMES *(Continued)*

### (b) Poly HK New Scheme *(Continued)*

*Notes:–*

(i) Mr. Wang Jun resigned as director of the Company with effect from 16th October, 2007.

(ii) Mr. Li Shi Liang deceased on 5th July, 2006. Share options were exercised by his wife in 2007.

(iii) Messrs Wang Xu, Xue Ming and Han Qing Tao were appointed as directors of the Company with effect from 16th October, 2007.

The share options under the Poly HK New Scheme granted during the year vested at the grant date for those directors or employees who have completed 4 years of services with the Company. For those directors or employees who have not completed 4 years of services with the Company, the share options granted will become exercisable on the date upon which the directors or employees have completed four years of services with the Company or on the date one year after the date on which the share options are issued, whichever is earlier.

The closing price of the Company's shares immediately before 29th April, 2008, being the grant date of the share options, during the year was HK$4.80.

During the year ended 31st December, 2008, 36,800,000 options were granted on 29th April, 2008. The estimated fair values of the options granted at the grant date are at an average of approximately HK$1.0765.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 40. SHARE OPTION SCHEMES *(Continued)*

### (b) Poly HK New Scheme *(Continued)*

These fair values were calculated using the binomial model. The inputs into the model were as follows:–

| | **29.4.2008** |
|---|---|
| Closing share price at the date of grant | 4.77 |
| Exercise price | 4.79 |
| Expected volatility *(note i)* | 42.69% |
| Expected life *(note ii)* | 1 – 5 years |
| Risk-free rate *(note iii)* | 1.28% – 2.427% |

*Notes:–*

(i) Expected volatility was determined by using the historical volatility of closing prices of the Company's share in the past one month preceding the date of valuation are adopted.

(ii) The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

(iii) The risk-free rate was based on the yield of Exchange Fund Notes.

For the year ended 31st December, 2008, total equity-settled share-based payment expenses recognised was as follows:–

| | HK$'000 |
|---|---|
| Total equity-settled share-based payment expenses | 39,614 |
| Amortisation for the year | (32,554) |
| At 31st December, 2008 | 7,060 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 41. RESERVES

| | Share premium HK$'000 | Share option reserve HK$'000 | Capital redemption reserve HK$'000 | Accumulated profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **THE COMPANY** | | | | | |
| At 1st January, 2007 | 1,947,525 | 7,523 | 23,917 | 87,251 | 2,066,216 |
| Premium arising on share issue | 322,800 | – | – | – | 322,800 |
| Exercise of share options | 30,875 | (4,183) | – | – | 26,692 |
| Share issue expenses | (6,999) | – | – | – | (6,999) |
| Profit for the year | – | – | – | 153,146 | 153,146 |
| Dividends paid *(note 16)* | – | – | – | (32,473) | (32,473) |
| At 31st December, 2007 and 1st January, 2008 | 2,294,201 | 3,340 | 23,917 | 207,924 | 2,529,382 |
| Premium arising on share issue | 1,091,289 | – | – | – | 1,091,289 |
| Recognition of equity-settled share-based payment expenses | – | 32,554 | – | – | 32,554 |
| Exercise of share options | 7,395 | – | – | – | 7,395 |
| Share issue expenses | (41) | – | – | – | (41) |
| Profit for the year | – | – | – | 4,228 | 4,228 |
| Dividends paid *(note 16)* | – | – | – | (95,553) | (95,553) |
| **At 31st December, 2008** | **3,392,844** | **35,894** | **23,917** | **116,599** | **3,569,254** |

*Notes:*

(a) As at 31st December 2008, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to HK$116,599,000 (2007: HK$207,924,000).

(b) Profit attributable to shareholders of the Company includes a profit of HK$4,228,000 (2007: HK$153,146,000) which has been dealt with in the financial statements of the Company.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 42. LOAN FROM A FELLOW SUBSIDIARY

The amount represents loan from a subsidiary of the ultimate holding company. The amount is unsecured, interest-free and repayable upon expiration of the joint venture term of Poly Plaza Limited ("PPL"), a subsidiary of the Company.

The fair value of the loan at initial recognition has been determined based on the present value of the estimated future cash flows discounted using the prevailing market rate of 6% on the date the loan was granted. The loan is then carried at amortised cost in subsequent periods of effective interest rate of 6%.

## 43. ACQUISITION OF ADDITIONAL INTEREST IN SUBSIDIARIES

(a) In March 2007, the Group acquired the remaining interest of 20% in 蘇州保利櫻花置業有限公司 at a consideration of RMB3,000,000 (equivalent to HK$3,205,000). The amount of discount arising as a result of the acquisition is HK$1,869,000 and has been credited to the consolidated income statement.

(b) In December 2007, the Group acquired the remaining interest of 10% in 上海保利佳房產有限公司 at a consideration of RMB3,000,000 (equivalent to HK$3,205,000). The amount of goodwill arising as a result of the acquisition is HK$183,000 and is fully impaired and charged to the consolidated income statement during the year.

## 44. ACQUISITION OF SUBSIDIARIES

(a) On 30th April, 2008, the Group completed the acquisition of the entire interest in Shenzhen Poly with Poly Southern (a wholly-owned subsidiary of China Poly Group Corporation, the ultimate holding company of the Company) at a total consideration which was determined at after arm's length negotiations. The consideration was satisfied by issuing 253,788,246 shares of the Company to Poly Southern or its nominees at HK$4.8 per share, representing the market price of the share at the date of completion. Details of the acquisition were set out in a circular of the Company dated 24th November, 2007. The acquisition was approved by the shareholders of the Company in the extraordinary general meeting held on 10th December, 2007.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 44. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) *(Continued)*

The net assets acquired in above acquisition are as follows:–

| | **Shenzhen Poly's carrying amount before combination** HK$'000 | **Fair value adjustments** HK$'000 | **2008** HK$'000 |
|---|---|---|---|
| Net assets acquired:– | | | |
| Investment properties | 1,148,452 | 104,469 | 1,252,921 |
| Property, plant and equipment | 54,077 | 11,676 | 65,753 |
| Interests in jointly controlled entities | 1,222 | – | 1,222 |
| Deposits paid for acquisition of land use rights | 662,679 | – | 662,679 |
| Deferred tax assets | 69,816 | – | 69,816 |
| Properties under development | 4,352,110 | 601,962 | 4,954,072 |
| Properties held for sale | 81,271 | 29,606 | 110,877 |
| Other inventories | 3,871 | – | 3,871 |
| Short term loan receivables | 56,180 | – | 56,180 |
| Trade and other receivables | 115,045 | – | 115,045 |
| Amounts due from fellow subsidiaries | 86,849 | – | 86,849 |
| Amount due from a jointly controlled entity | 4,116 | – | 4,116 |
| Amounts due from minority shareholders of subsidiaries | 32,618 | – | 32,618 |
| Amount due from a related company | 6,742 | – | 6,742 |
| Taxation recoverable | 58,182 | – | 58,182 |
| Pledged bank deposits | 76,275 | – | 76,275 |
| Bank balances, deposits and cash | 784,925 | – | 784,925 |
| Trade and other payables | (911,567) | – | (911,567) |
| Pre-sale deposits | (536,028) | – | (536,028) |
| Property rental deposits | (17,065) | – | (17,065) |
| Amount due to an immediate holding company | (366,095) | – | (366,095) |
| Amounts due to fellow subsidiaries | (1,132,789) | – | (1,132,789) |
| Amounts due to minority shareholders of subsidiaries | (205,600) | – | (205,600) |
| Taxation payable | (475,277) | (87,134) | (562,411) |
| Bank borrowings | (2,236,517) | – | (2,236,517) |
| Deferred tax liabilities | (100,255) | (162,228) | (262,483) |
| | 1,613,237 | 498,351 | 2,111,588 |
| Minority interests | (500,382) | (138,433) | (638,815) |
| Net assets | 1,112,855 | 359,918 | 1,472,773 |
| Discount on acquisition of interests in subsidiaries | | | (241,488) |
| Total consideration | | | 1,231,285 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 44. ACQUISITION OF SUBSIDIARIES *(Continued)*

(a) *(Continued)*

| | Shenzhen Poly's carrying amount before combination | Fair value adjustments | 2008 |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| Total consideration satisfied by:– | | | |
| 253,788,246 consideration shares issued upon completion | | | 1,218,184 |
| Direct expenses incurred | | | 13,101 |
| | | | 1,231,285 |
| Net inflow of cash arising on acquisition:– | | | |
| Pledged bank deposits acquired | | | 76,275 |
| Bank balances, deposits and cash acquired | | | 784,925 |
| Direct expenses incurred | | | (13,101) |
| | | | 848,099 |

The newly acquired subsidiaries contributed HK$1,244,186,000, HK$241,488,000 and HK$70,682,000 to the Group's turnover, discount on acquisition of interests in subsidiaries and loss for the year ended 31st December, 2008, respectively, for the period between the date of acquisition and the balance sheet date.

Had the acquisitions been completed on 1st January, 2008, total Group's revenue and profit for the year ended 31st December, 2008 would be HK$3,597,716,000 and HK$268,556,000 respectively. This proforma information was for illustrative purposes only and was not necessarily an indication of the turnover and results of the Group that would actually have been impacted had the acquisitions been completed on 1st January, 2008, nor was it intended to be a projection of future results.

(b) On 30th June, 2007, the Group acquired properties under development through the purchase of 100% interest of 上海瑞中置業有限公司(「瑞中置業」) and 上海賢豐房地產開發有限責任公司(「上海賢豐」) satisfied by cash considerations of RMB66,628,000 (equivalent to HK$71,184,000) and RMB17,070,000 (equivalent to HK$18,237,000), respectively, paid to the then existing owners of 瑞中置業 and 上海賢豐.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 44. ACQUISITION OF SUBSIDIARIES *(Continued)*

(b) *(Continued)*

In addition, the Group acquired investment properties through the purchase of 100% of 武漢聯業科技開發有限責任公司(「聯業科技」) satisfied by cash consideration of RMB37,000,000 (equivalent to HK$39,530,000) paid to the then existing owner of 聯業科技.

