HARBOUR CENTRE DEVELOPMENT LIMITED

Stock Code: 51

# Annual Report 2009

# Contents

# Corporate Information

## BOARD OF DIRECTORS

Stephen T H Ng *(Chairman)*
T Y Ng
Hugh M V de Lacy Staunton*
Michael T P Sze *
Brian S K Tang *
Paul Y C Tsui

** Independent Non-executive Directors*

## SECRETARY

Wilson W S Chan, FCIS

## REGISTERED OFFICE

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

## REGISTRARS

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

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

## AUDITORS

KPMG

# Chairman's Statement

Underpinned by the continuous wealth accumulation across China as a result of a sustained economic growth and job creation in the last decade, together with the rapid urbanisation phenomenon, the Group remains optimistic about the fundamental outlook for the real estate market in the Mainland. As at the end of 2009, the Group's total attributable land bank in China was about 26 million square feet which comprises five prime sites in the cities of Changzhou, Suzhou, Chongqing and Shanghai. Total business assets in the Mainland amounted to HK$8.5 billion at cost and represented 64% of the Group's total business assets as at 31 December 2009. Despite its significance in asset value, the Group's Mainland property business is still at an early stage of development and has not yet become a key contributor to the Group's revenue and profit. However, the Group is confident about the profit contribution from its China investment in the years to come and we believe it will turn a new page for the Group.

In Hong Kong, the hotel & hospitality industry was overshadowed by the severe global recession and the threat of swine flu in 2009, which led to a significant drop in tourist arrivals. The Group's hotel segment was also adversely impacted by the weak travel demand across the globe. The Hong Kong leasing market, on the other hand, held up reasonably well in much of 2009, spurred by a gradual return of consumer confidence. The Group's retail properties performed satisfactorily during the year. Hong Kong business assets amounted to HK$4.7 billion in value and yielded an operating profit of 4.8% in 2009.

In 2009, the Group's turnover amidst an unfavourable economic environment was HK$566.3 million (2008: HK$664.2 million). The drop was mainly attributable to a decrease in revenue from the hotel segment. Operating profit receded to HK$244.5 million (2008: 311.9 million). However, net profit attributable to shareholders, including a higher net surplus from the revaluation of investment properties of HK$193.2 million (2008: HK$26.3 million), increased by 191% to HK$496.9 million (2008: HK$170.5 million). Earnings per share were HK$0.78 (2008: HK$0.36).

## HOTEL OPERATIONS

Despite the fact that visitor arrivals in 2009 registered an increase of 0.3% to reach 29.6 million, the slide in both long-haul and short-haul travel to Hong Kong (excluding Mainland China and Macau) took its toll on the performance of the hotel segment. Average room occupancy at The Marco Polo Hongkong Hotel declined to 79% (2008: 84%) while average room rate declined by 19% from a year earlier.

## PROPERTY INVESTMENT

The Group's commercial areas in The Marco Polo Hongkong Hotel and Star House registered stable performance because of a recovery in the property market as well as a rebound in consumer confidence from the third quarter onwards.

## PROSPECTS

After an arduous year of 2009, the stabilising global economy coupled with the refined policies in the Mainland's individual visitation scheme would help boost tourist arrivals in Hong Kong and hence a modest recovery in the Hong Kong hotel & hospitality industry is expected in 2010. The Marco Polo Hongkong Hotel, in an effort to enhance its competitiveness in a recovering economy, will be undergoing phased renovation in the year.

The new projects in China, which are still at an early stage of development, are expected to generate a satisfactory return to the Group in the years to come. Presales for some of the projects will start this year to mark the beginning of capital payback for the Group's China investment.

**Stephen T H Ng**
*Chairman*

Hong Kong, 10 March 2010

# Financial Highlights

| | **2009**<br>***HK$ Million*** | 2008<br>*HK$ Million* |
|---|---|---|
| **Results** | | |
| Turnover | **566.3** | 664.2 |
| Operating profit | **244.5** | 311.9 |
| Profit before attributable property revaluation surplus | **303.7** | 133.3 |
| Profit attributable to equity shareholders | **496.9** | 170.5 |
| Earnings per share | **HK$0.78** | HK$0.36 |
| Dividends per share | **20.0¢** | 20.0¢ |
| **Financial position** | | |
| Total assets | **13,149.7** | 11,507.1 |
| Net debt | **1,829.2** | 1,806.6 |
| Shareholders' equity | **8,905.8** | 7,067.0 |
| Total equity | **9,607.6** | 7,762.8 |
| Net asset value per share | **HK$12.57** | HK$14.96 |
| Net debt to total equity | **19.0%** | 23.3% |

| | **Profit attributable to shareholders**<br>*HK$ Million* | **Shareholders' equity**<br>*HK$ Million* | **Earnings per share**<br>*HK$* | **Dividends per share**<br>*HK¢* | **Distribution cover**<br>*Times* |
|---|---|---|---|---|---|
| 2005 | 517.1 | 4,096.3 | 1.64 | 17.0 | 9.66 |
| 2006 | 422.7 | 4,778.0 | 1.34 | 29.0 | 4.63 |
| 2007 | 638.4 | 5,748.1 | 2.03 | 29.0 | 4.94 |
| 2008 | 170.5 | 7,067.0 | 0.36 | 20.0 | 1.80 |
| 2009 | 496.9 | 8,905.8 | 0.78 | 20.0 | 3.51 |

## SEGMENT REVIEW

### Hotel

The global financial turmoil and the threat of the swine flu significantly affected the travel industry around the world in the first half of 2009. Despite a recovery in demand during trade fairs and festive seasons in the latter part of the year, revenue and operating profit of the Hotel Segment fell by 17% and 30% respectively from 2008. Average occupancy dropped to 79% and average room rate declined by 19% from a year earlier.

### Property Investment

The second half of the year saw a gradual revival of economic activities and consumer sentiments.

The Property Investment Segment posted a 4% rise in turnover and a 5% rise in operating profit.

The Group's investment properties, comprising the office and retail areas in The Marco Polo Hongkong Hotel ("MPHK Hotel") and the Star House retail units, were revalued by an independent valuer as at 31 December 2009. The net revaluation surplus after deferred tax for 2009 was HK$193.2 million (2008: HK$26.3 million).

### China Properties

The Group is confident of the fundamental outlook for the real estate market in the Mainland, underpinned by the rapid pace of urbanisation, robust economic development and high savings rate. The recent Central Economic Work Conference has unveiled the Government's pledge to step up urbanisation and to relax residency restrictions on migration to provincial cities, which bodes well for urban property demand and should provide long-term support for residential prices. As at the end of December 2009, the total land bank attributable to the Group was about 26 million square feet, comprising five prime sites in the cities of Shanghai, Chongqing, Suzhou and Changzhou. Given that these new projects are still at an early stage of development, they have not yet started to make meaningful contribution to the Group in terms of revenue and profit.

In Shanghai, the Xinjiangwancheng (新江灣城) development boasts a site area of 0.6 million square feet and GFA of 1.08 million square feet. Xinjiangwancheng provides the only original ecological environment in association with abundant green and wetlands within the city of Shanghai, and is established to accommodate the concept of high quality living community. The development, close to Wujiaochang (五角場), a commercial centre which has been positioned as one of the four vice city centres of Shanghai (上海市副中心), consists of high end medium-rise residences. It is adjacent to a station of the Shanghai Metro line 10 which is expected to be in operation within this year. Two other Metro lines (Lines 17 & 18) near the site are also under planning. Peripheral facilities in the vicinity are rich both in scale and content, ranging from ecological park, cultural centre, sports centre to education facilities from renowned institutions such as Fudang University and Allied Secondary School of Tongji University. Scheduled for completion by 2012, construction of the project is underway with foundations being completed. The first phase of presales is targeted to be launched in the middle of the current year.

The Chongqing project, a joint development with China Overseas Land and Investment with the Group owning 55%, is ideally located in Jiangbei City (江北城) facing both Yangtze River (長江) and Jialing River (嘉陵江). Chongqing is designated as one of the five national central cities and is the only one in the central and western China region. Jiangbei city is to become the future Central Business District ("CBD") with excellent transportation links. Three bridges crossing Jialing River and Yangtze River to the old CBD (渝中區) and the new headquarters hub (彈子石區) have already been built. Furthermore, light railway lines 6 and 9 will be passing this area with respective stations near the site. Developments in this new CBD include City of Memory (記憶之城) comprising public facilities, three theme parks and shopping centres, together with City of Future (未來之城) comprising Grade A office buildings, 5-star hotels and shopping centres. The Group's project, adjacent to Chongqing City Grand Theatre (重慶大劇院), Chongqing Science Museum (重慶科技館) and the 100,000-square-metre Central Park (中央公園), boasts a site area of about one million square feet and offers an attributable GFA of 2.5 million square feet. Planning approval is underway and this prestigious residential development is scheduled for completion in phases by 2014.

The two Suzhou projects are developed by a joint venture owned 80:20 respectively by the Group and Genway Housing Development (蘇州工業園區建屋發展集團). Together, they embrace a total site area of 5.65 million square feet and offer an attributable GFA of 13.5 million square feet. Suzhou, among the top and most vibrant second-tier cities, is at the heart of Yangtze River Delta with strong manufacturing and trading sectors. The city has a population size of 6.3 million and posted an 11.5% GDP growth in 2009, beating the national average.

The first project is located in Xinghu Jie (星湖街) in the new CBD. A 450-metre skyscraper landmark (mixed office, hotel and apartment building), tallest in Jiangsu Province with a panoramic view over Jinji Lake and the city skyline, will be built. Underground connections will provide seamless access to two nearby subway stations. The project will also benefit from well-established regional transportation networks comprising highly efficient highways and rapid trains connecting with Shanghai, Hangzhou and Nanjing. A ground breaking ceremony was held in early March and excavation works have commenced. The project is scheduled for completion by 2016.

The second is located at Xiandai Da Dao (現代大道) in Suzhou Industrial Park (蘇州工業園區), where sizeable residential developments will be needed to cater for the solid and steady demand in the Park, with master town planning being of international standard. The site, perfectly located on the axis of eastern expansion of Suzhou along the main east-west thoroughfare of Xiandai Da Dao, and next to the future subway terminal, is divided into four plots, each of which will be developed by phases into high-end residential developments. Construction work for phase 1 is planned to commence in March of 2010 and the whole development is scheduled for completion by 2017.

The Changzhou project is ideally located in the future CBD of Xinbei District (新北區), five kilometers away from the city centre, in the vicinity of the national AAAA scenic area China Changzhou Dinosaur Land theme park (中華恐龍園) and Xin Qu Park (新區公園), with excellent air-sea transportation links to Changzhou Airport and Huning Express Railway. Changzhou, with more than 2,500 years' cultural history, is 170 kilometres from Shanghai and 110 kilometres from Nanjing. Changzhou and the adjacent Suzhou and Wuxi together constitute the Su-Xi-Chang city belt (蘇錫常都市圈), one of the most affluent regions in China. The city registered a GDP growth of 11.7% to reach over RMB250 billion in 2009. In 2008, Changzhou was listed by Forbes magazine as one of "The Best Business Cities in China". The project commands a total site area of 4.4 million square feet and offers an attributable GFA of 8.7 million square feet. The development comprises mainly high-end residences including high-rise buildings, semi-detached houses and villas, a 5-star hotel and a State Guest House. Construction works for the residential developments have commenced. The whole project is scheduled for completion in phases by 2016, with the first phase of presales to be launched in the first half of 2010.

## FINANCIAL REVIEW

### (I) Review of 2009 final results

**Turnover**

The Group's hotel business was badly hurt by the unprecedented financial turmoil and the threat of swine flu. Group turnover slipped by 15% to HK$566.3 million (2008: HK$664.2 million).

Hotel Segment generated a total revenue of HK$391.1 million (2008: HK$472.4 million) for a decline of 17%, due mainly to the decrease in room revenue in a soft market. MPHK Hotel's achieved room rate fell by 19% and room occupancy dropped to 79%.

Property investment was stable in performance with revenue increasing to HK$140.1 million (2008: HK$134.5 million) despite the disruptions caused by a restructuring of the tenant mix at MPHK Hotel's retail areas. The revamp of Star House units completed in the last quarter 2008 improved occupancy and hence revenue.

Investment and Others Segment's interest and dividend income derived from the Group's surplus cash and investment decreased by 39% to HK$35.1 million (2008: HK$57.3 million), reflecting the contraction of the Group's investment portfolio and the prevailing low interest rate environment.

### Operating Profit

The Group's operating profit decreased by 22% to HK$244.5 million (2008: HK$311.9 million). Hotel Segment's profit dropped by 30% to HK$112.3 million while Property Investment Segment's profit increased slightly to HK$115.7 million. For Investment and Others Segment, profit fell to HK$35.1 million (2008: HK$57.3 million) due to decrease in interest and dividend income.

### Increase in Fair Value of Investment Properties

The Group's completed investment properties were stated at the valuations carried out by an independent valuer as at 31 December 2009 with a surplus of HK$231.4 million (2008: HK$31.5 million). The net surplus after deferred tax taken to the income statement was HK$193.2 million (2008: HK$26.3 million). The Group's investment properties under development are not carried at fair value until whichever the earlier of their fair values first become reliably measurable and the dates of their respective completion in accordance with the revised accounting standard HKAS 40, which expands the definition of an investment property to include an investment property being under development.

### Other Net Income

Other net income for the year was HK$96.5 million (2008: loss of HK$23.9 million), mainly included net foreign exchange gain against loss in last year and gain on disposal of investments.

### Net Other Charge

No net other charge, represented the impairment loss on available-for-sale investments, was required for the year (2008: HK$47.5 million).

### Finance Costs

Net finance costs decreased to HK$13.0 million (2008: HK$67.1 million), resulting from the low average interest rate for the Group's bank borrowings. The charge was after capitalisation of HK$10.8 million (2008: Nil) for the Group's China projects.

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

Share of profits of the associate and jointly controlled entities after tax was HK$14.2 million (2008: loss of HK$11.0 million). This was mainly derived from a write back of excess contingent development cost for a former property project undertaken by the associate, but partly offset by the start-up losses incurred by the jointly controlled entities that engaged in China property projects, which are at their early stages of the developments.

### Taxation

The taxation charge for the year increased to HK$77.0 million (2008: HK$24.3 million) as a result of increase in revaluation surplus of investment properties.

### Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders increased by 191% to HK$496.9 million (2008: HK$170.5 million) mainly resulting from the increase in other net income and investment property revaluation surplus. Earnings per share were HK$0.78 based on a weighted average of 639.2 million shares in issue (2008: HK$0.36 on 478.1 million shares as restated for the Rights Issue), taking into account the 236.3 million new shares issued during the year.

Excluding the net investment property surplus of HK$193.2 million (2008: HK$26.3 million and the related deferred tax credit of HK$10.9 million resulted from the 1% tax rate reduction), the Group's net profit for the year was HK$303.7 million (2008: HK$133.3 million), representing an increase of HK$170.4 million or 128% over last year.

## (II) Liquidity, Financial Resources and Capital Commitments

**Rights Issue**

In May 2009, the Company completed a Rights Issue for 236.3 million new ordinary shares at HK$3.99 each, with net proceeds of HK$935.2 million.