These transactions have been accounted for as acquisition of assets because these companies have no business.

In addition, consideration of RMB16,070,000 (equivalent to HK$17,169,000) has not been settled at 31st December, 2007 and included in other payables in relation to the acquisition of 100% interest in 上海賢豐.

The net assets acquired in the transactions are as follows:–

| | 瑞中置業 | 上海賢豐 | 聯業科技 | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Net assets acquired:– | | | | |
| Investment properties | – | – | 39,247 | 39,247 |
| Properties under development | 71,366 | 77,755 | – | 149,121 |
| Other receivables | 63 | 19 | 53 | 135 |
| Bank balances and cash | 32,401 | 1 | 418 | 32,820 |
| Other payables | (595) | (1) | (188) | (784) |
| Amount due to a related company | – | (59,537) | – | (59,537) |
| Bank loans | (32,051) | – | – | (32,051) |
| | 71,184 | 18,237 | 39,530 | 128,951 |
| Total consideration satisfied by:– | | | | |
| Cash | | | | 111,782 |
| Other payables | | | | 17,169 |
| | | | | 128,951 |
| Net cash outflow arising on acquisition:– | | | | |
| Cash consideration paid | | | | (111,782) |
| Bank balances and cash acquired | | | | 32,820 |
| | | | | (78,962) |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 45. DISPOSAL OF SUBSIDIARIES

(a) On 12th September, 2006 and 2nd March, 2007, the Group entered into a letter of intent and a sale agreement, respectively, to dispose of its entire interest in the issued share capital of Red Empire, a wholly owned subsidiary of the Company. Red Empire is the legal and beneficial owner of 51% of the issued share capital of Yue Tian. The principal asset of which is its interest in a PRC hotel development project. The disposal was completed on 4th May, 2007.

(b) On 21st June, 2007, the Group entered into a sale and purchase agreement to dispose of its entire interest in the issued share capital of Yaubond Limited ("Yaubond"), a 51% owned subsidiary of the Company. Yaubond is the legal and beneficial owner of 100% of the total paid-up capital of Guangzhou Huan Cheng Real Estate Development Company Limited, which is engaged in property development business. The disposal was completed on 27th July, 2007.

(c) On 24th April, 2007, the Group entered into a sale and purchase agreement to dispose of its entire interest in the issued share capital of Bright Able, a wholly owned subsidiary of the Company. Bright Able is the legal and beneficial owner of 49% of the total issued share capital of Loyal Way, which is engaged in property development business. The disposal was completed on 4th June, 2007.

(d) On 5th July, 2007 and 24th October, 2007, the Group entered into a sale and purchase agreement and a supplemental agreement to dispose of its entire interest in the Energy Group. The principal activity of the Energy Group is the supply of electricity and gas. The disposal was completed on 12th November, 2007.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 45. DISPOSAL OF SUBSIDIARIES *(Continued)*

The net assets of Red Empire, Yaubond, Bright Able and the Energy Group at the date of disposal were as follows:–

| | Red Empire | Yaubond | Bright Able | Energy Group | 2007 |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| NET ASSETS DISPOSED OF | | | | | |
| Property, plant and equipment | 1,087,473 | – | – | 991,128 | 2,078,601 |
| Prepaid lease payments | 305,829 | – | – | 74,491 | 380,320 |
| Other intangible asset | – | 62,460 | – | 17,567 | 80,027 |
| Available-for-sale investments | – | – | – | 168 | 168 |
| Interests in associates | – | – | 20,655 | 67,054 | 87,709 |
| Deposit paid for acquisition of property, plant and equipment | – | – | – | 394 | 394 |
| Properties under development | – | 331,141 | – | – | 331,141 |
| Inventories | – | – | – | 30,633 | 30,633 |
| Trade and other receivables | 2,234 | 132 | – | 107,637 | 110,003 |
| Short-term loan receivables | – | – | 268,610 | – | 268,610 |
| Amounts due from associates | – | – | – | 2,499 | 2,499 |
| Amounts due from related companies | – | – | – | 17,829 | 17,829 |
| Bank balances and cash | 10,190 | 482 | – | 96,415 | 107,087 |
| Trade and other payables | (93,556) | (3,002) | – | (117,874) | (214,432) |
| Amounts due to minority shareholders of subsidiaries | (135,904) | – | – | (20,953) | (156,857) |
| Amounts due to related companies | (31,437) | – | – | (4,438) | (35,875) |
| Amount due to immediate holding company | (311,975) | (2,505) | (268,654) | – | (583,134) |
| Amount due to a shareholder | – | – | – | (137,606) | (137,606) |
| Taxation payable | – | – | – | (1,103) | (1,103) |
| Bank borrowings | (647,100) | – | – | (644,642) | (1,291,742) |
| Deferred tax liabilities | – | (69,720) | – | – | (69,720) |
| Minority interests | (175,904) | (157,554) | – | (258,053) | (591,511) |
| Net assets disposed of | 9,850 | 161,434 | 20,611 | 221,146 | 413,041 |
| Direct expenses incurred | 623 | 146 | 182 | – | 951 |
| Assignment of amount due to immediate holding company | 311,975 | 2,505 | 268,654 | – | 583,134 |
| Waiver of amount due to a shareholder | – | – | – | 137,606 | 137,606 |
| Attributable goodwill | – | – | – | 1,017 | 1,017 |
| Translation reserve realised | (19,454) | (8,843) | – | (30,965) | (59,262) |
| | 302,994 | 155,242 | 289,447 | 328,804 | 1,076,487 |
| Gain on disposals | 149,154 | 48,874 | 31,804 | 173,632 | 403,464 |
| Total consideration | 452,148 | 204,116 | 321,251 | 502,436 | 1,479,951 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 45. DISPOSAL OF SUBSIDIARIES *(Continued)*

| | Red Empire HK$'000 | Yaubond HK$'000 | Bright Able HK$'000 | Energy Group HK$'000 | 2007 HK$'000 |
|---|---|---|---|---|---|
| Satisfied by:– | | | | | |
| Cash | 452,148 | 204,116 | 321,251 | 50,000 | 1,027,515 |
| Available-for-sale investments *(note 32(a))* | – | – | – | 452,436 | 452,436 |
| | 452,148 | 204,116 | 321,251 | 502,436 | 1,479,951 |
| Net cash inflow (outflow) arising on disposals:– | | | | | |
| Cash consideration | 452,148 | 204,116 | 321,251 | 50,000 | 1,027,515 |
| Direct expenses incurred | (623) | (146) | (182) | – | (951) |
| Bank balances and cash disposed of | (10,190) | (482) | – | (96,415) | (107,087) |
| | 441,335 | 203,488 | 321,069 | (46,415) | 919,477 |

## 46. DEFERRED TAX ASSETS/LIABILITIES

The deferred tax assets/liabilities recognised by the Group and the movements thereon during the current and prior year are as follows:–

| | Tax losses HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|
| **Deferred tax assets** | | | |
| At 1st January, 2007 | – | – | – |
| Exchange adjustments | – | 73 | 73 |
| Credit to income statement for the year | – | 1,991 | 1,991 |
| At 31st December, 2007 and 1st January, 2008 | – | 2,064 | 2,064 |
| Exchange adjustments | 1,558 | 2,030 | 3,588 |
| Credit to income statement for the year | 39,349 | 33,832 | 73,181 |
| Acquisition of subsidiaries *(note 44(a))* | 13,645 | 56,171 | 69,816 |
| **At 31st December, 2008** | **54,552** | **94,097** | **148,649** |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 46. DEFERRED TAX ASSETS/LIABILITIES *(Continued)*

| | Revaluation of properties | | | | |
|---|---|---|---|---|---|
| | Investment properties | Hotel properties | Properties under development | Others | Total |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Deferred tax liabilities** | | | | | |
| At 1st January, 2007 | 114,149 | 41,579 | 116,636 | – | 272,364 |
| Exchange adjustments | 11,587 | 2,904 | 8,015 | – | 22,506 |
| Eliminated on sales of properties | – | – | (10,276) | – | (10,276) |
| Charge to equity for the year | – | 3,389 | – | – | 3,389 |
| Charge to income statement for the year | 57,651 | – | – | – | 57,651 |
| Eliminated on disposal of subsidiaries | – | – | (69,720) | – | (69,720) |
| Effect of change in tax rates | 65,770 | (10,596) | (11,804) | – | 43,370 |
| At 31st December, 2007 and 1st January, 2008 | 249,157 | 37,276 | 32,851 | – | 319,284 |
| Exchange adjustments | 17,735 | 2,437 | 2,207 | 286 | 22,665 |
| Charge to equity for the year | 1,933 | 3,689 | – | – | 5,622 |
| Charge (credit) to income statement for the year | 17,264 | – | (53,876) | 7,816 | (28,796) |
| Acquisition of subsidiaries *(note 44(a))* | 103,746 | – | 157,894 | 843 | 262,483 |
| **At 31st December, 2008** | **389,835** | **43,402** | **139,076** | **8,945** | **581,258** |

At 31st December, 2008 the Group other than its subsidiaries in the PRC had unused tax losses of approximately HK$141,100,000 (2007: HK$142,400,000) for offset against future assessable profits. Such unused tax losses may be carried forward indefinitely.

In addition, at 31st December, 2008, the Group's PRC subsidiaries had unused tax losses of approximately HK$37,340,000 (2007: HK$98,300,000), other than those unused tax losses for which deferred tax has been provided for, for offset against future assessable profits. The maximum benefit from unutilised tax losses can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits.