**Shareholders' Equity**

As at 31 December 2009, the Group's shareholders' equity was HK$8,905.8 million, equivalent to HK$12.57 per share based on 708.8 million issued shares as enlarged by the Rights Issue in May 2009 (2008: HK$14.96 per share based on 472.5 million issued shares).

The Group's hotel property is stated at cost less accumulated depreciation according to the prevailing Hong Kong Financial Reporting Standards. Restating the hotel property based on the valuation as at 31 December 2009 carried out by an independent valuer would give rise to an additional revaluation surplus of HK$2,604.0 million and increase the Group's shareholders' equity to HK$11,509.8 million, equivalent to HK$16.24 per share.

**Total Assets**

The Group's total assets increased by 14% to HK$13,149.7 million (2008: HK$11,507.1 million), mainly due to the appreciation in the Group's investment properties and available-for-sale investments and the Rights Issue proceeds, which have been substantially utilised for the land cost payments for the China development projects.

The Group's major assets included properties under development of HK$6,472.7 million, interest in a jointly controlled entity of HK$1,650.9 million and investment properties of HK$2,515.5 million. Other major assets included bank deposits and cash of HK$1,124.0 million and available-for-sale investments of HK$1,193.0 million.

In previous years, investment properties under development were not classified as investment property and were stated at cost by the Group. As a result of the change in the relevant accounting standard, such properties in the amount of HK$402.2 million have been classified as investment property and have to be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. No fair value gain or loss was recognised from such properties under development during the year.

**Debt and Gearing**

As at 31 December 2009, the Group had a net debt of HK$1,829.2 million (2008: HK$1,806.6 million), which was made up of HK$2,953.2 million of bank borrowings less HK$1,124.0 million of cash. The gearing ratio to total equity was 19.0% (2008: 23.3%).

**Finance and Availability of Facilities and Funds**

As at 31 December 2009, the Group's available loan facilities amounted to HK$4,617.2 million, of which HK$2,953.2 million was drawn. Certain banking facilities of the Group were secured by mortgages mainly over the Group's hotel and investment properties and properties under development with total carrying value of HK$3,351.4 million (2008: HK$2,174.1 million).

The Group's debts were effectively denominated in Hong Kong dollar ("HKD") and Renminbi ("RMB"). Further RMB borrowings will be sourced to finance the development cost of the China projects.

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

**Net Cash Flows for Operating and Investing Activities**

For the year under review, the Group generated a net operating cash inflow before changes in working capital of HK$240.4 million (2008: HK$280.9 million). The changes in working capital resulted in a net cash outflow of HK$558.3 million (2008: HK$3,551.5 million), primarily due to payment for land and construction cost for China development projects. For investing activities, the Group had a net cash outflow of HK$538.7 million, mainly for investment in a jointly-controlled entity engaged in China property projects. Net proceeds of HK$935.2 million from the Rights Issue was received in May 2009.

The Group maintained a reasonable level of surplus cash, which was denominated principally in HKD and RMB, to facilitate the Group's business and investment activities. As at 31 December 2009, the Group also maintained a portfolio of investments primarily consisting of blue chip securities, with an aggregate market value of HK$1,193.0 million (2008: HK$604.0 million), which is available for liquidation to meet the Group's commitment if necessary. The performance of the portfolio was largely in line with the stock market.

**Commitments**

As at 31 December 2009, the Group's total outstanding commitments related substantially to development projects in the Mainland, both by the Group and through jointly controlled entities, amounted to HK$13.9 billion, of which HK$0.5 billion have been contracted for. The committed property developments will be carried out by stages in the forthcoming years and funded by internal financial resources, proceeds from property pre-sales and bank loans.

## (III) Disposal/acquisition

In April 2009, the Group completed a share swap transaction and effectively disposed its 40% interest in a jointly controlled entity owning the Lanseqianjiang project in Hangzhou for a 100% interest in a subsidiary owning the Xinjiangwancheng project in Shanghai with a net cash inflow of RMB145.1 million.

## (IV) Human Resources

The Group had approximately 500 employees as at 31 December 2009. Employees are remunerated according to their job responsibilities and the market pay trend with a discretionary annual performance bonus as variable pay for rewarding individual performance and contributions to the Group's achievement and results. Total staff costs for the year ended 31 December 2009 amounted to HK$112.4 million.

## (A) CORPORATE GOVERNANCE PRACTICES

During the financial year ended 31 December 2009, all the code provisions set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited were met by the Company, with the exception of one deviation as set out under section (D) below. The application of the relevant principles, and the reasons for the abovementioned deviation from a Code provision, are stated in the following sections.

## (B) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors of the Company who were in office during the financial year ended 31 December 2009, they have confirmed that they have complied with the Model Code during the financial year.

## (C) BOARD OF DIRECTORS

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

The Company's Board has a balance of skills and experience and a balanced composition of executive and non-executive directors. Five Board meetings were held during the financial year ended 31 December 2009. The composition of the Board and attendance of the Directors are set out below:

| **Directors** | **Attendance/Number of Meetings** |
|---|---|
| *Chairman* | |
| Stephen T H Ng *(appointed on 2 April 2009)* | 3/3 |
| Gonzaga W J Li *(resigned on 2 April 2009)* | 2/2 |
| *Non-executive Directors* | |
| T Y Ng | 2/5 |
| Paul Y C Tsui *(appointed on 2 April 2009)* | 3/3 |
| Clement K H Wong *(resigned on 20 June 2009)* | 3/3 |
| *Independent Non-executive Directors* | |
| H M V de Lacy Staunton | 4/5 |
| Michael T P Sze | 5/5 |
| Brian S K Tang | 5/5 |

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

### (II) Operation of the Board

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

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

## (D) CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

## (E) NON-EXECUTIVE DIRECTORS

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

## (F) REMUNERATION OF DIRECTORS

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

One Remuneration Committee meeting was held during the financial year ended 31 December 2009. Attendance of the Members is set out below:

| Members | Attendance/Number of Meetings |
|---|---|
| Stephen T H Ng, *Chairman (appointed and elected as Chairman on 20 May 2009)* | 1/1 |
| Michael T P Sze | 1/1 |
| Brian S K Tang | 1/1 |

(i) The terms of reference of the Remuneration Committee are aligned with the provisions set out in the Code. Given below are the main duties of the Remuneration Committee:

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

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

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

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

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

(ii) The work performed by the Remuneration Committee for the financial year ended 31 December 2009 is summarised below:

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

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

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

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

## (G) NOMINATION OF DIRECTORS

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

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

## (H) AUDITORS' REMUNERATION

The fees in relation to the audit and other services for the financial year ended 31 December 2009 provided by KPMG, the external auditors of the Company, amounted to HK$1.2 million and HK$0.6 million respectively.

## (I) AUDIT COMMITTEE

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

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

Two Audit Committee meetings were held during the financial year ended 31 December 2009. Attendance of the Members is set out below:

| **Members** | **Attendance/Number of Meetings** |
|---|---|
| Michael T P Sze, *Chairman* | 2/2 |
| T Y Ng | 0/2 |
| Brian S K Tang | 2/2 |

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

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

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

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

(1) any changes in accounting policies and practices;
(2) major judgmental areas;
(3) significant adjustments resulting from the audit;
(4) the going concern assumption;
(5) compliance with accounting standards; and
(6) compliance with Stock Exchange and legal requirements.

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

(e) to discuss with the management the system of internal control including the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget; and

(f) to review the audit programme of the internal audit function.

(ii) The work performed by the Audit Committee for the financial year ended 31 December 2009 is summarised below:

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

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

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

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

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

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

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

## (J) INTERNAL CONTROL

The Directors are ultimately responsible for the internal control system of the Group and, through the Audit Committee, have reviewed the effectiveness of the system, including the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. The internal control system comprises a well-defined organisational structure with specified limits of authority in place. Areas of responsibility of each business and operational units are also clearly defined to ensure effective checks and balances.

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

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

A review of the effectiveness of the Group's internal control system and procedures covering all controls, including financial, operational and compliance and risk management, was conducted by the Audit Committee and subsequently reported to the Board during the financial year ended 31 December 2009. Based on the result of the review, in respect of the financial year ended 31 December 2009, the Directors considered that the internal control system and procedures of the Group were effective and adequate.

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

The Directors are responsible for overseeing the preparation of financial statements for the financial year ended 31 December 2009, which give a true and fair view of the affairs of the Company and of the Group and of the Group's results and cash flow for the year then ended and in compliance with the requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Listing Rules.

In preparing the financial statements for the financial year ended 31 December 2009:

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

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

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

## (L) COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

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

# Report of the Directors

The Directors have pleasure in submitting their Report and the Audited Financial Statements for the financial year ended 31 December 2009.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of its principal subsidiaries, associate and jointly controlled entities are set out on pages 76 and 77.

## RESULTS, APPROPRIATIONS AND RESERVES

The results of the Group for the financial year ended 31 December 2009 are set out in the Consolidated Income Statement on page 24.

Appropriations of profits and movements in reserves during the financial year are set out in the Consolidated Statement of Changes in Equity on page 28 and in Note 27 to the Financial Statements on pages 58 to 59 respectively.

## DIVIDENDS

An interim dividend of 5.0 cents per share was paid on 25 September 2009. The Directors now recommend for adoption at the Annual General Meeting to be held on 26 May 2010 the payment on 3 June 2010 to Shareholders on record as at 26 May 2010 of a final dividend of 15.0 cents per share in respect of the financial year ended 31 December 2009. This recommendation has been disclosed in the Financial Statements.

## SHARE CAPITAL

During the financial year, a total of 236,250,000 ordinary shares of HK$0.50 each of the Company, credited as fully paid, were allotted and issued by the Company as a result of a rights issue by the Company.

## FIXED ASSETS

Movements in fixed assets during the financial year are set out in Note 10 to the Financial Statements on pages 38 to 40.

## DONATIONS

The Group made donations during the financial year totalling HK$1.0 million.

## DIRECTORS

The Directors of the Company during the financial year were Mr Gonzaga W J Li (who resigned on 2 April 2009), Mr Stephen T H Ng (appointed on 2 April 2009), Mr T Y Ng, Mr H M V de Lacy Staunton, Mr Michael T P Sze, Mr Brian S K Tang, Mr Paul Y C Tsui (appointed on 2 April 2009) and Mr Clement K H Wong (who resigned on 20 June 2009).

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

## INTERESTS IN CONTRACTS

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

## MANAGEMENT CONTRACTS

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

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

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

## PURCHASE, SALE OR REDEMPTION OF SHARES

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

## AUDITORS

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

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

Hong Kong, 10 March 2010

## SUPPLEMENTARY CORPORATE INFORMATION

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

#### (I) Directors

**Stephen Tin Hoi NG,** *Chairman (Age: 57)*

Mr Ng was appointed a Director and elected as Chairman of the Company in April 2009. He also serves as a member and the chairman of the Company's Remuneration Committee. He is deputy chairman of publicly-listed Wheelock and Company Limited ("Wheelock"), which is the ultimate holding company of the Company, and deputy chairman and managing director of publicly-listed The Wharf (Holdings) Limited ("Wharf") of which the Company is a subsidiary. Mr Ng is also the chairman and chief executive officer of i-CABLE Communications Limited ("i-CABLE"), a publicly-listed fellow subsidiary of the Company. Furthermore, Mr Ng is chairman of Modern Terminals Limited and chairman and chief executive officer of Wharf T&T Limited, both being fellow subsidiaries of the Company, as well as a director of certain subsidiaries of the Company. Mr Ng is also chairman of publicly-listed Joyce Boutique Holdings Limited ("Joyce").

**Tze Yuen NG,** *Director (Age: 62)*

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

**Hugh Maurice Victor de LACY STAUNTON,** *Director (Age: 74)*

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

**Michael Tsai Ping SZE,** *Director (Age: 64)*

Mr Sze, *FCA (Eng. & Wales), FCCA, FCPA (Practising)*, has been an independent Non-executive Director of the Company since 2007. He also serves as a member and chairman of the Company's Audit Committee as well as a member of the Remuneration Committee. Mr Sze has over 30 years of experience in the financial and securities field. He graduated with a Master of Laws (LLM) Degree from the University of Hong Kong. He is currently a member of the Securities and Futures Appeals Tribunal. He was a former council member and member of the Main Board Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr Sze is a non-executive director of Burwill Holdings Limited and an independent non-executive director of GOME Electrical Appliances Holdings Limited, Greentown China Holdings Limited and Walker Group Holdings Limited, all of which are listed on the Stock Exchange. He was formerly an independent non-executive director of publicly-listed C Y Foundation Group Limited from 2007 to 2009 and of publicly-listed Great World Company Holdings Ltd (formerly known as T S Telecom Technologies Limited) from 2000 to 2008.

**Brian See King TANG,** *Director (Age: 60)*

Mr Tang was appointed an independent Non-executive Director of the Company in September 2008. He also serves as a member of the Company's Audit Committee and Remuneration Committee. He has over 29 years of comprehensive experience in accounting and financial management. He graduated with a Bachelor Degree in Science from the California State University of Long Beach, U.S.A. He was the senior vice president of CITIC Ka Wah Bank Limited ("CKWB") for four years from 1997 with responsibilities covering treasury operations, remittance, bills operations, general services, property management, information technology and loan administration. He also served as a director of CKWB from 1998 to 2001. Before joining CKWB, he worked with various large organisations including 17-year service at Morgan Guaranty Trust Co. as vice president and financial controller, and one-year service at Cheung Kong (Holdings) Limited as chief accountant.

**Paul Yiu Cheung TSUI ,** *Director (Age: 63)*

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

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

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

### (II) Senior Managers

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

## (B) Directors' Interests in Shares

At 31 December 2009, Directors of the Company had the following beneficial interests, all being long positions, in the securities of the Company, Wharf (which is the Company's parent company) and Wheelock (which is Wharf's parent company), and of two fellow subsidiaries, namely, i-CABLE and Wharf Finance (BVI) Limited, and the percentages (if applicable) which the relevant securities represented to the issued share capitals of the five relevant companies respectively are also set out below:

| | **Quantity held** (percentage of issued share capital, if applicable) | **Nature of Interest** |
|---|---|---|
| **The Company – Ordinary Shares** | | |
| Michael T P Sze | 37,500 (0.0053%) | Family interest |
| **Wheelock – Ordinary Shares** | | |
| Stephen T H Ng | 300,000 (0.0148%) | Personal interest |
| T Y Ng | 70,000 (0.0034%) | Personal interest |
| **Wharf – Ordinary Shares** | | |
| Stephen T H Ng | 731,314 (0.0266%) | Personal interest |
| T Y Ng | 200,268 (0.0073%) | Personal interest |
| Michael T P Sze | 50,099 (0.0018%) | Family interest |
| **i-CABLE – Ordinary Shares** | | |
| Stephen T H Ng | 1,265,005 (0.0629%) | Personal interest |
| T Y Ng | 17,801 (0.0009%) | Personal interest |
| **Wharf Finance (BVI) Limited – HK$ Fixed Rate Notes due 2011** | | |
| Brian S K Tang | HK$1,500,000 | Personal interest |

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

## (C) Substantial Shareholders' Interests

Given below are the names of all parties which were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital of the Company as at 31 December 2009, the respective relevant numbers of shares in which they were, and/or were deemed to be, interested as at that date as recorded in the register kept by the Company under section 336 of the SFO (the "Register") and the percentages which the shares represented to the issued share capital of the Company:

| | **Names** | **No. of Ordinary Shares** (percentage of issued capital) |
|---|---|---|
| (i) | Upfront International Limited | 498,744,196 (70.37%) |
| (ii) | Wharf Estates Limited | 498,744,196 (70.37%) |
| (iii) | The Wharf (Holdings) Limited | 498,744,196 (70.37%) |
| (iv) | WF Investment Partners Limited | 498,744,196 (70.37%) |
| (v) | Wheelock and Company Limited | 498,744,196 (70.37%) |
| (vi) | HSBC Trustee (Guernsey) Limited | 498,744,196 (70.37%) |
| (vii) | Harson Investment Limited | 57,054,375 (8.05%) |

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

All the interests stated above represented long positions and as at 31 December 2009, there were no short position interests recorded in the Register.

## (D) Directors' Interests in Competing Business

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

Three Directors of the Company, namely, Messrs S. T. H. Ng, T. Y. Ng and P. Y. C. Tsui, being also directors of Wharf, and/or subsidiaries of Wharf, are considered as having an interest in Wharf under Rule 8.10 of the Listing Rules.

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

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

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

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

## (E) Major Customers and Suppliers

For the financial year ended 31 December 2009:

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

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

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

Particulars of any and all bank loans, overdrafts and/or other borrowings of the Company and of the Group as at 31 December 2009 which are repayable on demand or within a period not exceeding one year are set out in Note 22 to the Financial Statements on pages 48 to 49. Those which would fall due for repayment after a period of one year are also particularised in Note 22 to the Financial Statements on pages 48 to 49.

## (G) Interest Capitalised

The amount of interest capitalised by the Group during the financial year is set out in Note 5 to the Financial Statements on page 35.

## (H) Public Float

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules throughout the financial year ended 31 December 2009.

## (I) Disclosure of Continuing Connected Transaction

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

**(a) Operations Agreement with the Wharf group**

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

The management fees payable under the Operations Agreement are subject to annual cap amounts and the total amount of fees paid by HHL to MPHML for the year ended 31 December 2009 amounted to HK$28.1 million.

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

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

On 16 November 2009, HHL and MPHML entered into a memorandum of addendum whereby the appointment of MPHML as the manager of the Hotel as abovementioned was renewed for a further term of three years from 1 January 2010, and such re-appointment was duly approved by the Company's Shareholders at an extraordinary general meeting held on 30 December 2009.

**(b) Confirmation from Directors etc.**

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

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

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

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

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

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

(2) nothing came to the attention of the auditors of the Company that caused them to believe that the Transaction was not entered into in accordance with the terms of the related agreements governing the Transaction; and

(3) The relevant cap amount has not been exceeded during the financial year ended 31 December 2009.

# Independent Auditor's Report

## TO THE SHAREHOLDERS OF HARBOUR CENTRE DEVELOPMENT LIMITED

*(incorporated in Hong Kong with limited liability)*

We have audited the consolidated financial statements of Harbour Centre Development Limited (the "Company") set out on pages 24 to 77 which comprise the consolidated and Company statements of financial position as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

## AUDITOR'S RESPONSIBILITY

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

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

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

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

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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

10 March 2010

# Consolidated Income Statement

For the year ended 31 December 2009

| | Note | **2009** **HK$ Million** | 2008 HK$ Million |
|---|---|---|---|
| **Turnover** | 1 | **566.3** | 664.2 |
| Direct costs and operating expenses | | **(252.0)** | (274.8) |
| Selling and marketing expenses | | **(24.5)** | (25.1) |
| Administrative and corporate expenses | | **(21.1)** | (16.3) |
| Operating profit before depreciation, amortisation, interest and tax | | **268.7** | 348.0 |
| Depreciation and amortisation | | **(24.2)** | (36.1) |
| **Operating profit** | 2 | **244.5** | 311.9 |
| Increase in fair value of investment properties | | **231.4** | 31.5 |
| Other net income/(loss) | 3 | **96.5** | (23.9) |
| Net other charge | 4 | **—** | (47.5) |
| | | **572.4** | 272.0 |
| Finance costs | 5 | **(13.0)** | (67.1) |
| Share of results after tax of: | | | |
| Associate | | **17.5** | (0.1) |
| Jointly controlled entities | | **(3.3)** | (10.9) |
| Profit before taxation | | **573.6** | 193.9 |
| Taxation | 6(b) | **(77.0)** | (24.3) |
| **Profit for the year** | | **496.6** | 169.6 |
| **Profit attributable to:** | | | |
| **Equity shareholders** | 7 | **496.9** | 170.5 |
| **Minority interests** | | **(0.3)** | (0.9) |
| | | **496.6** | 169.6 |
| **Earnings per share** | 8 | | |
| Basic | | **HK$0.78** | HK$0.36 |
| Diluted | | **HK$0.78** | HK$0.36 |

The notes and principal accounting policies on pages 31 to 77 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in Note 9.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2009

| | Note | 2009 *HK$ Million* | 2008 *HK$ Million* |
|---|---|---|---|
| **Profit for the year** | | **496.6** | 169.6 |
| **Other comprehensive income** | | | |
| Exchange difference on translation of: | | **(41.5)** | 241.8 |
| – financial statements of overseas subsidiaries | | **4.7** | 177.2 |
| – financial statements of jointly controlled entities | | **(46.2)** | 64.6 |
| Available-for-sale investments: | | | |
| Net movement in the investments revaluation reserves | | **541.4** | (935.2) |
| Surplus/(deficit) on revaluation | | **552.1** | (649.4) |
| Less: reclassification adjustments for | | | |
| – gains included in profit or loss on disposal | | **(10.7)** | (333.3) |
| – impairment losses included in profit or loss | | **—** | 47.5 |
| Actuarial gains/(losses) on defined benefit pension schemes | | **12.8** | (14.7) |
| Other comprehensive income for the year | | **512.7** | (708.1) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **1,009.3** | (538.5) |
| Total comprehensive income attributable to: | | | |
| Equity shareholders of the Company | | **1,009.9** | (550.8) |
| Minority interests | | **(0.6)** | 12.3 |
| | | **1,009.3** | (538.5) |

The notes and principal accounting policies on pages 31 to 77 form part of these financial statements.

# Consolidated Statement of Financial Position

As at 31 December 2009

| | Note | **2009** *HK$ Million* | 2008 *HK$ Million* |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | 10 | | |
| Investment properties | | **2,515.5** | 1,877.0 |
| Leasehold land | | **15.2** | 15.2 |
| Other properties, plant and equipment | | **59.2** | 80.4 |
| Interest in an associate | 12 | **0.2** | 0.7 |
| Interest in jointly controlled entities | 13 | **1,650.9** | 2,586.7 |
| Available-for-sale investments | 14 | **1,193.0** | 604.0 |
| Long term receivables | 15 | **—** | 0.5 |
| Employee retirement benefit assets | 16 | **11.0** | — |
| Derivative financial assets | 19 | **—** | 2.9 |
| | | **5,445.0** | 5,167.4 |
| **Current assets** | | | |
| Properties under development for sale | 17 | **6,472.7** | 4,972.6 |
| Inventories | | **2.9** | 3.4 |
| Trade and other receivables | 18 | **95.8** | 105.3 |
| Derivative financial assets | 19 | **9.3** | — |
| Bank deposits and cash | 20 | **1,124.0** | 1,258.4 |
| | | **7,704.7** | 6,339.7 |
| **Current liabilities** | | | |
| Trade and other payables | 21 | **210.9** | 180.9 |
| Derivative financial liabilities | 19 | **—** | 165.8 |
| Taxation payable | 6(d) | **79.6** | 77.4 |
| | | **290.5** | 424.1 |
| **Net current assets** | | **7,414.2** | 5,915.6 |
| **Total assets less current liabilities** | | **12,859.2** | 11,083.0 |
| **Non-current liabilities** | | | |
| Employee retirement benefit liabilities | 16 | **—** | 3.6 |
| Derivative financial liabilities | 19 | **8.2** | 1.3 |
| Bank loans | 22 | **2,953.2** | 3,065.0 |
| Deferred taxation | 23 | **290.2** | 250.3 |
| | | **3,251.6** | 3,320.2 |
| **NET ASSETS** | | **9,607.6** | 7,762.8 |
| **Capital and reserves** | | | |
| Share capital | 26 | **354.4** | 236.3 |
| Reserves | | **8,551.4** | 6,830.7 |
| **Shareholders' equity** | | **8,905.8** | 7,067.0 |
| Minority interests | | **701.8** | 695.8 |
| **TOTAL EQUITY** | | **9,607.6** | 7,762.8 |

The notes and principal accounting policies on pages 31 to 77 form part of these financial statements.

**Stephen T H Ng**
*Chairman*

**T Y Ng**
*Director*

# Company Statement of Financial Position

As at 31 December 2009

| | Note | **2009** **HK$ Million** | 2008 HK$ Million |
|---|---|---|---|
| **Non-current assets** | | | |
| Interest in subsidiaries | 11 | **4,144.6** | 1,755.5 |
| **Current assets** | | | |
| Trade and other receivables | | **0.2** | 0.3 |
| Bank deposits and cash | | **0.9** | 1,063.3 |
| | | **1.1** | 1,063.6 |
| **Current liabilities** | | | |
| Trade and other payables | | **1.7** | 2.7 |
| | | **1.7** | 2.7 |
| **Net current (liabilities)/assets** | | **(0.6)** | 1,060.9 |
| **NET ASSETS** | | **4,144.0** | 2,816.4 |
| **Capital and reserves** | | | |
| Share capital | 26 | **354.4** | 236.3 |
| Reserves | 27(a) | **3,789.6** | 2,580.1 |
| **TOTAL EQUITY** | | **4,144.0** | 2,816.4 |

The notes and principal accounting policies on pages 31 to 77 form part of these financial statements.

**Stephen T H Ng**
*Chairman*

**T Y Ng**
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2009

| | Shareholders' equity | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital *HK$ Million* | Share premium *HK$ Million* | Investments revaluation reserve *HK$ Million* | Revenue reserve *HK$ Million* | Exchange reserve *HK$ Million* | Total shareholders' equity *HK$ Million* | Minority interests *HK$ Million* | Total equity *HK$ Million* |
| At 1 January 2008 | 157.5 | 542.0 | 1,096.2 | 3,909.9 | 42.5 | 5,748.1 | 197.0 | 5,945.1 |
| Total comprehensive income for the year | — | — | (935.2) | 155.8 | 228.6 | (550.8) | 12.3 | (538.5) |
| Rights issue | 78.8 | 1,927.9 | — | — | — | 2,006.7 | — | 2,006.7 |
| Shares issued by a subsidiary | — | — | — | — | — | — | 486.5 | 486.5 |
| Final dividend paid in respect of 2007 | — | — | — | (113.4) | — | (113.4) | — | (113.4) |
| Interim dividend paid in respect of 2008 (Note 9) | — | — | — | (23.6) | — | (23.6) | — | (23.6) |
| At 31 December 2008 and 1 January 2009 | **236.3** | **2,469.9** | **161.0** | **3,928.7** | **271.1** | **7,067.0** | **695.8** | **7,762.8** |
| Total comprehensive income for the year | **—** | **—** | **541.4** | **509.7** | **(41.2)** | **1,009.9** | **(0.6)** | **1,009.3** |
| Rights issue | **118.1** | **817.1** | **—** | **—** | **—** | **935.2** | **—** | **935.2** |
| Shares issued by a subsidiary | **—** | **—** | **—** | **—** | **—** | **—** | **6.6** | **6.6** |
| Final dividend paid in respect of 2008 (Note 9) | **—** | **—** | **—** | **(70.9)** | **—** | **(70.9)** | **—** | **(70.9)** |
| Interim dividend paid in respect of 2009 (Note 9) | **—** | **—** | **—** | **(35.4)** | **—** | **(35.4)** | **—** | **(35.4)** |
| At 31 December 2009 | **354.4** | **3,287.0** | **702.4** | **4,332.1** | **229.9** | **8,905.8** | **701.8** | **9,607.6** |

The notes and principal accounting policies on pages 31 to 77 form part of these financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2009

| | Note | 2009 HK$ Million | 2008 HK$ Million |
|---|---|---|---|
| Operating cash inflow | (a) | **240.4** | 280.9 |
| Changes in working capital | (a) | **(558.3)** | (3,551.5) |
| **Cash used in operations** | (a) | **(317.9)** | (3,270.6) |
| Interest received | | **4.1** | 14.4 |
| Interest paid on bank loans | | **(19.4)** | (62.0) |
| Dividends received from associates | | **18.0** | — |
| Dividend income from listed investments | | **30.7** | 43.7 |
| Hong Kong Profits Tax paid | | **(34.9)** | (37.1) |
| **Net cash used in operating activities** | | **(319.4)** | (3,311.6) |
| **Investing activities** | | | |
| Release of pledged deposits | | **—** | 452.4 |
| Purchase of fixed assets | | **(13.2)** | (30.1) |
| Net increase in interest in an associate | | **(22.1)** | (6.5) |
| Net increase in interest in jointly controlled entities | | **(676.3)** | (596.9) |
| Decrease in long term receivables | | **0.5** | 1.2 |
| Purchase of available-for-sale investments | | **(91.2)** | (12.3) |
| Net proceeds from sale of a jointly controlled entity | 24 | **165.4** | — |
| Proceeds from sale of available-for-sale investments | | **98.2** | 1,085.4 |
| **Net cash (used in)/generated from investing activities** | | **(538.7)** | 893.2 |
| **Financing activities** | | | |
| Net proceeds from the Rights issue of shares | | **935.2** | 2,006.7 |
| Drawdown of new bank loans | | **153.2** | 2,782.1 |
| Repayment of bank loans | | **(265.0)** | (1,593.9) |
| Issue of shares by a subsidiary to minority interests | | **6.6** | 486.5 |
| Dividends paid | | **(106.3)** | (137.0) |
| **Net cash generated from financing activities** | | **723.7** | 3,544.4 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(134.4)** | 1,126.0 |
| **Cash and cash equivalents at 1 January** | | **1,258.4** | 132.4 |
| **Cash and cash equivalents at 31 December** | | **1,124.0** | 1,258.4 |

Cash and cash equivalents represent bank deposits and cash.

The notes and principal accounting policies on pages 31 to 77 form part of these financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31 December 2009

## NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

| | **2009**<br>***HK$ Million*** | 2008<br>*HK$ Million* |
|---|---|---|
| Operating profit | **244.5** | 311.9 |
| Depreciation and amortisation | **24.2** | 36.1 |
| Dividend income from listed investments | **(30.7)** | (42.9) |
| Interest income | **(4.4)** | (14.4) |
| Exchange gain/(loss) | **6.8** | (9.8) |
| Operating cash inflow | **240.4** | 280.9 |
| Change in employee retirement benefit assets/liabilities | **(1.8)** | (2.6) |
| Increase in property under development for sale | **(452.9)** | (3,927.6) |
| Decrease in inventories | **0.5** | — |
| Decrease in trade and other receivables | **18.8** | 476.5 |
| Increase in trade and other payables | **14.1** | 1.2 |
| Change in derivative financial instruments (net) | **(133.6)** | (98.0) |
| Decrease in amounts due to fellow subsidiaries (net) | **(3.4)** | (1.0) |
| Changes in working capital | **(558.3)** | (3,551.5) |
| **Cash used in operations** | **(317.9)** | (3,270.6) |

## 1. SEGMENT REPORTING

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

Hotel segment represents the operations of Marco Polo Hongkong Hotel.