The deferred tax assets arising from the above unused tax losses have not been recognised in the consolidated financial statements due to the unpredictability of future profit streams.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 47. OPERATING LEASES

The Group as lessee:–

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Minimum lease payments paid under operating leases during the year:– | | |
| – office and factory premises | **6,517** | 2,128 |
| – equipment | **1,143** | 1,069 |
| | **7,660** | 3,197 |

At the balance sheet date, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:–

| | The Group | | | |
|---|---|---|---|---|
| | Office and factory premises | | Equipment | |
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **2,188** | 754 | **1,138** | 1,069 |
| In the second to fifth year inclusive | **4,365** | 902 | **1,991** | 2,850 |
| Over five years | **4,063** | 3,862 | **–** | – |
| | **10,616** | 5,518 | **3,129** | 3,919 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 47. OPERATING LEASES *(Continued)*

The Group as lessor:–

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Income from operating lease arrangements in respect of office, shop and management service | **272,924** | 158,805 |

At the balance sheet date, the Group had contracted with tenants for the following future minimal lease payments:–

| | The Group | | | |
|---|---|---|---|---|
| | Office and shop | | Management fee Income | |
| | **2008** | 2007 | **2008** | 2007 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Within one year | **189,743** | 80,615 | **38,564** | 14,724 |
| In the second to fifth year inclusive | **350,130** | 53,446 | **80,883** | 1,278 |
| Over five years | **433,395** | 63,676 | **94,977** | 877 |
| | **973,268** | 197,737 | **214,424** | 16,879 |

Significant leases are negotiated for a lease term of 1 to 10 years (2007: 1 to 10 years).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 48. CAPITAL COMMITMENTS

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Capital expenditure contracted for but not provided in the consolidated financial statements in respect of | | |
| – acquisition of interest in a subsidiary | **–** | 1,433,500 |
| – property development expenditures | **2,380,350** | 1,016,235 |
| – addition of construction-in-progress | **30,116** | 696 |
| – acquisition of land use rights | **1,416,436** | 463,248 |
| | **3,826,902** | 2,913,679 |
| Capital expenditure authorised but not contracted for in the consolidated financial statements in respect of | | |
| – acquisition of land use rights | **329,920** | 685,898 |

## 49. CONTINGENT LIABILITIES

The Group arranged mortgage loan facilities with certain banks for purchasers of property units and provided guarantees to banks to secure obligations of such purchasers of repayment. The maximum guarantees given to banks amounted to HK$1,720,761,000 as at 31st December, 2008 (2007: Nil). Such guarantees terminate upon the earlier of (i) issue of the real estate ownership certificate; and (ii) the satisfaction of the mortgage loans by the buyers of the properties. The Group has not recognised any deferred income in respect of these guarantees as its fair value is considered to be minimal by the directors. The directors also consider that the fair value of the underlying properties is able to cover the outstanding mortgage loans generated by the Group in the event the purchasers default payments to the banks.

At 31st December, 2008, the Company had given guarantees to certain banks and a fellow subsidiary in respect of credit facilities granted to certain subsidiaries of the Company. The amounts that could be required to be paid if the guarantees were called upon in entirely amounted to HK$171,000,000 (2007: HK$50,000,000). HK$171,000,000 (2007: Nil) had been utilised by subsidiaries.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 50. PLEDGE OF ASSETS

At the balance sheet date, the carrying value of the Group's assets which were pledged to secure credit facilities granted to the Group are as follows:–

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Investment properties | **1,699,394** | 448,570 |
| Hotel properties | **662,957** | 281,883 |
| Buildings | **101,313** | 49,593 |
| Prepaid lease payments | **331,283** | 234,339 |
| Properties under development | **6,775,955** | 1,673,387 |
| Bank deposits | **51,491** | 6,679 |
| Properties held for sales | **263,115** | – |
| | **9,885,508** | 2,694,451 |

At 31st December, 2008, the Group's interest in a wholly-owned subsidiary with net assets value amounted to HK$818,309,000 was pledged to secure credit facilities granted to the Group.

## 51. GOVERNMENT GRANTS

During the year ended 31st December, 2008, the Group received government grants of HK$146,718,000 which were designated for three specific properties construction projects. The amount of HK$135,130,000 and HK$11,588,000 would be deducted from the carrying amount of the properties under development and transferred to income in the form of reduced cost of sales upon sales of the relevant properties and investment properties respectively.

At 31st December, 2008, an amount of HK$113,091,000 remained to be amortised and the amounts of HK$22,039,000 and HK$11,588,000 were recognised in cost of sales and deducted from the investment properties respectively during the year ended 31st December, 2008.

During the year ended 31st December, 2006, the Group received a government grant of HK$11,979,000 which was designated for the construction of its plant and machineries and the amount had been deducted from the carrying amount of the relevant assets. The amount was transferred to income in the form of reduced depreciation charges over the useful lives of the relevant assets. This policy had resulted in a credit to income of HK$515,000 for the year ended 31st December, 2007. The unamortised amount of HK$10,668,000 was realised upon the disposal of the Energy Group on 12th November, 2007 as set out in note 45 to the financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 52. RETIREMENT BENEFIT SCHEMES

The Company and its subsidiaries in Hong Kong operate a defined contribution retirement benefit scheme for their qualified employees pursuant to the Occupational Retirement Schemes Ordinance. The assets of the scheme are held separately in a fund which is under the control of an independent trustee. The retirement benefit scheme contributions charged to the consolidated income statement represent the contributions payable by the Group to the fund at rates specified in the rules of the scheme. When there are employees who leave the scheme prior to becoming fully vested in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Group.

To comply with the Mandatory Provident Fund Schemes Ordinance (the "MPFO"), the Group also participates in a Mandatory Provident Fund scheme ("MPF Scheme") for its qualified employees in Hong Kong. The MPF Scheme is registered with the Mandatory Provident Fund Scheme Authority under the MPFO. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rate specified in the rules. The only obligation of the Group with respect of MPF Scheme is to make the required contributions under the scheme. No forfeited contribution is available to reduce the contribution payable in the future years.

The retirement benefit scheme contributions arising from the MPF Scheme charged to the income statement represent contributions payable to the funds by the Group at rates specified in the rules of the scheme.

The employees in the subsidiaries in the PRC are members of state-managed retirement benefit schemes operated by the PRC government. The subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit scheme to fund the benefit. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

At the balance sheet date, there was no significant forfeited contributions, which arose upon employees leaving the retirement benefit scheme, available to reduce the contribution payable in the future years.

The total cost charged to income statement of approximately HK$20,187,000 (2007: HK$7,268,000) represents contributions payable to the schemes by the Group during the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 53. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

During the year, the Group had significant transactions and balances with related companies, some of which are also deemed to be connected persons pursuant to the Listing Rules. The significant transactions with these companies during the year, and significant balances with them at the balance sheet date, are as follows:–

### (I) Connected Persons

#### *(A) Transactions and balances with China Poly Group*

*(a) Continuing connected transactions as defined in Chapter 14A of Listing Rules which are subject to annual cap approved by independent shareholders of the Company*

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Transactions:– | | |
| Construction services fee paid or payable *(note i)* | **982,938** | – |
| Management fee paid or payable from a non-wholly owned subsidiary to a wholly owned subsidiary *(note ii)* | **4,996** | – |
| Balances:– | | |
| Bank balances and deposits *(note iii)* | **144,574** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 53. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (I) Connected Persons *(Continued)*

#### *(A) Transactions and balances with China Poly Group (Continued)*

*(a) Continuing connected transactions as defined in Chapter 14A of Listing Rules which are subject to annual cap approved by independent shareholders of the Company (Continued)*

*Notes:–*

(i) Construction services fee paid or payable to Poly Construction Developments Company ("Poly Construction") with the annual cap amount of RMB400,000,000 (equivalent to approximately HK$439,560,000, translated at average rate). The pricing policy of the construction services fee is determined at the state-prescribed prices or where there is no state-prescribed prices, on prices no less favourable than those offered by Poly Construction to independent third parties or those charged by other independent third parties to the Group. For the year ended 31st December, 2008, the construction services fee paid or payable to Poly Construction exceeded the annual cap amount by HK$543,378,000, which constitutes a breach of Listing Rule 14A.35(2), the details of which will be set out in the Company's announcement.

(ii) Management fee paid to Shanghai Poly Property Hotel Management Company Limited for the management of Poly Plaza. The calculation of management fee is based on 2% of the total income and 3% of the gross profit before tax of Poly Plaza with the annual cap amount of RMB8,000,000 (equivalent to approximately HK$8,791,000, translated at average rate).

(iii) Deposits placed with Poly Finance Company Limited with a cap amount on maximum daily balance of RMB1,000,000,000 (equivalent to approximately HK$1,137,656,000, translated at closing rate).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 53. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (I) Connected Persons *(Continued)*

#### *(A) Transactions and balances with China Poly Group* *(Continued)*

*(b)* *Others*

| | The Group | |
|---|---|---|
| | **2008** | 2007 |
| | **HK$'000** | HK$'000 |
| Transactions:– | | |
| Property rental income *(note i)* | **8,076** | 7,079 |
| Imputed interest expenses *(note 42)* | **8,869** | 7,849 |
| Interest expenses paid *(note ii)* | **175,427** | 65,895 |
| Property leasing commission and management fees paid | **91** | 898 |
| Guarantee charges *(note iii)* | **5,970** | – |
| Theatre operating expenses *(note iv)* | **20,448** | – |
| Acquisition of subsidiaries *(note v)* | **1,218,184** | – |
| Dividend paid | **1,774** | – |
| Purchases | **34,688** | 4,162 |
| Management fee income | **545** | – |
| Rental expenses paid | **556** | – |
| Balances:– | | |
| Amounts due from fellow subsidiaries *(note vi)* | **53,771** | 35,591 |
| Deposit paid for an investment in available-for-sale investments *(note 27)* | **–** | 32,482 |
| Amount due to ultimate holding company *(note vii)* | **826,216** | 775,048 |
| Amount due to an intermediate holding company *(note viii)* | **1,536,464** | 332,262 |
| Amounts due to fellow subsidiaries *(note vi)* | **201,493** | 195,081 |
| Loan from a fellow subsidiary *(note 42)* | **162,203** | 143,703 |
| Bank borrowings *(note ix)* | **227,532** | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 53. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (I) Connected Persons *(Continued)*

#### *(A) Transactions and balances with China Poly Group* *(Continued)*

*(b) Others (Continued)*

*Notes:–*

(i) The amount represented rental income received for the theatres which made with reference to market price.