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

Property development segment encompasses activities relating to the acquisition, design, development, marketing and sale of trading properties primarily in Hong Kong and China.

Investment and others segment includes activities for managing the Group's corporate assets and liabilities, available-for-sale investments and derivative financial instruments.

Management evaluates performance based on operating profit as well as the equity share of results of associate and jointly controlled entities of each segment.

Segment assets principally comprise all tangible, intangible assets and current assets directly attributable to each segment with the exception of income tax assets.

### (a) Analysis of segment results

| | Turnover<br>*HK$ Million* | Operating profit /(loss)<br>*HK$ Million* | Increase in fair value of investment properties<br>*HK$ Million* | Other net income/ (expense)<br>*HK$ Million* | Net other charge<br>*HK$ Million* | Finance costs<br>*HK$ Million* | Share of results after tax of an associate<br>*HK$ Million* | Share of results after tax of jointly controlled entities<br>*HK$ Million* | Profit /(loss) before taxation<br>*HK$ Million* |
|---|---|---|---|---|---|---|---|---|---|
| 2009 | | | | | | | | | |
| Hotel | **391.1** | **112.3** | **—** | **—** | **—** | **(8.6)** | **—** | **—** | **103.7** |
| Property investment | **140.1** | **115.7** | **231.4** | **—** | **—** | **—** | **—** | **—** | **347.1** |
| Property development | **—** | **(12.8)** | **—** | **5.4** | **—** | **(1.9)** | **17.5** | **(3.3)** | **4.9** |
| Investment and others | **35.1** | **35.1** | **—** | **91.1** | **—** | **(2.5)** | **—** | **—** | **123.7** |
| Segment total | **566.3** | **250.3** | **231.4** | **96.5** | **—** | **(13.0)** | **17.5** | **(3.3)** | **579.4** |
| Corporate expenses | **—** | **(5.8)** | **—** | **—** | **—** | **—** | **—** | **—** | **(5.8)** |
| Total | **566.3** | **244.5** | **231.4** | **96.5** | **—** | **(13.0)** | **17.5** | **(3.3)** | **573.6** |
| 2008 | | | | | | | | | |
| Hotel | 472.4 | 161.1 | — | — | — | (28.5) | — | — | 132.6 |
| Property investment | 134.5 | 109.9 | 31.5 | — | — | — | — | — | 141.4 |
| Property development | — | (7.9) | — | (1.4) | — | (23.6) | (0.1) | (10.9) | (43.9) |
| Investment and others | 57.3 | 57.3 | — | (22.5) | (47.5) | (15.0) | — | — | (27.7) |
| Segment total | 664.2 | 320.4 | 31.5 | (23.9) | (47.5) | (67.1) | (0.1) | (10.9) | 202.4 |
| Corporate expenses | — | (8.5) | — | — | — | — | — | — | (8.5) |
| Total | 664.2 | 311.9 | 31.5 | (23.9) | (47.5) | (67.1) | (0.1) | (10.9) | 193.9 |

(i) Substantially all depreciation and amortisation were attributable to the Hotel Segment.

(ii) All interest income were attributable to the Investment and others Segment.

(iii) No inter-segment revenue has been recorded during the current and prior years.

## (b) Analysis of assets

| | Assets | |
|---|---|---|
| | **2009** **HK$ Million** | 2008 HK$ Million |
| Hotel | **117.2** | 143.1 |
| Property investment | **2,163.5** | 1,928.9 |
| Property development | **8,937.0** | 7,761.2 |
| Investments and others | **1,932.0** | 1,673.9 |
| Group total | **13,149.7** | 11,507.1 |

## (c) Geographical information

| | Revenue | | Specified non-current assets | | Total assets | |
|---|---|---|---|---|---|---|
| | **2009** **HK$ Million** | 2008 HK$ Million | **2009** **HK$ Million** | 2008 HK$ Million | **2009** **HK$ Million** | 2008 HK$ Million |
| Hong Kong | **532.4** | 620.4 | **2,299.7** | 1,990.4 | **3,130.3** | 3,160.5 |
| China | **3.2** | 5.9 | **2,057.6** | 2,587.4 | **8,935.8** | 7,759.9 |
| Singapore | **30.7** | 37.9 | **1,076.7** | 586.7 | **1,083.6** | 586.7 |
| Group total | **566.3** | 664.2 | **5,434.0** | 5,164.5 | **13,149.7** | 11,507.1 |

Specified non-current assets represented non-current assets other than employee retirement benefit assets, deferred tax assets and derivative financial assets.

## 2. OPERATING PROFIT

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

| | 2009 HK$ Million | 2008 HK$ Million |
|---|---|---|
| After charging/(crediting): | | |
| Depreciation and amortisation | **24.2** | 36.1 |
| Staff costs | **112.4** | 120.0 |
| Including: | | |
| – Contributions to defined contribution pension schemes (after a forfeiture of HK$0.5 million (2008: HK$0.3 million)) | **5.0** | 5.2 |
| – Income recognised in respect of defined benefit pension schemes (Note 16) | **(1.1)** | (2.1) |
| Auditors' remuneration | | |
| – Audit services | **1.2** | 1.1 |
| – Other services | **0.6** | 0.7 |
| Rental income less direct outgoings (Note i) | **(118.9)** | (111.1) |
| Interest income on bank deposits | **(4.4)** | (14.4) |
| Dividend income from listed investments | **(30.7)** | (42.9) |

*Note:*

(i) Rental income included contingent rentals of HK$48.5 million (2008: HK$49.4 million).

### (b) Directors' emoluments

| | Fees HK$000 | Basic salaries housing and other allowances and benefits in kind HK$000 | Discretionary bonuses and/or performance related bonuses HK$000 | Retirement scheme contributions HK$000 | 2009 Total HK$000 | 2008 Total HK$000 |
|---|---|---|---|---|---|---|
| **Executive director** | | | | | | |
| Gozaga W J Li (i) | 10 | 194 | — | — | **204** | 820 |
| Stephen T H Ng (ii) | 30 | 586 | — | — | **616** | — |
| **Non-executive director** | | | | | | |
| T Y Ng (vi) | 55 | — | — | — | **55** | 55 |
| Paul Y C Tsui (iii) | 30 | — | — | — | **30** | — |
| **Independent non-executive directors** | | | | | | |
| Michael T P Sze (vi) | 55 | — | — | — | **55** | 55 |
| H M V de Lacy Staunton | 40 | — | — | — | **40** | 40 |
| Brian S K Tang (vi) | 55 | — | — | — | **55** | 17 |
| Clement K H Wong (iv) | 19 | — | — | — | **19** | 37 |
| **Past directors** | | | | | | |
| M K Tan | — | — | — | — | **—** | 34 |
| | 294 | 780 | — | — | **1,074** | 1,058 |
| Total for 2008 | 278 | 780 | — | — | **—** | 1,058 |

*Notes:*

(i) Mr. Gonzaga W Li resigned as a director of the Company with effect from 2 April 2009.

(ii) Mr. Stephen T H Ng was appointed as a director of the Company with effect from 2 April 2009.

(iii) Mr. Paul Y C Tsui was appointed as a director of the Company with effect from 2 April 2009.

(iv) Mr. Clement K H Wong resigned as a director of the Company with effect from 20 June 2009.

(v) There were no compensation for loss of office and/or inducement for joining the Group paid/payable to the Company's Directors in respect of the years ended 31 December 2009 and 31 December 2008.

(vi) Includes Audit Committee Member's fee received by each of the relevant Directors based on HK$15,000 per annum for the year ended 31 December 2009 (2008: HK$15,000 per annum).

## (c) Emoluments of the highest paid employees

Set out below are analyses of the emoluments (excluding amounts, if any, paid or payable by way of commissions on sales generated by the employees concerned) for the year ended 31 December 2009 of the five highest paid employees of the Group, none of whom is a director of the Company. The aggregate of the emoluments in respect of the individuals are as follows:

| | **2009**<br>***HK$ Million*** | 2008<br>*HK$ Million* |
|---|---|---|
| Basic salaries, housing allowances, and other allowances and benefits in kind | **4.4** | 5.0 |
| Retirement scheme contributions | **0.2** | 0.3 |
| Discretionary bonuses and/or performance-related bonuses | **0.7** | 1.0 |
| | **5.3** | 6.3 |

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

| Bands (in HK$) | **2009**<br>**Number of individuals** | 2008<br>Number of individuals |
|---|---|---|
| Not more than $1,000,000 | **1** | 1 |
| $1,000,001 - $1,500,000 | **4** | 3 |
| $1,500,001 - $2,000,000 | **—** | — |
| $2,000,001 - $2,500,000 | **—** | 1 |

## 3. OTHER NET INCOME/(LOSS)

| | 2009<br>HK$ Million | 2008<br>HK$ Million |
|---|---|---|
| Profit on disposal of available-for-sale investments<br>– including HK$10.7 million (2008: HK$333.3 million)<br>reclassified from the investments revaluation reserve | **54.6** | 143.2 |
| Exchange gain/(loss) | **38.5** | (167.1) |
| Net gain on disposal of a jointly controlled entity | **3.4** | — |
| | **96.5** | (23.9) |

## 4. NET OTHER CHARGE

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

## 5. FINANCE COSTS

| | 2009<br>HK$ Million | 2008<br>HK$ Million |
|---|---|---|
| Interest on bank borrowings wholly repayable within five years | **16.3** | 64.8 |
| Other finance costs | **6.0** | 3.9 |
| | **22.3** | 68.7 |
| Less: Amount capitalised | **(10.8)** | — |
| | **11.5** | 68.7 |
| Fair value changes on cross currency interest rate swaps | **1.5** | (1.6) |
| | **13.0** | 67.1 |

(a) Interest was capitalised at an average annual rate of approximately 0.5% (2008: Nil).

(b) Interest costs are in respect of interest bearing borrowings that are stated at amortised cost.

(c) The above interest charge has taken into account the interest paid/receipts in respect of cross currency interest rate swaps.

## 6. TAXATION

(a) The provision for Hong Kong profits tax is at the rate of 16.5% (2008: 16.5%) of the estimated assessable profits for the year.

(b) Taxation charged to the consolidated income statement represents:

| | **2009 HK$ Million** | 2008 HK$ Million |
|---|---|---|
| **Current taxation** | | |
| Hong Kong profits tax provision for the year | **35.4** | 53.2 |
| Under/(over)provision in respect of prior years | **1.7** | (19.2) |
| | **37.1** | 34.0 |
| **Deferred taxation** | | |
| Change in fair value of investment properties | **38.2** | 5.2 |
| Origination and reversal of temporary differences | **1.7** | (2.7) |
| Effect on deferred tax balances at 1 January resulting from a change in tax rate | **—** | (12.2) |
| | **39.9** | (9.7) |
| Total tax charge | **77.0** | 24.3 |

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

| | **2009 HK$ Million** | 2008 HK$ Million |
|---|---|---|
| Profit before taxation | **573.6** | 193.9 |
| Notional tax on accounting profit calculated at applicable tax rates | **94.1** | 32.0 |
| Tax effect of non-deductible expenses | **3.3** | 15.4 |
| Tax effect of non-taxable income | **(19.2)** | (17.6) |
| Tax effect of tax losses not recognised | **4.2** | 25.9 |
| Tax effect of prior year's unrecognised tax losses utilised this year | **(7.1)** | — |
| Effect on deferred tax balances at 1 January resulting from a change in tax rate | **—** | (12.2) |
| Under/(over)provision in respect of prior years | **1.7** | (19.2) |
| Actual total tax charge | **77.0** | 24.3 |

(d) The taxation payable in the consolidated statement of financial position is expected to be settled within one year.

(e) Tax attributable to associate for the year of HK$3.4 million (2008: HK$Nil) is included in the share of results of associate. There is no share of tax in respect of the jointly controlled entities.

## 7. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS

The profit attributable to equity shareholders for the year is dealt with in the financial statements of the Company to the extent of HK$498.7 million (2008: HK$0.3 million).

## 8. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year attributable to equity shareholders of HK$496.9 million (2008: HK$170.5 million) and the weighted average of 639.2 million ordinary shares (2008: 478.1 million shares after adjusting for the rights issue which was completed in May 2009), calculated as follows:

Weighted average number of ordinary shares

| | **2009 No. of Shares Million** | 2008 No. of Shares Million |
|---|---|---|
| Issued ordinary shares at 1 January | **472.5** | 315.0 |
| Effect of rights issue (Note 26) | **166.7** | 163.1 |
| Weighted average number of ordinary shares at 31 December | **639.2** | 478.1 |

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2009 and 2008.

## 9. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

| | **2009** ***HK$ Million*** | 2008 *HK$ Million* |
|---|---|---|
| Interim dividend declared and paid of 5.0 cents (2008: 5.0 cents) per share | **35.4** | 23.6 |
| Final dividend of 15.0 cents (2008: 15.0 cents) per share proposed after the end of reporting date | **106.3** | 70.9 |
| | **141.7** | 94.5 |

(a) The amount of the proposed final dividend in respect of 2009 is based on 708.8 million shares (2008: 472.5 million shares) as being enlarged by the rights issue launched and completed in May 2009 by the Company. The proposed final dividend has not been recognised as liabilities at the end of reporting date.

(b) The final dividend of HK$70.9 million for 2008 was approved and paid in 2009.

## 10. FIXED ASSETS

| | Group | | | | |
|---|---|---|---|---|---|
| | Investment properties HK$ Million | Hotel property HK$ Million | Leasehold Land HK$ Million | Others HK$ Million | Total HK$ Million |
| **Cost or valuation** | | | | | |
| At 1 January 2008 | 1,827.0 | 98.9 | 15.9 | 221.2 | 2,163.0 |
| Additions | 18.5 | — | — | 11.6 | 30.1 |
| Disposals | — | — | — | (0.4) | (0.4) |
| Revaluation surplus | 31.5 | — | — | — | 31.5 |
| At 31 December 2008 and 1 January 2009 | **1,877.0** | **98.9** | **15.9** | **232.4** | **2,224.2** |
| Exchange adjustment | **0.4** | **—** | **—** | **—** | **0.4** |
| Reclassification | **402.2** | **—** | **—** | **—** | **402.2** |
| Additions | **4.5** | **1.0** | **—** | **7.2** | **12.7** |
| Disposals | **—** | **(0.4)** | **—** | **(6.1)** | **(6.5)** |
| Revaluation surplus | **231.4** | **—** | **—** | **—** | **231.4** |
| At 31 December 2009 | **2,515.5** | **99.5** | **15.9** | **233.5** | **2,864.4** |
| **Accumulated depreciation and amortisation** | | | | | |
| At 1 January 2008 | — | 77.1 | 0.7 | 138.1 | 215.9 |
| Charge for the year | — | 9.6 | — | 26.5 | 36.1 |
| Written back on disposals | — | — | — | (0.4) | (0.4) |
| At 31 December 2008 and 1 January 2009 | **—** | **86.7** | **0.7** | **164.2** | **251.6** |
| Charge for the year | **—** | **2.0** | **—** | **22.2** | **24.2** |
| Written back on disposals | **—** | **—** | **—** | **(1.3)** | **(1.3)** |
| At 31 December 2009 | **—** | **88.7** | **0.7** | **185.1** | **274.5** |
| **Net book value** | | | | | |
| At 31 December 2009 | **2,515.5** | **10.8** | **15.2** | **48.4** | **2,589.9** |
| At 31 December 2008 | 1,877.0 | 12.2 | 15.2 | 68.2 | 1,972.6 |

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

| | Group | | | | |
|---|---|---|---|---|---|
| | Investment properties *HK$ Million* | Hotel property *HK$ Million* | Leasehold Land *HK$ Million* | Others *HK$ Million* | Total *HK$ Million* |
| 2009 valuation | **2,110.0** | **—** | **—** | **—** | **2,110.0** |
| Cost less provisions | **405.5** | **99.5** | **15.9** | **233.5** | **754.4** |
| | **2,515.5** | **99.5** | **15.9** | **233.5** | **2,864.4** |
| 2008 valuation | 1,877.0 | — | — | — | 1,877.0 |
| Cost less provisions | — | 98.9 | 15.9 | 232.4 | 347.2 |
| | 1,877.0 | 98.9 | 15.9 | 232.4 | 2,224.2 |

## (a) Tenure of title to properties:

| | Investment properties | Hotel property | Leasehold Land | Others | Total |
|---|---|---|---|---|---|
| At 31 December 2009 | | | | | |
| Held in Hong Kong | | | | | |
| Long term leases | **2,110.0** | **10.8** | **15.2** | **—** | **2,136.0** |
| Held outside Hong Kong | | | | | |
| Medium term leases | **405.5** | **—** | **—** | **—** | **405.5** |
| | **2,515.5** | **10.8** | **15.2** | **—** | **2,541.5** |
| At 31 December 2008 | | | | | |
| Held in Hong Kong | | | | | |
| Long term leases | 1,877.0 | 12.2 | 15.2 | — | 1,904.4 |

## (b) Properties revaluation

The Group's investment properties under development are stated at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. Those investment properties stated at fair value as at 31 December 2009 were revalued by Knight Frank Petty Limited ("Knight Frank"), an independent firm of professional surveyors who have among their staff Fellows of the Hong Kong Institute of Surveyors with extensive experience in valuing properties in Hong Kong and the PRC. Knight Frank has valued the investment properties on a market value basis and has taken into account the net income of the respective properties and allowing for reversionary potential.

The surplus or deficit arising on revaluation is recognised directly in the consolidated income statement.

Gross rental revenue from investment properties amounted to HK$140.1 million (2008: HK$134.5 million).

## (c) Impairment of fixed assets

The value of properties, other than investment properties which are revalued annually, is assessed at the end of each reporting date for indications of impairment with reference to valuations undertaken by management. Such valuations assess the recoverable amount of each property based on its value in use (using relevant discount rates) or on its net selling price (by reference to market prices), depending upon the anticipated future plans for the property. No such provision was made or written back for 2009 and 2008.

(d) The Group leases out its investment properties under operating leases which generally run for an initial period of two to four years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments may contain a contingent rent element which is based on various percentages of tenants' sales receipts.

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

| | **2009** **HK$ Million** | 2008 HK$ Million |
|---|---|---|
| Within 1 year | **83.9** | 41.4 |
| After 1 year but within 5 years | **88.2** | 21.2 |
| | **172.1** | 62.6 |

## 11. INTEREST IN SUBSIDIARIES

| | **Company** | |
|---|---|---|
| | **2009** **HK$ Million** | 2008 HK$ Million |
| Unlisted shares, at cost | **—** | — |
| Amounts due from subsidiaries | **6,920.6** | 5,202.6 |
| | **6,920.6** | 5,202.6 |
| Amounts due to subsidiaries | **(2,776.0)** | (3,447.1) |
| | **4,144.6** | 1,755.5 |

Details of principal subsidiaries at 31 December 2009 are shown on pages 76 to 77.

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

## 12. INTEREST IN AN ASSOCIATE

| | **Group** | |
|---|---|---|
| | **2009** **HK$ Million** | 2008 HK$ Million |
| Share of net tangible assets | **0.2** | 0.7 |
| | **0.2** | 0.7 |

Details of associate at 31 December 2009 is shown on page 77.

Summary financial information on an associate:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Total** | **Attributable interest** | Total | Attributable interest |
| | ***HK$ Million*** | ***HK$ Million*** | *HK$ Million* | *HK$ Million* |
| Assets | **39.0** | **7.8** | 167.7 | 33.5 |
| Liabilities | **(38.0)** | **(7.6)** | (164.1) | (32.8) |
| Equity | **1.0** | **0.2** | 3.6 | 0.7 |
| Revenues | **0.2** | **—** | 1.5 | 0.3 |
| Profit before taxation | **104.7** | **20.9** | 1.1 | 0.1 |
| Taxation | **(17.0)** | **(3.4)** | — | — |
| Profit after taxation | **87.7** | **17.5** | 1.1 | 0.1 |

## 13. INTEREST IN JOINTLY CONTROLLED ENTITIES

| | Company | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$ Million*** | *HK$ Million* |
| Share of net tangible assets | **31.3** | 77.9 |
| Amounts due from jointly controlled entities | **1,619.6** | 2,508.8 |
| | **1,650.9** | 2,586.7 |

Details of principal jointly controlled entities at 31 December 2009 are shown on page 77.

The amounts due from jointly controlled entities are unsecured, interest free and have no fixed terms of repayment. The amounts are neither past due nor impaired.

(a) Pursuant to an acquisition agreement entered into between the Group and Greentown China Holdings Limited ("Greentown China") on 10 April 2009, the Group disposed of its 40% equity interests in a jointly controlled entity, Hangzhou Greentown Haiqi Property Development Company Limited ("Greentown Haiqi"), to Greentown China. Details in respect of the disposal are shown in Note 24.

(b) The Group's interest in jointly-controlled entities at 31 December 2009 represents its investment in Speedy Champ Investments Limited ("Speedy Champ"), a limited liability company established in Hong Kong which is 55% owned by the Group. Notwithstanding the Group's contribution of 55% of the registered capital, as neither the Group nor the joint venture partner have the ability to control the board of directors and economic activities of Speedy Champ, the Group accounts for its investment in Speedy Champ as a jointly controlled entity. The Group entered into an agreement with the joint venture partner relating to a property development in Chongqing in China which stipulates that all significant financial and operating decisions of Speedy Champ must be approved by all of its directors.

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

| | **2009** *HK$ Million* | 2008 *HK$ Million* |
|---|---|---|
| Non-current assets | **—** | 1.9 |
| Current assets | **1,651.3** | 2,819.8 |
| Current liabilities | **(0.4)** | (226.8) |
| Non-current liabilities | **—** | (8.2) |
| Equity | **1,650.9** | 2,586.7 |
| Revenues | **—** | — |
| Loss before taxation | **(3.3)** | (10.9) |
| Taxation | **—** | — |
| Loss after taxation | **(3.3)** | (10.9) |

## 14. AVAILABLE-FOR-SALE INVESTMENTS

| | **Group** | |
|---|---|---|
| | **2009** *HK$ Million* | 2008 *HK$ Million* |
| Listed investments stated at market value | | |
| – in Hong Kong | **91.3** | — |
| – outside Hong Kong | **1,101.7** | 597.0 |
| Unlisted investments | **—** | 7.0 |
| | **1,193.0** | 604.0 |

As at 31 December 2009, the fair value of individually impaired available-for-sale investments amounted to HK$25.0 million (2008: HK$10.3 million) and no impairment loss (2008: HK$47.5 million) was recognised in the consolidated income statement for the year under review.

## 15. LONG TERM RECEIVABLES

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

## 16. EMPLOYEE RETIREMENT BENEFITS

### (a) Defined benefit pension schemes

The Group makes contributions to two defined benefit pension schemes that provide pension benefits for certain employees upon retirement. The assets of the schemes are held separately by independently administered funds. The schemes are funded by contributions from both employers and employees. The contributions from employers are in accordance with recommendations made by independent actuaries based on their valuation. The latest valuations of the schemes as at 31 December 2009 were performed by Watson Wyatt Hong Kong Limited, who are independent qualified actuary, using the projected unit credit method. The funding ratio of the principal scheme is 123.6%.

(i) The defined benefit pension schemes assets/(liabilities) recognised in the consolidated statement of financial position is as follows:

| | **2009** *HK$ Million* | 2008 *HK$ Million* |
|---|---|---|
| Present value of funded obligations | **(46.6)** | (51.4) |
| Fair value of scheme assets | **57.6** | 47.8 |
| Net defined benefit pension scheme assets/(liabilities) | **11.0** | (3.6) |

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amount payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay HK$1.4 million in contribution to defined pension schemes in 2010.

(ii) Scheme assets consist of the following:

| | **2009** *HK$ Million* | 2008 *HK$ Million* |
|---|---|---|
| Equity securities | **41.7** | 29.8 |
| Debt securities | **14.8** | 15.5 |
| Deposits and cash | **1.1** | 2.5 |
| | **57.6** | 47.8 |

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

| | **2009** *HK$ Million* | 2008 *HK$ Million* |
|---|---|---|
| At 1 January | **51.4** | 78.4 |
| Net benefits paid by the scheme | **(5.2)** | (15.7) |
| Employee contributions | **0.3** | 0.5 |
| Current service cost | **2.1** | 2.1 |
| Interest cost | **0.6** | 2.7 |
| Actuarial gains | **(2.6)** | (16.6) |
| At 31 December | **46.6** | 51.4 |

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

| | **2009 HK$ Million** | 2008 HK$ Million |
|---|---|---|
| At 1 January | **47.8** | 86.9 |
| Group's contributions paid to the schemes | **0.7** | 0.5 |
| Net benefits paid by the schemes | **(5.2)** | (15.7) |
| Employee contributions | **0.3** | 0.5 |
| Actuarial expected return on scheme assets | **3.8** | 6.9 |
| Actuarial gains/(losses) | **10.2** | (31.3) |
| At 31 December | **57.6** | 47.8 |

(v) Income recognised in the consolidated income statement is as follows:

| | **2009 HK$ Million** | 2008 HK$ Million |
|---|---|---|
| Current service cost | **2.1** | 2.1 |
| Interest cost | **0.6** | 2.7 |
| Actuarial expected return on scheme assets | **(3.8)** | (6.9) |
| | **(1.1)** | (2.1) |

The income is recognised in the following line items in the consolidated income statement:

| | **2009 HK$ Million** | 2008 HK$ Million |
|---|---|---|
| Direct costs and operating expenses | **(1.0)** | (1.9) |
| Selling and marketing expenses | **(0.1)** | (0.2) |
| | **(1.1)** | (2.1) |
| Actual return/(loss) on scheme assets | **14.0** | (24.5) |

(vi) The principal actuarial assumptions used as at 31 December 2009 (expressed as a range) are as follows:

| | | **2009** | 2008 |
|---|---|---|---|
| Discount rate at 31 December | | **2.6%** | 1.2% |
| Expected rate of return on scheme assets/plan assets | | **8%** | 8% |
| Future salary increases | 2009 | **N/A** | 1% |
| | 2010 | **2%** | 2% |
| | onwards | **3%** | 3% |

The expected long-term rate of return on scheme assets is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The expected return is determined based on market expectation, at the beginning of the period, for returns net of administration costs, over the entire period of the defined benefit obligations.

(vii) Historical information:

| | **2009** **HK$ Million** | 2008 HK$ Million | 2007 HK$ Million | 2006 HK$ Million |
|---|---|---|---|---|
| Present value of the defined benefit obligations | **(46.6)** | (51.4) | (78.4) | (76.9) |
| Fair value of scheme assets | **57.6** | 47.8 | 86.9 | 83.6 |
| Surplus/(deficit) in the schemes | **11.0** | (3.6) | 8.5 | 6.7 |
| Experience loss/(gain) on scheme liabilities | **3.4** | (25.8) | 10.6 | 3.5 |
| Experience (gain)/loss on scheme assets | **(10.2)** | 31.3 | (10.9) | (7.3) |

(viii) The Group recognised actuarial gains amounting to HK$12.8 million (2008: losses HK$14.7 million) for the year ended 31 December 2009 directly in the consolidated statement of comprehensive income. The cumulative amount of actuarial losses recognised amounted to HK$5.2 million (2008: HK$18.0 million) as at 31 December 2009.

### (b) Defined contribution pension schemes

A number of defined contribution pension schemes (including the Mandatory Provident Fund) administered by independent trustees are available to the employees of the Group not covered by the defined benefit pension schemes. For defined contribution pension schemes, both the Group and the employees contribute respectively to the schemes sums which represent percentages of the employees' salaries as defined under the relevant trust deeds. The contributions by the Group are expensed as incurred and may be reduced by contributions forfeited for those employees who have left the scheme prior to full vesting of the related contributions.

## 17. PROPERTIES UNDER DEVELOPMENT FOR SALE

(a) The properties under development for sale are expected to be substantially completed after more than one year.

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

| | **Group** | |
|---|---|---|
| | **2009** **HK$ Million** | 2008 HK$ Million |
| Held outside Hong Kong | | |
| Long lease | **5,978.2** | 3,086.2 |
| Medium lease | **330.2** | 398.2 |
| | **6,308.4** | 3,484.4 |

## 18. TRADE AND OTHER RECEIVABLES

### (a) Ageing analysis

Included in this item are trade receivables (net of allowance for doubtful debts) with an ageing analysis based on invoice date as at 31 December 2009 as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$ Million*** | *HK$ Million* |
| Trade receivables | | |
| 0 - 30 days | **66.3** | 75.1 |
| 31 - 60 days | **0.1** | 1.1 |
| 61 - 90 days | **0.5** | 0.7 |
| | **66.9** | 76.9 |
| Other receivables | **23.3** | 24.6 |
| Amounts due from fellow subsidiaries | **5.6** | 3.8 |
| | **95.8** | 105.3 |

The Group has defined credit policies for each of its core business. The general credit terms allowed range from 0 to 60 days. The amounts due from fellow subsidiaries are unsecured, interest free and recoverable on demand. All the trade and other receivables are expected to be virtually recoverable within one year.

### (b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. At 31 December 2009 and 31 December 2008, no significant amounts of trade receivables were individually determined to be doubtful or impaired.

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

As at 31 December 2009 and 31 December 2008, the Group assessed that of the total trade receivables, virtually all of them are neither past due nor impaired.