(ii) The interest expenses derived from the loans advanced from an intermediate holding company, a fellow subsidiary and the ultimate holding company, which carried interest from 90% of benchmark rate to benchmark rate plus 1%.

(iii) The guarantee charges paid to a subsidiary of the ultimate holding company for acting as a guarantor of bank loans borrowed by subsidiaries of the Group and it was charged at 1% on the maximum guarantee amount.

(iv) The theatre operating expenses were paid to a jointly controlled entity and two fellow subsidiaries for the operation and management of a theatre.

(v) Details of the transaction are set out in note 44(a).

(vi) The balances were unsecured, interest-free and repayable on demand except for an amount of HK$29,238,000 due to a fellow subsidiary, which carried interest at 90% of benchmark rate (2007: The balances were unsecured, interest-free and repayable on demand) *(note 35(a))*.

(vii) The balance were unsecured, interest-free and repayable on demand except for an amount of HK$648,464,000 and HK$108,441,000 (2007: HK$710,809,000 and Nil), which carried interest at benchmark rate plus 1% and repayable within one year and repayable on demand respectively *(note 35(a))*.

(viii) The balance were unsecured, interest-free and repayable on demand except for an amount HK$1,468,225,000 which carried interest at benchmark rate plus 1% and repayable within one year (2007: HK$313,034,000 carried interest at a fixed rate of 5.5% and the remaining balance of HK$19,228,000 carried interest at benchmark rate plus 1%) *(note 35(a))*.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 53. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (I) Connected Persons *(Continued)*

#### *(A) Transactions and balances with China Poly Group* *(Continued)*

*(b) Others (Continued)*

*Notes:– (Continued)*

(ix) The amount of HK$227,532,000 represented loan from a fellow subsidiary. The balance was unsecured, carried interest ranging from 103.36% of benchmark rate to 110% of benchmark rate and repayable within four years.

In addition, on 26th January, 2000, the Group and China Poly Group entered into an agreement (the "2000 Supplemental Agreement") supplemental to the management agreement dated 11th June, 1997 (the "Management Agreement") between the same parties. Pursuant to the 2000 Supplemental Agreement, the profit guarantee for the operation of Poly Plaza provided by China Poly Group under the Agreement would be suspended for the two years ended 31st December, 2001, but would be extended to cover the two years following its expiry on 31st December, 2007 such that it will end on 31st December, 2009, based on the mechanism provided in the Management Agreement. The 2000 Supplemental Agreement was approved by shareholders in an extraordinary general meeting on 17th March, 2000.

Furthermore, on 31st December, 2002, the Group and China Poly Group entered into an agreement (the "2002 Supplemental Agreement") supplemental to the Management Agreement and the 2000 Supplemental Agreement (hereafter collectively "Agreements") between the same parties. Pursuant to the 2002 Supplemental Agreement, the profit guarantee for the operation of Poly Plaza provided by China Poly Group under the Agreements would be suspended for the year ended 31st December, 2003, but would be extended to cover the next year following its expiry on 31st December, 2009 such that it will end on 31st December, 2010, based on the mechanism provided in the Agreements. The 2002 Supplement Agreement was approved by shareholders in an extraordinary general meeting on 30th December, 2002.

For the year ended 31st December, 2007 and 31st December, 2008, no compensation for guarantee profit is received by the Group from China Poly Group.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 53. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (I) Connected Persons *(Continued)*

#### *(B) Transactions and balances with minority shareholders of non-wholly owned subsidiaries*

| Connected persons | Nature of transactions/balances | The Group 2008 HK$'000 | The Group 2007 HK$'000 |
|---|---|---|---|
| Mr. Zhu and his associates *(notes i and ii)* | Disposal of subsidiaries *(note ii)* | – | 502,436 |
| | Purchase of coals | – | 246,718 |
| | Technical and management service fee paid | – | 2,191 |
| Minority shareholders of a subsidiary of the Company | Consideration received in disposal of subsidiaries *(notes v, vi and vii)* | – | 977,515 |
| Minority shareholders of Yue Tian and their affiliates | Imputed interest expenses *(note iii)* | – | 2,665 |
| Minority shareholders of Poly Shanghai and its subsidiaries | Amounts due from minority shareholders of subsidiaries *(note iv)* | – | 9,320 |
| | Amounts due to minority shareholders of subsidiaries *(note iv)* | 680,500 | 369,861 |
| | Acquisition of a subsidiary *(note viii)* | – | 71,184 |
| | Acquisition of a property development project *(note ix)* | – | 220,949 |
| Minority shareholders of Shenzhen Poly and its subsidiaries | Amounts due from minority shareholders of subsidiaries *(note iv)* | 72,000 | – |
| | Amounts due to minority shareholders of subsidiaries *(note iv)* | 240,460 | – |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 53. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (I) Connected Persons *(Continued)*

#### *(B) Transactions and balances with minority shareholders of non-wholly owned subsidiaries* *(Continued)*

*Notes:–*

(i) Mr. Zhu is a substantial shareholder of minority shareholders of Taicang Power, Dongtai Power, Jia Xing Power and Peixian Power and controlling shareholders of Funing Power and Xuzhou Power (collectively referred to "Power Plants"). Mr. Zhu and his associates including Golden Concord Holdings Limited ("GCH") and minority shareholders and controlling shareholders of Power Plants are therefore connected persons of the Company and accordingly, the aforesaid transactions and guarantees are deemed to be connected transactions for the Company which require approval from the shareholders of the Company. On 12th November, 2007, the Group disposed of the Power Plants as set out in notes 15 and 45(d).

(ii) On 5th July, 2007 and 24th October, 2007, the Group entered into a sale and purchase agreement and a supplemental agreement with GCL-Poly, which is beneficially owned by Mr. Zhu in relation to the disposal of the Energy Group for cash consideration of HK$50,000,000 and share consideration of 19.69% of the issued share capital of GCL-Poly before the IPO. The interest in the GCL-Poly was diluted to 13.86% after the IPO. Subsequent to the disposal of Energy Group, Mr. Zhu becomes unrelated to the Group.

(iii) The loan was carried at amortised cost at effective interest rate of 6%.

(iv) The balances due from minority shareholders of Poly Shanghai and its subsidiaries and Shenzhen Poly and its subsidiaries were unsecured, interest-free and repayable on demand.

The balances due to minority shareholders of Poly Shanghai and its subsidiaries were unsecured, interest-free and repayable on demand except for the amounts of HK$30,874,000 (2007: Nil) and HK$447,937,000 (2007: Nil), which carried interest at variable rates of benchmark rate plus 1% and benchmark rate plus 1.5% respectively.

The balances due to minority shareholders of Shenzhen Poly and its subsidiaries were unsecured, interest-free and repayable on demand except for the amounts of HK$69,055,000 (2007: Nil), and HK$97,186,000 (2007: Nil), which carried interest at fixed rate of 6.85% and variable rate of benchmark rate plus 1% respectively.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 53. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (I) Connected Persons *(Continued)*

#### (B) *Transactions and balances with minority shareholders of non-wholly owned subsidiaries* *(Continued)*

*Notes:– (Continued)*

(v) On 12th September, 2006 and 2nd March, 2007, the Group entered a letter of intent and a sale and purchase agreement with Great Elegant Investment Limited, which is a wholly owned subsidiary of Skyfame Realty (Holdings) Limited ("Skyfame"), to dispose of a wholly owned subsidiary, Red Empire, together with its subsidiaries for a consideration of HK$452,148,000. Skyfame is a substantial shareholder of Yaubond, a 51% owned subsidiary of the Company, which was disposed on 27th July, 2007. Red Empire is the legal and beneficial owner of 51% of the total issued share capital of Yue Tian.

(vi) On 24th April, 2007, the Group entered into a sale and purchase agreement with Smartford Limited, a wholly-owned subsidiary of Skyfame to dispose of a wholly owned subsidiary, Bright Able, together with its associate for a consideration of HK$321,251,000. Bright Able is the legal and beneficial owner of 49% of the total issued share capital of Loyal Way.

(vii) On 21st June, 2007, the Group entered into a sale and purchase agreement with Sky Honest Investments Corp, a wholly-owned subsidiary of Skyfame to dispose of a 51% owned subsidiary, Yaubond, together with its subsidiary for a consideration of HK$204,116,000. Yaubond is the legal and beneficial owner of 100% of the total paid-up capital of Guangzhou Huan Cheng Real Estate Development Company Limited.

(viii) On 30th June, 2007, the Group entered into a sale and purchase agreement with Shanghai Jinpeng Real Estate Development Co., Ltd ("Jinpeng"), a substantial shareholder holding 49.9% interest in Shanghai Poly Jinpeng Real Estate Co., Ltd, a non-wholly owned subsidiary of Poly Shanghai to acquire 100% interest of 瑞中置業 for a consideration of RMB66,628,000 (equivalent to HK$71,184,000) as set out in note 44. Further details of the acquisition are set out in a circular of the Company dated 27th July, 2007. The acquisition was completed on 30th June, 2007.

(ix) On 30th June, 2007, the Group entered into a project sale and purchase agreement with 上海金爵置業有限公司 Shanghai Jinjue Real Estate Co., Ltd, a wholly-owned subsidiary of Jinpeng, to acquire a property development project for a consideration of RMB206,809,000 (equivalent to HK$220,949,000). Further details of the acquisition are set out in a circular of the Company dated 27th July, 2007. The acquisition was completed on 30th June, 2007.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 53. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES

*(Continued)*

### (II) Related parties, other than connected persons

| Related party | Nature of transactions/balances | The Group 2008 HK$'000 | 2007 HK$'000 |
|---|---|---|---|
| Loyal Way | Imputed interest income *(note i)* | **–** | 7,521 |
| 重慶綠地東原房地產開發有限公司 | Amount due to an associate *(note ii)* | **34,130** | – |
| 深圳市保利劇院演出經營有限公司 | Amount due from a jointly controlled entity *(note iii)* | **2,275** | – |
| 廣東保利投資有限公司 | Amount due from a related company *(note iv)* | **6,826** | – |

*Notes:–*

(i) The loan was unsecured, interest-free and repayable on demand. It was discounted at an effective rate of 6% per annum. The short-term loan receivables were assigned to a purchaser upon disposal of Bright Able as set out in notes 45.

(ii) Details of terms are set out in note 24.

(iii) Details of terms are set out in note 25.

(iv) Details of terms are set out in note 35(b).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 53. CONNECTED AND RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

### (III) Compensation of key management personnel

The remuneration of directors and other members of key management during the year was as follows:–

| | 2008<br>HK$'000 | 2007<br>HK$'000 |
|---|---|---|
| Short-term benefits | 13,020 | 9,470 |
| Post-employment benefits | 219 | 138 |
| Equity-settled share-based payment expenses | 22,445 | – |
| | 35,684 | 9,608 |

The remuneration of directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 54. MATERIAL TRANSACTIONS AND BALANCES WITH OTHER STATE-CONTROLLED ENTITIES

Part of the Group's operations is carried out in an economic environment currently predominated by entities directly or indirectly owned or controlled by the PRC government ("state-controlled entities"). In addition, the Group itself is part of a larger group of companies under China Poly which is controlled by the PRC government. Apart from the transactions with China Poly, other connected persons and related parties disclosed in note 53, the Group also conducts business with other state-controlled entities. The directors consider those state-controlled entities are independent third parties so far as the Group's business transactions with them are concerned.

In establishing its pricing strategies and approval process for transactions with other state-controlled entities, the Group does not differentiate whether the counter-party is a state-controlled entity or not.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 54. MATERIAL TRANSACTIONS AND BALANCES WITH OTHER STATE-CONTROLLED ENTITIES *(Continued)*

Material transactions/balances with other state-controlled entities are as follows:–

| | **2008** | 2007 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Transactions | | |
| Trade sales | **46,144** | 277,055 |
| Trade purchases | **38,412** | 29,364 |
| Balances | | |
| Amounts due from other state-controlled entities | **2,230** | 4,106 |
| Amounts due to other state-controlled entities | **1,138** | 945 |

In view of the nature of the Group's hotel operating business, the directors are of the opinion that, except as disclosed above, it is impracticable to ascertain the identity of the counterparties and accordingly whether the transactions were with other state-controlled entities.

In addition, the Group has entered into various transactions, including deposit placements, borrowings and other general banking facilities, with certain banks and financial institutions which are state-controlled entities in its ordinary course of business. In view of the nature of those banking transactions, the directors are of the opinion that separate disclosure would not be meaningful.

Except as disclosed above, the directors are of the opinion that transactions with other state-controlled entities are not significant to the Group's operations.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 55. PRINCIPAL SUBSIDIARIES

Details of the Company's principal subsidiaries at 31st December, 2008 are as follows:–

| Name of subsidiary | Place of incorporation/ establishment | Issued and paid up share capital/ registered capital | Attributable portion of nominal value of issued share capital/ registered capital held by the Company Directly | Indirectly | Principal activity |
|---|---|---|---|---|---|
| Bassington Investments Limited | Hong Kong | HK$2 | – | 100% | Property investment |
| California Hero Property Limited | British Virgin Islands | US$1 | – | 100% | Securities investment |
| CMIC Finance Limited | Hong Kong | HK$2 | 100% | – | Financial services |
| CMIC Management Service Limited | Hong Kong | HK$100 | 100% | – | Management services |
| CMIC-NCHK Energy Holdings Limited | British Virgin Islands | US$100 | – | 100% | Investment holding |
| Fainland Limited | Hong Kong | HK$2 | – | 100% | Property investment |
| First Great Investments Limited | Hong Kong | HK$2 | – | 100% | Investment holding |
| Geldy Limited | Hong Kong | HK$10,000 | – | 100% | Property investment |
| Grandful International Limited | Hong Kong | HK$2 | – | 100% | Investment holding |
| High Wealth International Limited | Hong Kong | HK$2 | – | 100% | Property investment |
| Honorlink Investments Limited | Hong Kong | HK$2 | – | 100% | Property investment |
| Hubei White Rose Hotel Company Limited ("Hubei White Rose") *(note i)* | PRC | RMB62,000,000 | – | 100% | Hotel operations |
| Johnsbury Limited | British Virgin Islands | US$9,600,000 | 100% | – | Investment holding |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 55. PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place of incorporation/ establishment | Issued and paid up share capital/ registered capital | Attributable portion of nominal value of issued share capital/ registered capital held by the Company | | Principal activity |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| Poly Plaza Limited ("PPL") (note ii) | PRC | US$10,000,000 | – | 75% | Investment, management and operation of a hotel complex |
| Polystar Digidisc Co., Ltd. ("Polystar") *(note iii)* | PRC | RMB9,000,000 | – | 66% | Manufacturing and wholesaling of compact discs, video compact discs and digital video discs |
| Poly (Hong Kong) Property Developments Limited | Hong Kong | HK$1 | – | 100% | Investment holding |
| Poly (Hong Kong) Real Estate Limited | Hong Kong | HK$1 | – | 100% | Investment holding |
| Poly Shanghai *(note i)* | PRC | RMB630,000,000 | – | 100% | Investment holding |
| Power Jade Holdings Limited | British Virgin Islands | US$1 | – | 100% | Securities investment |
| Prime Brilliant Limited | Hong Kong | HK$2 | – | 100% | Property investment |
| Propwood Limited | Hong Kong | HK$2 | – | 100% | Property investment |
| Saneble Limited | Hong Kong | HK$2 | – | 100% | Property investment |
| Shanghai Puly Real Estate *(note i)* | PRC | US$24,000,000 | – | 100% | Property investment |
| Smart Best Investments Limited | Hong Kong | HK$1 | – | 100% | Investment holding |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 55. PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place of incorporation/ establishment | Issued and paid up share capital/ registered capital | Attributable portion of nominal value of issued share capital/ registered capital held by the Company | | Principal activity |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| Starry Joy Properties Investment Ltd. | British Virgin Islands | US$1 | – | 100% | Investment holding |
| Topower Assets Limited | British Virgin Islands | US$1 | 100% | – | Securities investment |
| Upperace Developments Ltd. | British Virgin Islands | US$1 | 100% | – | Securities investment |
| Volgala International Ltd. | British Virgin Islands | US$1 | – | 100% | Securities investment |
| 上海忻利房地產發展有限公司 *(note iv)* | PRC | RMB15,000,000 | – | 100% | Property development |
| 上海夢苑房地產有限公司 *(note iv)* | PRC | RMB5,000,000 | – | 100% | Property development |
| 上海華寶房地產發展有限公司 *(note iv)* | PRC | RMB20,000,000 | – | 100% | Property development |
| 上海保利欣房地產有限公司 *(note iv)* | PRC | RMB150,000,000 | – | 90% | Property development |
| 上海保利金鵬置業有限公司 *(note iv)* | PRC | RMB20,000,000 | – | 50.1% | Property development |
| 上海保利佳房地產開發有限公司 *(note iv)* | PRC | RMB30,000,000 | – | 100% | Property development |
| 上海保利花木有限公司 *(note iv)* | PRC | RMB1,000,000 | – | 100% | Property development |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 55. PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place of incorporation/ establishment | Issued and paid up share capital/ registered capital | Attributable portion of nominal value of issued share capital/ registered capital held by the Company Directly | Indirectly | Principal activity |
|---|---|---|---|---|---|
| 上海保利物業酒店管理有限責任公司 *(note iv)* | PRC | RMB5,000,000 | – | 100% | Property management |
| 蘇州保利櫻花置業有限公司 *(note iv)* | PRC | RMB15,000,000 | – | 100% | Property development |
| 湖北保利置業有限公司 *(note iv)* | PRC | RMB100,000,000 | – | 100% | Property development |
| 湖北保利建設有限公司 *(note iv)* | PRC | RMB20,740,000 | – | 100% | Property development |
| 重慶保利小泉實業有限公司 *(note iv)* | PRC | RMB80,000,000 | – | 51% | Property development |
| 北京花園別墅有限公司 *(note iv)* | PRC | RMB91,656,147 | – | 51% | Property investment |
| 上海保金置業有限公司 *(note iv)* | PRC | RMB15,000,000 | – | 50.1% | Property development |
| 上海瑞中置業有限公司 *(note iv)* | PRC | RMB8,000,000 | – | 50.1% | Property development |
| 上海盛盈房地產有限公司 *(note iv)* | PRC | RMB211,705,038 | – | 90% | Property development |
| 上海盛昱房地產有限公司 *(note iv)* | PRC | RMB169,842,010 | – | 90% | Property development |
| 上海保鑫置業有限公司 *(note iv)* | PRC | RMB15,000,000 | – | 50.1% | Property development |
| 上海保金房地產經紀有限公司 *(note iv)* | PRC | RMB1,000,000 | – | 50.1% | Property trading |
| 上海保利鋭馳房地產經紀有限公司 *(note iv)* | PRC | RMB5,000,000 | – | 100% | Property trading |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 55. PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place of incorporation/ establishment | Issued and paid up share capital/ registered capital | Attributable portion of nominal value of issued share capital/ registered capital held by the Company Directly | Indirectly | Principal activity |
|---|---|---|---|---|---|
| 上海賢豐房地產開發有限責任公司 *(note iv)* | PRC | RMB10,000,000 | – | 100% | Property development |
| 貴陽保利海明房地產開發有限公司 *(note iv)* | PRC | RMB50,000,000 | – | 60% | Property development |
| 湖北保利投資有限公司 *(note iv)* | PRC | RMB100,000,000 | – | 100% | Property development |
| 武漢聯業科技開發有限責任公司 *(note iv)* | PRC | RMB100,000 | – | 100% | Property investment |
| 山東保利嘉園置業有限公司 *(note iv)* | PRC | RMB10,000,000 | – | 80% | Property development |
| 廣東保利置業有限公司 *(note iv)* | PRC | RMB20,000,000 | – | 100% | Property development |
| 深圳保利投資有限公司 *(note i)* | PRC | RMB50,000,000 | – | 100% | Investment holding |
| 深圳市保利文化廣場有限公司 *(note iv)* | PRC | RMB150,000,000 | – | 100% | Property investment and management |
| 深圳市保利商業經營管理有限公司 *(note iv)* | PRC | RMB3,000,000 | – | 70% | Property management |
| 廣州保利置業有限公司 *(note iv)* | PRC | RMB101,800,000 | – | 51% | Property development |
| 廣州保利城物業管理有限公司 *(note iv)* | PRC | RMB3,100,000 | – | 51% | Property management |
| 廣西保利房地產有限責任公司 *(note iv)* | PRC | RMB150,000,000 | – | 75% | Property development |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 55. PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place of incorporation/ establishment | Issued and paid up share capital/ registered capital | Attributable portion of nominal value of issued share capital/ registered capital held by the Company | | Principal activity |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| 南寧保利物業管理有限公司 *(note iv)* | PRC | RMB3,000,000 | – | 75% | Property management |
| 南寧新湄公河房地產有限公司 *(note iv)* | PRC | RMB10,000,000 | – | 75% | Property development |
| 南寧市新保越房地產有限公司 *(note iv)* | PRC | RMB10,000,000 | – | 75% | Property development |
| 保利貴州房地產開發有限公司 *(note iv)* | PRC | RMB100,000,000 | – | 66.5% | Property development |
| 保利貴州物業管理有限公司 *(note iv)* | PRC | RMB5,000,000 | – | 61.2% | Property management |
| 保利貴州溫泉經營管理有限公司 *(note iv)* | PRC | RMB3,000,000 | – | 46.6% | Hot spring operation |
| 貴陽保利房地產開發有限公司 *(note iv)* | PRC | RMB50,000,000 | – | 66.5% | Property development |
| 貴陽保利投資有限公司 *(note iv)* | PRC | RMB20,000,000 | – | 46.6% | Property development |
| 哈爾濱保利房地產綜合開發有限責任公司 *(note iv)* | PRC | RMB50,000,000 | – | 51% | Property development |
| 黑龍江保利澳娛房地產開發有限公司 *(note v)* | PRC | RMB100,000,000 | – | 58% | Property development |
| 保利山東置業有限公司 *(note iv)* | PRC | RMB50,000,000 | – | 100% | Investment holding |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 55. PRINCIPAL SUBSIDIARIES *(Continued)*