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

## 19. DERIVATIVE FINANCIAL INSTRUMENTS

| | Group | | | |
|---|---|---|---|---|
| | **2009 Assets** *HK$ Million* | **2009 Liabilities** *HK$ Million* | 2008 Assets *HK$ Million* | 2008 Liabilities *HK$ Million* |
| At fair value through profit or loss (Note c) | | | | |
| Cross currency interest rate swaps | **8.3** | **8.2** | 2.9 | 1.3 |
| Forward foreign exchange contracts | **1.0** | **—** | — | 165.8 |
| Total | **9.3** | **8.2** | 2.9 | 167.1 |
| Analysis | | | | |
| Current | **9.3** | **—** | — | 165.8 |
| Non-current | **—** | **8.2** | 2.9 | 1.3 |
| Total | **9.3** | **8.2** | 2.9 | 167.1 |

Analysis of the remaining maturities at 31 December 2009 of the above derivative financial instruments were as follows:

| | Group | | | |
|---|---|---|---|---|
| | **2009 Assets** *HK$ Million* | **2009 Liabilities** *HK$ Million* | 2008 Assets *HK$ Million* | 2008 Liabilities *HK$ Million* |
| Cross currency interest rate swaps | | | | |
| Expiring after more than 1 year but within 5 years | **8.3** | **8.2** | 2.9 | 1.3 |
| | **8.3** | **8.2** | 2.9 | 1.3 |
| Forward foreign exchange contracts | | | | |
| Expiring within 1 year | **1.0** | **—** | — | 165.8 |
| | **1.0** | **—** | — | 165.8 |
| Total | **9.3** | **8.2** | 2.9 | 167.1 |

(a) The notional principal amounts of derivative financial instruments outstanding at 31 December 2009 were as follows:

| | **2009** *HK$ Million* | 2008 *HK$ Million* |
|---|---|---|
| Cross currency interest rate swaps | **2,302.2** | 2,302.2 |
| Forward foreign exchange contracts | **1,073.6** | 942.1 |

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

(c) None of the derivative financial instruments qualified for hedge accounting and accordingly their corresponding changes in fair values have been recognised in the consolidated income statement.

(d) During the year, a gain of HK$32.7 million (2008: loss of HK$165.1 million) in respect of forward foreign exchange contracts was recognised and credited to the consolidated income statement.

(e) Fair value loss on cross currency interest rate swaps of HK$1.5 million (2008: gain of HK$1.6 million) has been included under finance costs in the consolidated income statement.

## 20. BANK DEPOSTIS AND CASH

Bank deposits and cash as at 31 December 2009 include HK$398.9 million equivalent (2008: HK$191.3 million) placed with banks in the PRC, the remittance of which are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

## 21. TRADE AND OTHER PAYABLES

Included in this item are trade creditors with an ageing analysis as at 31 December 2009 as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$ Million*** | *HK$ Million* |
| Trade creditors | | |
| 0 - 30 days | **12.4** | 12.5 |
| 31 - 60 days | **6.0** | 8.0 |
| 61 - 90 days | **0.4** | 0.9 |
| Over 90 days | **0.2** | — |
| | **19.0** | 21.4 |
| Other payables and provisions | **103.2** | 121.9 |
| Construction costs payable | **74.8** | — |
| Amounts due to fellow subsidiaries | **7.0** | 8.6 |
| Amounts due to an associate | **6.9** | 29.0 |
| | **210.9** | 180.9 |

The amounts due to fellow subsidiaries and an associate are unsecured, interest free and repayable on demand.

The above includes deposits received amounting to HK$19.5 million (2008: HK$1.8 million) which are expected to be settled after one year. The Group considers the effect of discounting these would be immaterial. All of the other trade and other payables are expected to be settled or recognised as income within one year or are repayable on demand.

## 22. BANK LOANS

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | ***HK$ Million*** | *HK$ Million* |
| Bank loans repayable: | | |
| Within 1 year or on demand | **—** | — |
| After 2 years but within 5 years | | |
| Secured | **1,353.2** | 1,465.0 |
| Unsecured | **1,600.0** | 1,600.0 |
| | **2,953.2** | 3,065.0 |

(a) The Group's borrowings are considered by the management to be effectively denominated in the following currencies (after the effects of cross currency interest rate swaps arrangements as detailed in Note 25(a)).

| | **2009** | 2008 |
|---|---|---|
| | ***HK$ Million*** | *HK$ Million* |
| HKD | **2,800.0** | 3,065.0 |
| RMB | **153.2** | — |
| | **2,953.2** | 3,065.0 |

(b) At 31 December 2009, the Group's banking facilities in the amount of HK$1,767.2 million (2008: HK$1,465.0 million) were secured by certain fixed assets and certain properties under development with an aggregate carrying value of HK$3,351.4 million (2008: HK$2,174.1 million).

(c) All the interest bearing borrowings are carried at amortised cost. None of the non-current interest bearing borrowings is expected to be settled within one year.

(d) Certain of the Group's borrowings are attached with financial covenants which require that at any time, the Group's consolidated tangible net worth is not less than and the ratio of borrowings to consolidated tangible net worth is not more than certain required levels. During the year under review, all these covenants have been complied with by the Group.

## 23. DEFERRED TAXATION

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

| | **Group** | | | |
|---|---|---|---|---|
| | **Depreciation allowances in excess of the related depreciation** | **Revaluation of investment properties** | **Others** | **Total** |
| | ***HK$ Million*** | ***HK$ Million*** | ***HK$ Million*** | ***HK$ Million*** |
| At 1 January 2008 | 21.8 | 236.6 | 1.6 | 260.0 |
| Credited to the consolidated income statement | (2.0) | (5.6) | (2.1) | (9.7) |
| At 31 December 2008 and at 1 January 2009 | **19.8** | **231.0** | **(0.5)** | **250.3** |
| (Credited)/charged to the consolidated income statement | **(0.6)** | **38.2** | **2.3** | **39.9** |
| At 31 December 2009 | **19.2** | **269.2** | **1.8** | **290.2** |

(b) Deferred tax assets not recognised

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

| | **2009** **HK$ Million** | 2008 *HK$ Million* |
|---|---|---|
| Deductible temporary differences | **40.7** | — |
| Future benefit of tax losses | **43.1** | 45.9 |
| Net deferred tax assets not recognised | **83.8** | 45.9 |

(c) The Group has not recognised the deferred tax assets attributable to the future benefit of tax losses sustained in the operations of certain subsidiaries as the availability of future taxable profits against which the assets can be utilised is uncertain at 31 December 2009. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from China operations expire five years after the relevant accounting year end date.

The Company has not recognised deferred tax assets attributable to the future benefit of tax losses of HK$6.1 million (2008: HK$4.3 million) as the availability of future taxable profits against which the assets can be utilised is uncertain as at 31 December 2009.

## 24. ACQUISITION OF A SUBSIDIARY AND DISPOSAL OF A JOINTLY CONTROLLED ENTITY

On 10 April 2009, the Group entered into an agreement with Greentown China Holdings Limited ("Greentown China") in relation to the acquisition of 100% equity interests in Shanghai Luyuan Property Development Company Limited ("Shanghai Luyuan"), a wholly-owned subsidiary of Greentown China (the "Acquisition"), and the disposal of the Group's 40% equity interests in Hangzhou Greentown Haiqi Property Development Company Limited ("Greentown Haiqi"), a joint venture held by the Group and Greentown China (the "Disposal") (the Acquisition and Disposal together referred to as the "Transaction"). Both Shanghai Luyuan and Greentown Haiqi are engaged in property development in the PRC.

The net assets acquired amounted to HK$1,400.9 million and was satisfied by the proceeds from the Disposal amounting to HK$1,562.3 million and cash of HK$164.8 million was paid to the Group by Greentown China upon the completion of the Transaction.

The Transaction was completed on 16 April 2009 and Shanghai Luyuan became a wholly-owned subsidiary of the Group since that date.

The net assets acquired following the acquisition of a subsidiary during the year ended 31 December 2009 were as follows:

| | Fair value *HK$ Million* |
|---|---|
| Properties under development | **1,439.2** |
| Receivables | **1.5** |
| Cash and cash equivalents | **0.6** |
| Trade and other payables | **(40.4)** |
| Net assets acquired | **1,400.9** |
| Satisfied by: | |
| Carrying value of assets disposed of (Note a) | **1,562.3** |
| Net gain on disposal | **3.4** |
| Cash received by the Group (Note b) | **(164.8)** |
| | **1,400.9** |
| Net cash inflow arising on acquisition: | |
| Cash consideration received net of net assets acquired | **164.8** |
| Cash and cash equivalents acquired | **0.6** |
| | **165.4** |

Notes:

(a) Disposal represented the carrying value of the Group's investment in Greentown Haiqi and the shareholder's advance on the completion of the Transaction.

(b) The amount represented cash paid to the Group by Greentown China upon completion of the Transaction.

## 25. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

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

## (a) Interest rate risk

The Group's main exposure to interest rate risk relates principally to the Group's long term borrowings denominated in USD and RMB. The Group has entered into a number of cross currency interest rate swaps with the financial effect of converting the USD borrowings into HKD borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. The Group manages its interest rate risk exposures in accordance with defined policies through regular review with a focus on reducing the Group's overall cost of funding as well as having regard to the floating/fixed rate mix appropriate to its current business portfolio.

As at 31 December 2009, all the Group's borrowings were at floating rate. After taking into account of cross currency interest rate swaps, the interest rate was approximately 0.8% per annum (2008: 1.5% per annum).

Based on the sensitivity analysis performed on 31 December 2009, it was estimated that a general increase/decrease of 1% in interest rates would decrease/increase the Group's post-tax profit and total equity by approximately HK$0.6 million (2008: HK$22.1 million). This takes into account the effect of interest bearing bank deposits.

The sensitivity analysis above indicates the instantaneous change in the Group's post-tax profit and total equity that would arise assuming that the change in interest rates had occurred at the end of reporting date and is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2008.

## (b) Foreign currency risk

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

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

The Group's borrowings are predominantly denominated in the functional currency of the entity taking out the borrowings. In the case of group companies whose functional currencies are Hong Kong dollars, their borrowings will be either in HKD or USD. For managing the overall financing costs of existing and future capital requirement for the projects in China, the Group has adopted a diversified funding approach and entered into certain cross currency interest rate swaps and forward foreign exchange contracts. The forward foreign exchange contracts have the financial effect of taking up JPY borrowings, the interest rate of which is relatively lower but exposes the Group to exchange rate risk with respect to JPY. Based on the prevailing accounting standard, such swaps need to be marked to market with valuation movements recorded in the income statement.

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

| | Group | | |
|---|---|---|---|
| | *USD Million* | *RMB Million* | *JPY Million* |
| At 31 December 2009 | | | |
| Available-for-sale investments | **141.3** | **—** | **—** |
| Bank deposits and cash | **23.6** | **—** | **—** |
| Bank loans | **(295.2)** | **—** | **—** |
| Inter-company balances | **(1.0)** | **65.7** | **—** |
| Gross exposure arising from recognised assets and liabilities | **(131.3)** | **65.7** | **—** |
| Notional amount of forward foreign exchange contracts at fair value through profit or loss | **137.6** | **—** | **(12,771.9)** |
| Notional amount of cross currency interest rate swaps at fair value through profit or loss | **295.2** | **—** | **—** |
| Overall net exposure | **301.5** | **65.7** | **(12,771.9)** |
| At 31 December 2008 | | | |
| Available-for-sale investments | 77.4 | — | — |
| Bank deposits and cash | 21.2 | — | — |
| Bank loans | (295.2) | — | — |
| Inter-company balances | — | 65.7 | — |
| Gross exposure arising from recognised assets and liabilities | (196.6) | 65.7 | — |
| Notional amount of forward foreign exchange contracts at fair value through profit or loss | 120.8 | — | (12,771.9) |
| Notional amount of cross currency interest rate swaps at fair value through profit or loss | 295.2 | — | — |
| Overall net exposure | 219.4 | 65.7 | (12,771.9) |

The following indicates the instantaneous change in the Group's post-tax profit and total equity that would arise if foreign exchange rates to which the Group has significant exposure at the end of reporting date had changes at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between HKD and the USD would be materially unaffected by any changes movements in value of the USD against other currencies.

– a 5% increase/decrease in the exchange rate of JPY against USD will decrease/increase the Group's post-tax profit and total equity by approximately HK$44.7 million (2008: HK$54.9 million).

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

The sensitivity analysis performed in the above represents the aggregation of the instantaneous effects on each of the Group entities' post-tax profit and total equity measured in the respective functional currencies, translated into HKD at the exchange rate ruling at the end of the reporting date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to remeasure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting date, including balances between group companies which are denominated in a currency other than the functional currencies of the Group's entities to which they relate. The analysis excludes the differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed at the same basis for 2008.

## (c) Equity price risk

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

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

Based on the sensitivity analysis performed on 31 December 2009, it is estimated that a 5% (2008: 5%) increase/decrease in the market value of the Group's available-for-sale investments, with all other variables held constant, would not affect the Group's post-tax profit unless there are impairments but would increase/decrease the Group's total equity by HK$59.7 million (2008: HK$30.2 million). The analysis is performed on the same basis for 2008.

## (d) Liquidity risk

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

Certain non wholly-owned subsidiaries are responsible for their own cash management, including the short term investment of cash surpluses with creditworthy financial institutions and the raising of loans to cover expected cash demands, in accordance with the established policies and strategies with the concurrence by the Company.

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

| | | Contractual undiscounted cash flow | | | |
|---|---|---|---|---|---|
| | Carrying amount *HK$ Million* | Total *HK$ Million* | Within 1 year or on demand *HK$ Million* | More than 1 year but less than 2 years *HK$ Million* | More than 2 years but less than 5 years *HK$ Million* |
| At 31 December 2009 | | | | | |
| Bank loans | **(2,953.2)** | **(3,005.9)** | **(20.9)** | **(19.7)** | **(2,965.3)** |
| Trade and other payables | **(210.9)** | **(210.9)** | **(191.4)** | **(3.4)** | **(16.1)** |
| Forward foreign exchange contracts at fair value through profit or loss | **1.0** | **1.0** | **1.0** | **—** | **—** |
| Cross currency interest rate swaps at fair value through profit or loss | **0.1** | **14.1** | **8.3** | **8.3** | **(2.5)** |
| | **(3,163.0)** | **(3,201.7)** | **(203.0)** | **(14.8)** | **(2,983.9)** |
| At 31 December 2008 | | | | | |
| Bank loans | (3,065.0) | (3,241.5) | (46.6) | (46.4) | (3,148.5) |
| Trade and other payables | (143.2) | (139.9) | (135.0) | (3.7) | (1.2) |
| Forward foreign exchange contracts at fair value through profit or loss | (165.8) | (165.8) | (165.8) | — | — |
| Cross currency interest rate swaps at fair value through profit or loss | 1.6 | 1.6 | — | — | 1.6 |
| | (3,372.4) | (3,545.6) | (347.4) | (50.1) | (3,148.1) |

The Company on its own exposes to liquidity risk that arose from financial guarantees given by the Company on behalf of subsidiaries. The guarantees are callable if the respective subsidiary is unable to meet its obligation and the maximum amount callable as at 31 December 2009 was HK$2.8 billion (2008: HK$3.1 billion).

## (e) Credit risk

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

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

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position. Except for the financial guarantees given by the Company as set out in Note 29, the Group does not provide any other guarantee which would expose the Group or the Company to material credit risk.

## (f) Fair values

(i) Financial instruments carried at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of reporting date across the three levels of the fair value hierarchy defined in HKFRS 7 - Financial instruments: disclosures, with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

| | The Group | | | |
|---|---|---|---|---|
| | **Level 1** *HK$ Million* | **Level 2** *HK$ Million* | **Level 3** *HK$ Million* | **Total** *HK$ Million* |
| At 31 December 2009 | | | | |
| Assets | | | | |
| Available-for-sale investments: | | | | |
| – Listed | **1,193.0** | **—** | **—** | **1,193.0** |
| Derivative financial instruments: | | | | |
| – Forward foreign exchange contracts | **—** | **1.0** | **—** | **1.0** |
| – Cross currency interest rate swaps | **—** | **8.3** | **—** | **8.3** |
| | **1,193.0** | **9.3** | **—** | **1,202.3** |
| Liabilities | | | | |
| Derivative financial instruments: | | | | |
| – Cross currency interest rate swaps | **—** | **(8.2)** | **—** | **(8.2)** |
| | **—** | **(8.2)** | **—** | **(8.2)** |

During the year, there were no significant transfers between instruments in Level 1 and Level 2.