| Name of subsidiary | Place of incorporation/ establishment | Issued and paid up share capital/ registered capital | Attributable portion of nominal value of issued share capital/ registered capital held by the Company | | Principal activity |
|---|---|---|---|---|---|
| | | | Directly | Indirectly | |
| 山東興業花園房地產有限公司 *(note iv)* | PRC | RMB10,000,000 | – | 100% | Property development |
| 山東保利物業管理有限公司 *(note iv)* | PRC | RMB3,000,000 | – | 100% | Property management |
| 山東保利芙蓉房地產開發有限公司 *(note iv)* | PRC | RMB10,000,000 | – | 100% | Property development |
| 保利雲南房地產開發有限公司 *(note iv)* | PRC | RMB100,000,000 | – | 80% | Investment holding |
| 安寧保利房地產開發有限公司 *(note iv)* | PRC | RMB10,000,000 | – | 80% | Property development |
| 雲南保利物業服務管理有限公司 *(note iv)* | PRC | RMB1,000,000 | – | 80% | Property management |
| 深圳市祥瑞實業發展有限公司 *(note iv)* | PRC | RMB42,000,000 | – | 51% | Property development |
| 惠州保利龍勝房地產開發有限公司 *(note iv)* | PRC | RMB100,000,000 | – | 80% | Property development |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 55. PRINCIPAL SUBSIDIARIES *(Continued)*

*Notes:–*

(i) These companies are wholly foreign owned enterprise.

(ii) PPL is a sino-foreign joint venture company established in the PRC for a renewal term of 50 years commencing 9th July, 2003.

(iii) Polystar is a sino-foreign joint venture company established in the PRC for a term of 20 years commencing 18th December, 2000.

(iv) These companies are PRC domestic companies.

(v) The company is a sino-foreign joint venture company established in the PRC for a term of 20 years commencing 29th December, 2004.

The above table only lists those subsidiaries of the Company which, in the opinion of the directors, principally affected the results, assets or liabilities of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

## 56. BUSINESS AND GEOGRAPHICAL SEGMENTS

### Business segments

For management purposes, the Group is organised into five (2007: five) operating divisions. These divisions are the basis on which the Group reports its primary segment information.

Principal activities are as follows:–

| | | |
|---|---|---|
| Property development business | – | property development |
| Property investment and management | – | property investment and management |
| Hotel and restaurant operations | – | hotel and restaurant business and its related services |
| Manufacturing and others | – | manufacturing and sales of digital discs and others |
| Financial services | – | trading of securities and loan financing services |

The Group was also involved in the supply of electricity and gas, which was discontinued on 12th November, 2007 *(see note 15)*.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 56. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Segment information about these business is presented below:–

*For the year ended 31st December, 2008*

| | Continuing operations | | | | | | | Discontinued operations | |
|---|---|---|---|---|---|---|---|---|---|
| | Property development business HK$'000 | Property investment and management HK$'000 | Hotel and restaurant operations HK$'000 | Manufacturing and others HK$'000 | Financial services HK$'000 | Eliminations HK$'000 | Sub-total HK$'000 | Supply of electricity and gas HK$'000 | Total HK$'000 |
| REVENUE | | | | | | | | | |
| External revenue | 2,832,185 | 272,924 | 90,187 | 117,116 | 11,956 | – | 3,324,368 | – | 3,324,368 |
| Inter-segment revenue* | – | 23,665 | 9,147 | – | 218,106 | (250,918) | – | – | – |
| Total revenue | 2,832,185 | 296,589 | 99,334 | 117,116 | 230,062 | (250,918) | 3,324,368 | – | 3,324,368 |
| SEGMENT RESULT | 169,372 | 146,831 | (6,972) | 10,809 | (166,688) | – | 153,352 | – | 153,352 |
| Unallocated income | | | | | | | 105,078 | – | 105,078 |
| Unallocated expenses | | | | | | | (71,421) | – | (71,421) |
| Finance costs | | | | | | | (75,831) | – | (75,831) |
| Discount on acquisition of interests in subsidiaries | 241,488 | – | – | – | – | – | 241,488 | – | 241,488 |
| Share of results of associates | 2,120 | – | – | – | – | – | 2,120 | – | 2,120 |
| Share of results of jointly control entities | – | – | – | (5,682) | – | – | (5,682) | – | (5,682) |
| Profit before taxation | | | | | | | 349,104 | – | 349,104 |
| Income tax expense | | | | | | | (74,590) | – | (74,590) |
| Profit for the year | | | | | | | 274,514 | – | 274,514 |

* Inter-segment revenue were charged at prevailing market rates.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 56. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### ASSETS AND LIABILITIES

*AT 31ST DECEMBER, 2008*

| | Continuing operations | | | | | Discontinued operations | |
|---|---|---|---|---|---|---|---|
| | Property development business HK$'000 | Property investment and management HK$'000 | Hotel and restaurant operations HK$'000 | Manufacturing and others HK$'000 | Financial services HK$'000 | Supply of electricity and gas HK$'000 | Total HK$'000 |
| ASSETS | | | | | | | |
| Segment assets | 13,937,258 | 3,685,013 | 1,018,353 | 113,220 | 137,417 | – | 18,891,261 |
| Interests in associates | 66,815 | – | – | – | – | – | 66,815 |
| Interests in jointly controlled entities | – | – | – | 1,422 | – | – | 1,422 |
| Unallocated corporate assets | | | | | | | 3,356,638 |
| Total assets | | | | | | | 22,316,136 |
| LIABILITIES | | | | | | | |
| Segment liabilities | (6,513,754) | (373,581) | (149,555) | (55,540) | (2,679) | – | (7,095,109) |
| Unallocated corporate liabilities | | | | | | | (8,063,983) |
| Total liabilities | | | | | | | (15,159,092) |
| OTHER INFORMATION | | | | | | | |
| Capital expenditure | 17,851 | 42,460 | 45,753 | 2,659 | – | – | 108,723 |
| Impairment loss on short term loan receivables | – | – | – | – | 5,959 | – | 5,959 |
| Depreciation | 7,101 | 7,896 | 27,818 | 15,460 | – | – | 58,275 |
| Impairment loss on trade and other receivables | 1,771 | 2,470 | – | 368 | – | – | 4,609 |
| Amortisation of prepaid lease payments | 829 | 2,305 | 5,723 | 130 | – | – | 8,987 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 56. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### Geographical segments

An analysis of the Group's turnover by geographical location of its customers is presented below:–

| | Hong Kong<br>HK$'000 | The PRC<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|
| REVENUE | 5,311 | 3,319,057 | 3,324,368 |

The following is an analysis of the carrying amount of segment assets, and capital expenditure analysed by the geographical area in which the assets are located.

| | Hong Kong<br>HK$'000 | The PRC<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|
| ASSETS | | | |
| Carrying amount of segment assets | 657,879 | 21,590,020 | 22,247,899 |
| Capital expenditure | 2,205 | 106,518 | 108,723 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 56. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