(ii) Estimation of fair values

Listed investments are stated at quoted market prices.

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

The fair value of forward foreign exchange contracts is determined by using forward exchange rates at the end of reporting date and comparing to the contractual rates. The fair value of cross currency interest rate swaps is determined based on the amount that the Group would receive or pay to terminate the swaps at the end of reporting date taking into account current interest rate and current creditworthiness of the swap counter parties.

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009 and 31 December 2008. Amounts due from/(to) subsidiaries and fellow subsidiaries and related parties are unsecured, interest free and have no fixed repayment terms. Given these terms it is not meaningful to disclose fair values.

## (g) Capital management

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

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

The Group monitors its capital structure by reviewing its net debt-to-equity ratio and cash flow requirements, taking into account its future financial obligations and commitments. For this purpose, the Group defines net debt as total loans less bank deposits and cash. Shareholders' equity comprises issued share capital and reserves attributable to equity shareholders of the Company. Total equity comprise shareholders' equity and minority interests.

The net debt-to-equity ratio as at 31 December 2009 and 2008 were as follows:

| | **2009** **HK$ Million** | 2008 HK$ Million |
|---|---|---|
| Total debts (Note 22) | **2,953.2** | 3,065.0 |
| Less: Bank deposits and cash | **(1,124.0)** | (1,258.4) |
| Net debt | **1,829.2** | 1,806.6 |
| Shareholders' equity | **8,905.8** | 7,067.0 |
| Total equity | **9,607.6** | 7,762.8 |
| Net debt-to-shareholders' equity ratio | **20.5%** | 25.6% |
| Net debt-to-total equity ratio | **19.0%** | 23.3% |

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 26. SHARE CAPITAL

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **No. of shares** ***Million*** | ***HK$ Million*** | No. of shares *Million* | *HK$ Million* |
| Authorised | | | | |
| Ordinary shares of HK$0.50 each | **1,200.0** | **600.0** | 1,200.0 | 600.0 |
| Ordinary shares, issued and fully paid | | | | |
| At 1 January | **472.5** | **236.3** | 315.0 | 157.5 |
| Rights issue | **236.3** | **118.1** | 157.5 | 78.8 |
| At 31 December | **708.8** | **354.4** | 472.5 | 236.3 |

On 18 May 2009, the Company completed its Rights issue for 236.3 million new ordinary shares at face value of HK$0.50 each for HK$3.99 each which were allotted and were fully paid. Of the total consideration of HK$935.2 million received, HK$118.1 million has been credited to share capital and the balance HK$817.1 million has been credited to the share premium account.

On 25 March 2008, 157.5 million new ordinary shares were issued at HK$12.80 each on completion of the rights issue exercise.

## 27. CAPITAL AND RESERVES

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

The Group's investments revaluation reserves have been set up and will be dealt with in accordance with the accounting policy adopted for the revaluation of available-for-sale investments. The exchange and other reserves mainly comprise exchange differences arising from the translation of the financial statements of foreign operations.

Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below.

| | | Share capital HK$ Million | Share premium HK$ Million | Revenue reserve HK$ Million | Total equity HK$ Million |
|---|---|---|---|---|---|
| (a) | **The Company** | | | | |
| | At 1 January 2008 | 157.5 | 542.0 | 246.9 | 946.4 |
| | Total comprehensive income for the year | — | — | 0.3 | 0.3 |
| | Rights issue | 78.8 | 1,927.9 | — | 2,006.7 |
| | Final dividend paid in respect of 2007 | — | — | (113.4) | (113.4) |
| | Interim dividend paid in respect of 2008 (Note 9) | — | — | (23.6) | (23.6) |
| | At 31 December 2008 and at 1 January 2009 | **236.3** | **2,469.9** | **110.2** | **2,816.4** |
| | Total comprehensive income for the year | **—** | **—** | **498.7** | **498.7** |
| | Rights issue | **118.1** | **817.1** | **—** | **935.2** |
| | Final dividend paid in respect of 2008 (Note 9) | **—** | **—** | **(70.9)** | **(70.9)** |
| | Interim dividend paid in respect of 2009 (Note 9) | **—** | **—** | **(35.4)** | **(35.4)** |
| | At 31 December 2009 | **354.4** | **3,287.0** | **502.6** | **4,144.0** |

(b) Reserves of the Company available for distribution to shareholders at 31 December 2009 amounted to HK$502.6 million (2008: HK$110.2 million).

(c) The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance.

(d) After the end of reporting date the directors proposed a final dividend of 15 cents per share (2008: 15 cents per share) amounting to HK$106.3 million (2008: HK$70.9 million). This dividend has not been recognised as a liability at the end of reporting date.

## 28. MATERIAL RELATED PARTY TRANSACTIONS

Except as disclosed in Notes 13, 18 and 21, the material related party transactions are set out below:

(a) During the financial year, there was in existence a management agreement with a subsidiary of the ultimate holding company for the management of the Group's hotel operations. Fees payable under this arrangement during the current year amounted to HK$28.1 million (2008: HK$36.7 million) which included management fees of HK$22.7 million (2008: HK$30.2 million) and marketing fees of HK$5.4 million (2008: HK$6.5 million). The management fees included a basic fee and an incentive fee which are calculated based on the relevant percentage of gross revenue and gross operating profit respectively. The marketing fee is calculated based on a percentage of gross revenue. Such transaction constitutes a connected transaction as defined under the Listing Rules.

(b) During the financial year, the Group leased out shops situated on G/F, 1/F & 2/F of The Marco Polo Hongkong Hotel to Lane Crawford (Hong Kong) Limited, which is indirectly wholly owned by a trust of which the chairman of the Company's ultimate holding company is the settlor. The rental earned by the Group from such shops during the current period, including contingent rental income, amounted to HK$94.2 million (2008: HK$88.1 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

(c) Remuneration for key management personnel of the Group, including amounts paid to the Directors of the Company and the five highest paid employees are disclosed in Notes 2(b) and 2(c).

## 29. CONTINGENT LIABILITIES

As at 31 December 2009, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to bank overdrafts and credit facilities up to HK$3,953.1 million (2008: HK$3,968.1 million). Except for the above, the Company does not provide any other guarantee. The Company has not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was HK$Nil (2008: HK$Nil).

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

## 30. COMMITMENTS

| | | Group | |
|---|---|---|---|
| | | **2009** **_HK$ Million_** | 2008 _HK$ Million_ |
| **(a)** | **Capital commitments** (include investment properties) | | |
| | Contracted but not provided for | **87.0** | 1.6 |
| | Authorised but not contracted for | **4,119.2** | 1.4 |
| | | **4,206.2** | 3.0 |
| **(b)** | **Properties under development** (other than investment properties) | | |
| | Contracted but not provided for | **439.5** | 345.1 |
| | Authorised but not contracted for | **8,307.7** | 13,583.2 |
| | | **8,747.2** | 13,928.3 |
| **(c)** | **Properties under development undertaken** by jointly controlled entities attributable to the Group | | |
| | Contracted but not provided for | **0.5** | 746.0 |
| | Authorised but not contracted for | **1,046.6** | 2,492.3 |
| | | **1,047.1** | 3,238.3 |

During the year, certain amounts of commitments for investment properties under development have been reclassified as commitments for capital expenditure from the category of properties under development as a result of the change in accounting standards in respect of the definition of investment properties.

## 31. CHANGES IN ACCOUNTING POLICIES

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

With effect from 1 January 2009, the Group has adopted the below new and revised HKFRSs, amendments and interpretations, which are relevant to the Group's financial statements.

| | |
|---|---|
| HKAS 1 (revised) | Presentation of financial statements |
| HKFRS 8 | Operating segments |
| Improvements to HKFRSs (2008) | Amendments to HKAS 40 investment property |
| HK(IFRIC) Int 13 | Customer loyalty programmes |
| Amendments to HKFRS 7 | Improving disclosures about financial instruments |

### (a) HKAS 1 (revised) - Presentation of financial statements

As a result of the adoption of HKAS 1 (revised), details of changes in equity during the period arising from transactions with equity shareholders in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expense are presented in the consolidated income statement, if they are recognised as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation. This change in presentation has no effect on reported profit or loss, total income and expense or net assets for any period presented.

### (b) HKFRS 8 - Operating segments

HKFRS 8 requires segment disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's financial statements into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's top management, and has resulted in amended disclosure being presented. Corresponding amounts have been restated on a basis consistent with the revised segment information.

### (c) Improvements to HKFRSs (2008) - Amendments to HKAS 40 Investment property

As a result of the amendment to HKAS 40, investment property which is under construction will be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. Any gain or loss will be recognised in profit and loss. Previously such property was carried at cost until the construction was completed, at which time it was fair valued with any gain or loss being recognised in profit or loss. This amendment is applied prospectively. As a result of this amendment, the Group has reclassified its property under development amounting to HK$402.2 million from properties under development to investment properties as at 1 January 2009. No fair value gain or loss was recognised from such properties under development during the year under review.

### (d) HK(IFRIC) - Int 13 - Customer loyalty programmes

HK(IFRIC) - Int 13 clarifies that, where goods or services are sold together with a customer loyalty incentive, a portion of the consideration received from the customer should be deferred until the customer loyalty incentive is redeemed. The adoption of HK(IFRIC) - Int 13 has no significant impact on the Group's results and financial position as at 31 December 2009 and 2008.

### (e) HKFRS 7 (Amendment) - Improving disclosures about financial instruments

As a result of the adoption of the amendments to HKFRS 7, the financial statements include expanded disclosures in Note 25(f) about the fair value measurement of the Group's financial instruments, categorising these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

## 32. EVENTS AFTER THE REPORTING PERIOD

After the end of reporting date the Directors proposed a final dividend. Further details are disclosed in Note 9.

## 33. COMPARATIVE FIGURES

As a result of the application of HKAS 1 (revised), Presentation of financial statements and HKFRS 8 Operating segments, certain comparative figures have been reclassified to conform to the current year's presentation. Further details of these developments are disclosed in Note 31.

## 34. FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations, which have not been adopted since they are only effective after 31 December 2009.

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

| | **Effective for accounting periods beginning on or after** |
|---|---|
| HKFRS 3 (Revised) - Business combinations | 1 July 2009 |
| Amendments to HKAS 27 - Consolidated and separate financial statements | 1 July 2009 |
| Amendments to HKAS 39 - Financial instruments: recognition and measurement - Eligible hedged items financial statements | 1 July 2009 |
| HK(IFRIC) 17 - Distributions of non-cash assets to owners | 1 July 2009 |
| Improvements to HKFRSs 2009 | 1 July 2009 or 1 January 2010 |
| HKFRS 9 - Financial instruments | 1 January 2013 |

## 35. PARENT AND ULTIMATE HOLDING COMPANY

The Directors consider the parent and ultimate holding company at 31 December 2009 to be Wheelock and Company Limited, incorporated and listed in Hong Kong. Wheelock and Company Limited produces financial statements available for public use.

## 36. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 10 March 2010.

## (A) STATEMENT OF COMPLIANCE

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 31 to the financial statements provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (Note 34).

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

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

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

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note (V).

## (C) BASIS OF CONSOLIDATION

### (i) Subsidiaries and minority interests

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

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

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses.

### (ii) Associates and jointly controlled entities

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

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

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's or the jointly controlled entity's net assets and any impairment loss relating to the investment (see Note (C)(iii) and (F)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recongised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of comprehensive income.

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

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

In the individual company's statement of financial position, investments in associate and jointly controlled entities are stated at cost less impairment losses.

### (iii) Goodwill

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to cash-generating units and is tested annually for impairment. In respect of associate or jointly controlled entity, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see Note (F)).

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

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

## (D) FIXED ASSETS

### (i) Investment properties

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

Investment properties are stated in the statement of financial position at fair value, unless they are still in the course of construction or development at the end of each reporting date and their fair value cannot be reliably determined at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated income statement. Rental income from investment properties is accounted for as described in Note (O)(ii).

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

### (ii) Hotel property

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

### (iii) Other fixed assets held for own use

Other fixed assets held for own use are stated at cost less accumulated depreciation and impairment losses.

(iv) Gains or losses arising from the retirement or disposal of a fixed asset are determined as the difference between the estimated net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated income statement on the date of retirement or disposal.

## (E) DEPRECIATION OF FIXED ASSETS

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

### (i) Investment properties

No depreciation is provided on investment properties.

### (ii) Hotel property

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

### (iii) Other fixed assets held for own use

Depreciation is provided at annual rates of 10% to 20% on a straight line basis on the cost of other fixed assets held for own use.

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

## (F) IMPAIRMENT OF ASSETS

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

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

– For investments in associate and jointly controlled entities recognised using the equity method (see Note (C)(ii)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with Note (F)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note (F)(ii).

– For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses arising on equity securities carried at cost are not reversed (including those provided during the interim financial reporting).

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets) where the effect of discounting is material.

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

– For available-for-sale investments, the cumulative loss that had been recognised directly in investments revaluation reserve is reclassified to the consolidated income statement. The amount of the cumulative loss that is recognised in the consolidated income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the consolidated income statement.

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

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

### (ii) Impairment of other assets

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

– Recoverable amount

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

– Recognition of impairment losses

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

– Reversal of impairment losses

  In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed (including those provided during the interim financial reporting). A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to the consolidated income statement in the year in which the reversals are recognised.

– Interim financial reporting and impairment

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

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

## (G) LEASED ASSETS

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

### (i) Classification of leased assets

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

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

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

### (ii) Assets held under operating lease

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

(b) The cost of acquiring land held under an operating lease is recognised as interest in leasehold land in the statement of financial position and amortised on a straight line basis over the period of the lease term except where the property is classified as an investment property (see Note (D)(i)) or is held for development for sale (see Note (I)).

## (H) INVESTMENTS IN DEBT AND EQUITY SECURITIES

Investments in debt and equity securities (other than investments in subsidiaries, associate and jointly controlled entities) classified as available-for-sale investments are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs. At the end of each reporting date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the investments revaluation reserve, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in the consolidated income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the consolidated income statement. When these investments are derecognised or impaired, the cumulative gain or loss is reclassified from equity to profit or loss.

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

## (I) INVENTORIES

### (i) Completed properties for sale

Completed properties for sale are stated at lower of cost and net realisable value. Cost is determined by apportionment of the total development costs, including borrowing costs capitalised, attributable to unsold units. Net realisable value is estimated by the management, based on prevailing market conditions which represents the estimated selling price less costs to be incurred in selling the property. Cost of completed properties held for sale comprise all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

### (ii) Properties under development for sale

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

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

### (iii) Hotel consumables

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

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price in the ordinary course of business less direct selling costs.

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

## (J) DERIVATIVE FINANCIAL INSTRUMENTS

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

## (K) TRADE AND OTHER RECEIVABLES

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of bad and doubtful debts, except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of bad and doubtful debts.