Segment information about these business is presented below:–

*For the year ended 31st December, 2007*

| | Continuing operations | | | | | | | Discontinued operations | |
|---|---|---|---|---|---|---|---|---|---|
| | Property development business HK$'000 | Property investment and management HK$'000 | Hotel and restaurant operations HK$'000 | Manufacturing and others HK$'000 | Financial services HK$'000 | Eliminations HK$'000 | Sub-total HK$'000 | Supply of electricity and gas HK$'000 | Total HK$'000 |
| REVENUE | | | | | | | | | |
| External revenue | 568,429 | 158,805 | 128,058 | 114,341 | 4,227 | – | 973,860 | 472,520 | 1,446,380 |
| Inter-segment revenue* | 2,289 | 9,000 | 1,590 | – | 131,778 | (144,657) | – | – | – |
| Total revenue | 570,718 | 167,805 | 129,648 | 114,341 | 136,005 | (144,657) | 973,860 | 472,520 | 1,446,380 |
| SEGMENT RESULT | 50,037 | 324,612 | 9,216 | 5,638 | (189,107) | – | 200,396 | 67,080 | 267,476 |
| Unallocated income | | | | | | | 31,133 | 2,004 | 33,137 |
| Unallocated expenses | | | | | | | (37,916) | – | (37,916) |
| Finance costs | | | | | | | (41,825) | (31,966) | (73,791) |
| Gain on disposal of interests in subsidiaries | 229,832 | – | – | – | – | – | 229,832 | – | 229,832 |
| Share of results of associates | 2,204 | – | – | – | – | – | 2,204 | 3,523 | 5,727 |
| Profit before taxation | | | | | | | 383,824 | 40,641 | 424,465 |
| Income tax expense | | | | | | | (165,134) | (6,409) | (171,543) |
| Gain on disposal of discontinued operations | – | – | – | – | – | – | – | 173,632 | 173,632 |
| Profit for the year | | | | | | | 218,690 | 207,864 | 426,554 |

* *Inter-segment revenue were charged at prevailing market rates.*

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 56. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### ASSETS AND LIABILITIES

*AT 31ST DECEMBER, 2007*

| | Continuing operations | | | | | Discontinued operations | |
|---|---|---|---|---|---|---|---|
| | Property development business HK$'000 | Property investment and management HK$'000 | Hotel and restaurant operations HK$'000 | Manufacturing and others HK$'000 | Financial services HK$'000 | Supply of electricity and gas HK$'000 | Total HK$'000 |
| ASSETS | | | | | | | |
| Segment assets | 4,560,485 | 2,149,637 | 917,325 | 131,301 | 536,686 | – | 8,295,434 |
| Interests in associates | 61,635 | – | – | – | – | – | 61,635 |
| Unallocated corporate assets | | | | | | | 1,851,978 |
| Total assets | | | | | | | 10,209,047 |
| LIABILITIES | | | | | | | |
| Segment liabilities | (2,894,117) | (244,477) | (150,441) | (59,073) | (2,779) | – | (3,350,887) |
| Unallocated corporate liabilities | | | | | | | (1,871,414) |
| Total liabilities | | | | | | | (5,222,301) |
| OTHER INFORMATION | | | | | | | |
| Capital expenditure | 276,801 | 45,828 | 22,568 | 371 | – | 90,930 | 436,498 |
| Impairment loss on short term loan receivables | – | – | – | – | 180,703 | – | 180,703 |
| Depreciation | 3,732 | 4,369 | 19,446 | 15,003 | – | 52,146 | 94,696 |
| Impairment loss on trade and other receivables | – | – | – | 32,861 | 4,113 | – | 36,974 |
| Amortisation of prepaid lease payments | 777 | 2,306 | 5,462 | 122 | – | 2,072 | 10,739 |
| Amortisation of other intangible asset | 926 | – | – | – | – | – | 926 |
| Impairment loss on goodwill arising from acquisition of additional interest in a subsidiary | 183 | – | – | – | – | – | 183 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

*For the year ended 31st December, 2008*

## 56. BUSINESS AND GEOGRAPHICAL SEGMENTS *(Continued)*

### Geographical segments

An analysis of the Group's turnover by geographical location of its customers is presented below:–

| | Hong Kong HK$'000 | The PRC HK$'000 | Total HK$'000 |
|---|---|---|---|
| REVENUE | 7,941 | 1,438,439 | 1,446,380 |

For the year ended 31st December, 2007, revenue from the Group's discontinued supply of electricity and gas operation of HK$472,520,000 was derived principally from the PRC.

The following is an analysis of the carrying amount of segment assets, and capital expenditure analysed by the geographical area in which the assets are located.

| | Hong Kong HK$'000 | The PRC HK$'000 | Total HK$'000 |
|---|---|---|---|
| ASSETS | | | |
| Carrying amount of segment assets | 1,111,178 | 9,036,234 | 10,147,412 |
| Capital expenditure | 313 | 436,185 | 436,498 |

# FINANCIAL SUMMARY

| | Year ended 31st December, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | **2008** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| **RESULTS** | | | | | |
| **Continuing operations** | | | | | |
| Revenue | 417,609 | 709,655 | 453,443 | 973,860 | **3,324,368** |
| Profit before taxation | 25,169 | 136,039 | 192,945 | 383,824 | **349,104** |
| Income tax expense | (8,654) | (29,884) | (35,191) | (165,134) | **(74,590)** |
| Profit for the year from continuing operations | 16,515 | 106,155 | 157,754 | 218,690 | **274,514** |
| **Discontinued operations** | | | | | |
| Profit for the year from discontinued operations | 156,618 | 75,771 | 17,949 | 207,864 | **–** |
| Profit for the year | 173,133 | 181,926 | 175,703 | 426,554 | **274,514** |
| Attributable to: | | | | | |
| Equity holders of the Company | 152,849 | 164,601 | 189,387 | 401,196 | **222,994** |
| Minority interests | 20,284 | 17,325 | (13,684) | 25,358 | **51,520** |
| Profit for the year | 173,133 | 181,926 | 175,703 | 426,554 | **274,514** |

| | At 31st December, | | | | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 | **2008** |
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | **HK$'000** |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | 3,938,385 | 5,597,430 | 8,740,235 | 10,209,047 | **22,316,136** |
| Total liabilities | (1,216,107) | (2,132,675) | (4,207,603) | (5,222,301) | **(15,159,092)** |
| | 2,722,278 | 3,464,755 | 4,532,632 | 4,986,746 | **7,157,044** |
| Equity attributable to equity holders of the Company | 2,518,119 | 2,776,497 | 3,664,592 | 4,669,181 | **6,080,061** |
| Minority interests | 204,159 | 688,258 | 868,040 | 317,565 | **1,076,983** |
| | 2,722,278 | 3,464,755 | 4,532,632 | 4,986,746 | **7,157,044** |

# SUMMARY OF PROPERTIES HELD FOR INVESTMENT PURPOSES

*At 31st December, 2008*

Details of the Group's properties held for investment purposes at 31st December, 2008 are as follows:–

| Location | Term of lease | Type of use | Group's interest |
|---|---|---|---|
| *INVESTMENT PROPERTIES:* | | | |
| Room 2502A, 2502B, 2502C and Room 2508 of 25th Floor<br>Admiralty Centre<br>Tower I<br>18 Harcourt Road<br>Hong Kong | Long lease | Commercial | 100% |
| 13 Apartments of<br>Legend Garden Villas<br>89 Capital Airport Road, Beijing<br>The People's Republic of China | Held under a land use right for a term expiring on 31st December, 2042 | Residential | 100% |
| Portions of Basements 1, 2 and 3,<br>Portions of 1st Floor,<br>N02, N03 & N04, 11th Floor,<br>North Tower,<br>N02, N03 & N04, 12th Floor,<br>North Tower,<br>Whole of 14th, 15th, 16th, 17th and 18th Floors, South Tower,<br>N04, N05 & N06, 16th floor of North Tower,<br>N07, 19th Floor, North Tower,<br>S01, S02, S03, S04, S07, S08 & S09, 20th Floor, South Tower,<br>N02, N03, N06, N07, N08, N09, 20th Floor, North Tower,<br>Whole of 21st, 22nd, 23rd, 24th, 25th and 27th Floors,<br>South Tower and North Tower,<br>Part of 26th Floors, North Tower,<br>Shanghai Stock Exchange Building,<br>No. 528 Pudong Road South,<br>Lujiazui, Pudong,<br>Shanghai,<br>The People's Republic of China | Held under a land use right for a term expiring on 14th November, 2043 | Commercial | 100% |

# SUMMARY OF PROPERTIES HELD FOR INVESTMENT PURPOSES

*At 31st December, 2008*

| Location | Term of lease | Type of use | Group's interest |
|---|---|---|---|
| *INVESTMENT PROPERTIES: (Continued)* | | | |
| 6 houses, 20 apartments, a commercial center and a club house, Legend Garden Villas, 89 Capital Airport Road, Beijing, The People's Republic of China | Held under a land use right for a term expiring on 31st December, 2042 | Commercial/ Residential | 51% |
| Office Tower of Poly Plaza, No. 14 Dongzhimen Nandajie, Dong Cheng District, Beijing, The People's Republic of China | The land use right for the property has been granted for a term of 50 years commencing on 27th October, 2003 | Commercial | 75% |
| Commercial/Office Buildings at No. 465 Luo Shi Lu, Hong Shan District, Wuhan, Hubei Province, The People's Republic of China | Held under a land use right for a term expiring on 12th May, 2047 | Commercial | 100% |
| 3 residential units and 5 commercial units at Zhuo Dao Quan Bei Lu, Hong Shan District, Wuhan, Hubei Province, The People's Republic of China | Held under a land use right for a term expiring on 16th January, 2075 | Commercial/ Residential | 100% |
| Various commercial units, cultural centre, Exhibition centre, theatre, museum, Cinemas and car parking spaces, Poly Cultural Centre, Hou Hai Bin Lu, Nan Shan District, Shenzhen, Guangdong Province, The People's Republic of China | Held under a land use right for a term expiring on 15th January, 2054 | Commercial | 100% |
| Unit 2701 on 27th and 28th Floors, Shenzhen Poly City, Chuang Ye Lu Bei, Nan Shan District, Shenzhen, Guangdong Province, The People's Republic of China | Held under a land use right for a term expiring on 7th June, 2069 | Commercial | 100% |