## (L) INTEREST BEARING BORROWINGS

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

## (M) TRADE AND OTHER PAYABLES

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

## (N) CASH AND CASH EQUIVALENTS

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

## (O) FOREIGN CURRENCIES

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary foreign currency balances and the statements of financial position of foreign operations are translated into Hong Kong dollars at the exchange rates ruling at the end of reporting date. The income statement of foreign operations subsidiaries are translated into Hong Kong dollars at the monthly weighted average exchange rates for the year. Differences arising from the translation of the financial statements of foreign operations are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve and those arising from the financing of properties under development by foreign currency borrowings are capitalised as part of the development costs. All other exchange differences are dealt with in the consolidated income statement. On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is reclassified from equity to the consolidated income statement and is included in the calculation of the profit or loss on disposal. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

## (P) RECOGNITION OF REVENUE

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

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

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

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

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

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

(v) Income arising from the sale of properties held for sale is recognised upon the later of the execution of the formal sale and purchase agreement or the issue of an occupation permit/completion certificate by the relevant government authorities, whichever is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under rental and customer deposits.

## (Q) BORROWING COSTS

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they incurred.

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

## (R) INCOME TAX

(i) Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the consolidated income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

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

Apart from certain limited exceptions, all deferred tax liabilities and all deferred tax assets, to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may be capable to support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences.

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

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

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

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

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

## (S) EMPLOYEE BENEFITS

### (i) Defined benefit pension schemes

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

When the benefits of a scheme are improved, the portion of the increased benefit relating to past service by employees is recognised as an expense in the consolidated income statement on a straight-line basis over the average period until the benefits become vested. If the benefits vest immediately, the expense is recognised immediately in the consolidated income statement.

Any actuarial gains and losses are fully recognised in other comprehensive income in the period they occur.

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

### (ii) Short term employee benefits and contributions to defined contribution retirement plans

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

## (T) SEGMENT REPORTING

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

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

## (U) FINANCIALLY GUARANTEES ISSUED, PROVISIONS AND CONTINGENT LIABILITIES

### (i) Financial guarantees issued

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

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

### (ii) Other provisions and contingent liabilities

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

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

## (V) RELATED PARTIES

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

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

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

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

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

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

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

## (W) SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS

### (i) Key sources of estimation uncertainty

Note 16 and 25 contain information about the assumptions and their risk relating to defined benefit retirement obligations and financial instruments. Other key sources of estimation uncertainty are as follows:

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

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

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

– *Valuation of investment properties*

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

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

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

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

– *Assessment of impairment of non-current assets*

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

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

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

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

# Principal Subsidiaries, Associate and Jointly Controlled Entities

As at 31 December 2009

| Subsidiaries | Place of incorporation/ operation | Issued share capital (all being ordinary shares and fully paid up except otherwise stated)/registered and paid up capital | Effective equity interest to the Company | Principal activities |
|---|---|---|---|---|
| #Harbour Centre (Hong Kong) Limited | British Virgin Islands | 500 US$1 shares | 100% | Holding company |
| #Ocean New Investments Limited | British Virgin Islands | 500 US$1 shares | 100% | Holding company |
| Algebra Assets Limited | British Virgin Islands | 500 US$1 shares | 100% | Investment |
| Mandelson Investments Limited | British Virgin Islands | 500 US$1 shares | 100% | Investment |
| Manniworth Company Limited | Hong Kong | 10,000 HK$1 shares | 100% | Property investment |
| The Hongkong Hotel Limited | Hong Kong | 100,000 HK$1 shares | 100% | Hotel and property |
| Smooth Gain Investments Limited | Hong Kong | 1 HK$1 shares | 100% | Finance |
| #Superb Mind International Limited | British Virgin Islands | 500 US$1 shares | 100% | Holding company |
| Free Boost Investments Limited | Hong Kong | 1 HK$1 shares | 100% | Holding company |
| 蘇州高龍房產發展有限公司 (Note (a)) | The People's Republic of China | RMB3,097,596,772 | 80% | Property development |
| Joinhill Investments Limited | Hong Kong | 1 HK$1 shares | 100% | Holding company |

# Principal Subsidiaries, Associate and Jointly Controlled Entities

As at 31 December 2009

| Subsidiaries | Place of incorporation/ operation | Issued share capital (all being ordinary shares and fully paid up except otherwise stated)/registered and paid up capital | Effective equity interest to the Company | Principal activities |
|---|---|---|---|---|
| 南京聚龍房地產開發有限公司 (Note (b)) | The People's Republic of China | US$198,000,000 | 100% | Holding company |
| Cheer Sky Investment Limited | Hong Kong | 1 HK$1 shares | 100% | Holding company |
| 九龍倉（常州）置業有限公司 (Note (b)) | The People's Republic of China | US$229,800,000 | 100% | Property development |
| 上海綠源房地產開發有限公司 (Note (c)) | The People's Republic of China | RMB770,000,000 | 100% | Property development |

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

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

*All the subsidiaries listed above were, as at 31 December 2009, indirectly held by the Company except where marked #, which are held directly by the Company.*

*Notes:*
- *(a) The nature of company is 台港澳與境內合資*
- *(b) The nature of company is 台港澳法人獨資*
- *(c) The nature of company is 外商投資企業法人獨資*

# Schedule of Principal Properties

As at 31 December 2009

| Address | Approximate Gross Floor Areas (sq.ft.) | | | | | Remarks | Site Area (sq.ft.) | Lot Number | Lease Expiry | Year of Completion/ Expected Completion | Stage of Completion | Effective Equity Interest to the Company |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Total | Office | Retail | Residential | Others | | | | | | | |
| **Investment Properties in Hong Kong** | | | | | | | | | | | | |
| The Marco Polo Hongkong Hotel (Commercial Section), Harbour City, Tsimshatsui | 206,000 | 34,000 | 172,000 | — | — | Note a | (a) | KML 91 S.A. & KML 10 S.B. | 2863 | 1969 | Completed | 100% |
| Units of Star House, 3 Salisbury Road, Kowloon | 50,780 | — | 50,780 | — | — | | N/A | KML 10 S.A. | 2863 | 1966 | Completed | 100% |
| | 256,780 | 34,000 | 222,780 | — | — | | | | | | | |
| **Investment Property in China** | | | | | | | | | | | | |
| Suzhou Industrial Park Project Suzhou Super Tower, Xing Hu Jie, Suzhou Industrial Park, Suzhou | 3,780,000 | 1,890,000 | — | 1,890,000 | — | | 229,069 | N/A | 2047/77 | 2016 | Planning stage | 80% |
| | 3,780,000 | 1,890,000 | — | 1,890,000 | — | | | | | | | |
| **Hotel Property in Hong Kong** | | | | | | | | | | | | |
| The Marco Polo Hongkong Hotel, Harbour City, Tsimshatsui | 553,000 | — | — | — | 553,000 | Other represents a 664-room hotel | 58,814 | KML 91 S.A. & KML 10 S.B. | 2863 | 1969 | Completed | 100% |
| | 553,000 | — | — | — | 553,000 | | | | | | | |
| **Development Properties in China** | | | | | | | | | | | | |
| Shanghai Xinjiangwancheng D1 of Xinjiangwancheng of Yangpu District, Shanghai | 1,074,000 | — | — | 1,074,000 | — | | 638,000 | N/A | 2077 | 2012 | Superstructure in progress | 100% |
| Changzhou Xinbei District Project China Dinosaur Park, Xinbei District, Changzhou, Jiangsu Province | 8,590,000 | — | — | 8,073,000 | 517,000 | Other represents a 305-room hotel | 4,427,804 | N/A | 2047/77 | 2016 | Planning stage | 100% |
| Suzhou Industrial Park Project Xiandai Da Dao, Suzhou Industrial Park, Suzhou | 9,765,000 | — | — | 9,765,000 | — | | 5,425,454 | N/A | 2077 | 2017 | Planning stage | 80% |
| | 19,429,000 | — | — | 18,912,000 | 517,000 | | | | | | | |
| **Development Properties in China (undertaken by jointly controlled entity)** | | | | | | | | | | | | |
| Chongqing Jiangbei City Project Zone B of Jiangbei City, Jiang Bei District, Chongqing | 2,524,000 | — | — | 2,524,000 | — | 55% attributable to the Group - Note (b) | 1,002,408 | N/A | 2057 | 2014 | Planning stage | 55% |
| | 2,524,000 | — | — | 2,524,000 | — | | | | | | | |
| **TOTAL** | **26,542,780** | **1,924,000** | **222,780** | **23,326,000** | **1,070,000** | | | | | | | |

Notes:

(a) Part of The Marco Polo Hongkong Hotel building

(b) The floor area of property held through jointly controlled entity is shown on an attributable basis.

# Ten-Year Financial Summary

| *HK$ Million* | **2009** | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| **Summary of Income Statement** | | | | | |
| Turnover | **566.3** | 664.2 | 671.1 | 920.9 | 526.8 |
| Group profit/(loss) before investment property revaluation | **303.7** | 133.3 | 503.4 | 344.9 | 293.4 |
| Net investment properties revaluation surplus (Note a) | **193.2** | 37.2 | 135.0 | 77.8 | 223.7 |
| Group profit/(loss) attributable to equity shareholders | **496.9** | 170.5 | 638.4 | 422.7 | 517.1 |
| Dividends attributable to equity shareholders | **141.7** | 94.5 | 129.2 | 91.4 | 53.6 |
| **Summary of Statement of Financial Position** | | | | | |
| Fixed assets | **2,589.9** | 1,972.6 | 1,947.1 | 1,741.6 | 1,637.3 |
| Interest in an associate | **0.2** | 0.7 | 0.8 | 0.8 | 14.6 |
| Interest in jointly controlled entities | **1,650.9** | 2,586.7 | 1,964.6 | — | — |
| Available-for-sale investments | **1,193.0** | 604.0 | 2,516.6 | 1,490.0 | 922.8 |
| Properties under development/for sale | **6,472.7** | 4,972.6 | 985.3 | 4.7 | 240.0 |
| Bank deposits and cash | **1,124.0** | 1,258.4 | 584.8 | 1,840.2 | 1,519.6 |
| Other assets | **119.0** | 112.1 | 438.8 | 91.5 | 113.7 |
| Total assets | **13,149.7** | 11,507.1 | 8,438.0 | 5,168.8 | 4,448.0 |
| Bank loans | **(2,953.2)** | (3,065.0) | (1,858.9) | — | — |
| Other liabilities | **(588.9)** | (679.3) | (634.0) | (390.8) | (351.7) |
| Net assets | **9,607.6** | 7,762.8 | 5,945.1 | 4,778.0 | 4,096.3 |
| Share capital | **354.4** | 236.3 | 157.5 | 157.5 | 157.5 |
| Reserves | **8,551.4** | 6,830.7 | 5,590.6 | 4,620.5 | 3,938.8 |
| Shareholders' equity | **8,905.8** | 7,067.0 | 5,748.1 | 4,778.0 | 4,096.3 |
| Minority interests | **701.8** | 695.8 | 197.0 | — | — |
| Total equity | **9,607.6** | 7,762.8 | 5,945.1 | 4,778.0 | 4,096.3 |
| **Financial Data** | | | | | |
| *Per share data* | | | | | |
| Earnings/(loss) per share (HK$) | **0.78** | 0.36 | 2.03 | 1.34 | 1.64 |
| Net assets per share (HK$) | **13.55** | 16.43 | 18.87 | 15.17 | 13.00 |
| Dividends per share (Cents) | **20.00** | 20.00 | 29.00 | 29.00 | 17.00 |
| *Financial ratios* | | | | | |
| Net debt to total equity (%) | **19.0%** | 23.3% | 21.4% | N/A | N/A |
| Return on shareholders' equity (%) | **5.6%** | 2.4% | 11.1% | 8.8% | 12.6% |
| Dividend cover (Times) | **3.5** | 1.8 | 4.9 | 4.6 | 9.6 |

# Ten-Year Financial Summary

| HK$ Million | 2004 | 2003 | 2002 | 2001 | 2000 |
|---|---|---|---|---|---|
| **Summary of Income Statement** | | | | | |
| Turnover | 445.0 | 308.7 | 335.2 | 404.1 | 431.4 |
| Group profit/(loss) before investment property revaluation | 249.0 | 169.4 | 12.8 | (113.1) | 114.5 |
| Net investment properties revaluation surplus (Note a) | 122.7 | — | — | — | — |
| Group profit/(loss) attributable to equity shareholders | 371.7 | 169.4 | 12.8 | (113.1) | 114.5 |
| Dividends attributable to equity shareholders | 53.6 | 53.6 | 53.6 | 53.6 | 53.6 |
| **Summary of Statement of Financial Position** | | | | | |
| Fixed assets | 1,092.1 | 2,541.8 | 2,404.6 | 2,774.1 | 2,949.2 |
| Interest in associates | 42.4 | 387.9 | 884.2 | 897.0 | 1,173.6 |
| Interest in jointly controlled entities | — | — | — | — | — |
| Available-for-sale investments | 820.4 | 550.0 | 523.0 | 851.5 | 890.0 |
| Properties under development/for sale | — | — | — | — | — |
| Bank deposits and cash | 1,737.5 | 1,277.4 | 572.8 | 868.3 | 332.4 |
| Other assets | 63.5 | 44.2 | 37.8 | 42.7 | 50.2 |
| Total assets | 3,755.9 | 4,801.3 | 4,422.4 | 5,433.6 | 5,395.4 |
| Bank loans | — | — | — | — | — |
| Other liabilities | (250.3) | (114.7) | (182.7) | (625.4) | (435.6) |
| Net assets | 3,505.6 | 4,686.6 | 4,239.7 | 4,808.2 | 4,959.8 |
| Share capital | 157.5 | 157.5 | 157.5 | 157.5 | 157.5 |
| Reserves | 3,348.1 | 4,529.1 | 4,082.2 | 4,650.7 | 4,802.3 |
| Shareholders' equity | 3,505.6 | 4,686.6 | 4,239.7 | 4,808.2 | 4,959.8 |
| Minority interests | — | — | — | — | — |
| Total equity | 3,505.6 | 4,686.6 | 4,239.7 | 4,808.2 | 4,959.8 |
| **Financial Data** | | | | | |
| *Per share data* | | | | | |
| Earnings/(loss) per share (HK$) | 1.18 | 0.54 | 0.04 | (0.36) | 0.36 |
| Net assets per share (HK$) | 11.13 | 14.88 | 13.46 | 15.26 | 15.75 |
| Dividends per share (Cents) | 17.00 | 17.00 | 17.00 | 17.00 | 17.00 |
| *Financial ratios* | | | | | |
| Net debt to total equity (%) | N/A | N/A | N/A | N/A | N/A |
| Return on shareholders' equity (%) | 10.6% | 3.6% | 0.3% | (2.4%) | 2.3% |
| Dividend cover (Times) | 6.9 | 3.2 | 0.2 | (2.1) | 2.1 |

*Note:*
*(a) Investment properties surplus on revaluation is after deferred tax.*
*(b) Number of shares as at 31 December 2007 and 2008 have been restated for rights issue.*
*(c) Return on shareholders' equity is based on profit attributable to shareholders over average shareholders' equity during the year.*
*(d) Certain figures have been reclassified or restated to comply with the prevailing HKFRSs.*