# SUMMARY OF PROPERTIES HELD FOR DEVELOPMENT

*At 31st December, 2008*

Details of the Group's properties held for development at 31st December, 2008 are as follows:–

| Location | Stage of completion | Expected completion date | Site area/ Gross floor area | Type of use | Group's interest |
|---|---|---|---|---|---|
| *PROPERTIES HELD FOR DEVELOPMENT:* | | | | | |
| A parcel of land formerly occupied by Shang Liang Ba Ku, Pudong New District, Shanghai, The People' Republic of China | Under construction | November 2010 | 27,000 sq.m./ 102,000 sq.m | Commercial/ Office | 90% |
| A parcel of land on No.788 Wuchang Minzhu Road, Wu Chang District, Wuhan, Hubei Province, The People's Republic of China | Under construction | December 2012 | 12,000 sq.m./ 143,000 sq.m. | Commercial/ Office | 100% |
| A parcel of land in He Ping Xiang, Chai Lin Tou Village Hong Shan District, Wuhan, Hubei Province, The People's Republic of China | Held fro future development | N/A | 30,000 sq.m./ 84,000 sq.m. | Industrial | 51% |
| A parcel of land in No.90 Xiao Quan, Nan Quan Village, Ba Nan District, Chongqing, Sichuan Province, The People's Republic of China | Under construction | December 2010 (Phase II) | 210,000 sq.m./ 63,000 sq.m. | Residential | 51% |
| A parcel of land in Zong Fang Cun, Ma Lu Zhen, Jiading District, Shanghai, The People's Republic of China | Under construction | December 2011 (Phase II) | 169,000 sq.m./ 409,000 sq.m. | Commercial/ Residential | 100% |
| A parcel of land located at 139/3 Tangzhencun, Tangzhen, Pudong New District, Shanghai, The People's Republic of China | Under construction | December 2009 (Phase I) | 75,000 sq.m./ 146,000 sq.m. | Residential | 50.1% |

# SUMMARY OF PROPERTIES HELD FOR DEVELOPMENT

*At 31st December, 2008*

| Location | Stage of completion | Expected completion date | Site area/ Gross floor area | Type of use | Group's interest |
|---|---|---|---|---|---|
| *PROPERTIES HELD FOR DEVELOPMENT: (Continued)* | | | | | |
| A parcel of land on No. 2 Guo Quan Bei Lu 7 Long, Yang Pu District, Shanghai, The People's Republic of China | Under planning | December 2010 | 12,000 sq.m./ 16,000 sq.m. | Residential | 100% |
| A parcel of land on Dong Hu Kai Fa Qu Shang Ma Zhunag, Wuhan, Hubei Province, The People's Republic of China | Under construction | December 2009 (Phase I) | 212,000 sq.m./ 640,000 sq.m. | Residential | 100% |
| A parcel of land at No. 148 Shi Bei Lu, Yun Yan District, Guiyang, Guizhou Province, The People's Republic of China | Under construction | December 2011 (Phase I) | 156,000 sq.m./ 670,000 sq.m. | Residential | 60% |
| A parcel of land in the North of Jing Yi Lu, Li Xia District, Jinan County, Shandong Province, The People's Republic of China | Under construction | December 2010 | 26,000 sq.m./ 84,000 sq.m. | Residential | 100% |
| A parcel of land at north west of Xing Cun Li Jiao, Pan Zhuang Cun, Gang Gou Zhen, Li Cheng District, Jinan County, Shandong Province, The People's Republic of China | Under construction | December 2009 (Phase I) | 83,000 sq.m./ 266,000 sq.m. | Residential | 100% |
| A parcel of land at East of Hua Gang Da Dao, Xin Hua Zhen, Hua Du District, Guangzhou, Guangdong Province, The People's Republic of China | Under construction | December 2009 (Phase I) | 249,000 sq.m./ 556,000 sq.m. | Commercial/ Residential | 51% |

# SUMMARY OF PROPERTIES HELD FOR DEVELOPMENT

*At 31st December, 2008*

| Location | Stage of completion | Expected completion date | Site area/ Gross floor area | Type of use | Group's interest |
|---|---|---|---|---|---|
| *PROPERTIES HELD FOR DEVELOPMENT: (Continued)* | | | | | |
| A parcel of land on Wen Quan Lu, Ye Jia Zhuang, Wu Dang District, Guiyang County, Guizhou Province, The People's Republic of China | Under construction | December 2009 (Phase I and II) | 482,000 sq.m./ 1,005,000 sq.m. | Residential | 66.5% |
| A parcel of land on Shi Nan Lu, Nan Ming District, Guiyang County, Guizhou Province, The People's Republic of China | Under planning | August 2012 | 21,000 sq.m./ 243,000 sq.m. | Commercial/ Residential | 66.5% |
| A parcel of land on Zhu Jin Lu, China Asean International Business District, Nanning County, Guangxi Province, The People's Republic of China | Under construction | June 2009 | 80,000 sq.m./ 127,000 sq.m. | Residential | 75% |
| A parcel of land on Yong Wu Lu, Xing Ning District, Nanning County, Guangxi Province, The People's Republic of China | Under construction | December 2012 | 568,000 sq.m./ 485,000 sq.m. | Residential | 75% |
| A parcel of land on Zhong Jian Lu, China Asean International Business District, Nanning County, Guangxi Province, The People's Republic of China | Under construction | December 2009 | 47,000 sq.m./ 190,000 sq.m. | Residential | 75% |
| A parcel of land on Jing Guan Da Dao, west of Zhu Gan Dao, Dong Gou Ling, Nanning County, Guangxi Province, The People's Republic of China | Under construction | December 2011 | 67,000 sq.m./ 271,000 sq.m. | Residential | 75% |

# SUMMARY OF PROPERTIES HELD FOR DEVELOPMENT

*At 31st December, 2008*

| Location | Stage of completion | Expected completion date | Site area/ Gross floor area | Type of use | Group's interest |
|---|---|---|---|---|---|
| *PROPERTIES HELD FOR DEVELOPMENT: (Continued)* | | | | | |
| A parcel of land on San Huan Lu and Song Bei Art & Cultural Centre on another piece of land on Song Bei Da Dao, Song Bei District, Harbin, Heilongjiang Province, The People's Republic of China | Under construction | December 2010 (Phase I and II) | 567,000 sq.m./ 703,000 sq.m. | Residential | 58% |
| A parcel of land in Zi Xing Jie, Gong Dian Lu, Nan Gang District, Harbin, Heilongjiang Province, The People's Republic of China | Under planning | December 2010 | 78,000 sq.m./ 365,000 sq.m. | Residential | 51% |
| A parcel of land in Song Bei Zhen, Song Bei District, Harbin, Heilongjiang Province, The People's Republic of China | Under construction | December 2009 (Phase I) | 172,000 sq.m./ 281,000 sq.m. | Residential | 51% |
| A parcel of land in Da Tun Yin Qu, Lian Ran Zhen, An Ning County, Kunming Yunnan Province, The People's Republic of China | Under construction | December 2010 (Phase I and II) | 160,000 sq.m./ 279,000 sq.m. | Residential | 80% |
| Three parcels of land in Luo Yang Zhen, Boluo Xian Huizhou, Guangdong Province, The People's Republic of China | Under planning | December 2013 | 230,000 sq.m./ 269,000 sq.m. | Residential | 80% |

# SUMMARY OF PROPERTIES HELD FOR SALE

*At 31st December, 2008*

Details of the Group's properties held for sale purposes at 31st December, 2008 are as follows:–

| Location | Gross floor areas | Type of use | Group's interest |
|---|---|---|---|
| *PROPERTIES HELD FOR SALE:* | | | |
| 59 carparking spaces, Poly Xing Yuan, Nos.1-5, Lane 28, Bin Yang Lu, Xu Hui District, Shanghai, The People's Republic of China | N/A | Residential | 100% |
| 158 carparking spaces, Poly Garden, Gao Xin District, Suzhou, Jiangsu Province, The People's Republic of China | N/A | Residential | 100% |
| 5 houses of Nan Quan Village, Ba Nan District, Chongqing, Sichuan Province, The People's Republic of China | 2,209 sq.m. | Residential | 51% |
| 54 residential units, Shanghai Tan Dynasty Garden, Tangzhen, Pudong New District, Shanghai The People's Republic of China | 4,112 sq.m. | Commercial/ Residential | 50.1% |
| 89 residential units, 67 commercial units and 509 carparking spaces, Sea Songs Garden, Hai Bin Da Dao, Xixiang Cun, Bao An District, Shenzhen, Guangdong Province, The People's Republic of China | 12,250 sq.m. | Commercial/ Residential | 51% |

# SUMMARY OF PROPERTIES HELD FOR SALE

*At 31st December, 2008*

| Location | Gross floor areas | Type of use | Group's interest |
|---|---|---|---|
| *PROPERTIES HELD FOR SALE: (Continued)* | | | |
| 21 residential units, 13 commercial units and 28 carparking spaces, Yi He Homeland Southern District Gong Dian Lu, Nan Gang District, Harbin, Heilongjiang Province, The People's Republic of China | 3,451 sq.m. | Commercial/ Residential | 51% |
| 6 commercial units, 206 carparking spaces and amenity facilities, Poly Phoenixia Garden, Feng Xiang Lu, Nanning County, Guangxi Province, The People's Republic of China | 2,735 sq.m. | Commercial | 75% |
| 25 residential units and 32 commercial units, Nanning Poly Upper House, Zhu Jin Lu, China Asean International Business District, Nanning County, Guangxi Province, The People's Republic of China | 6,341 sq.m. | Commercial/ Residential | 75% |
| 146 residential units, The Water's Fragrant Dike, San Huan Lu, Song Bei District, Harbin, Heilongjiang Province, The People's Republic of China | 40,822 sq.m. | Residential | 58% |