Harbour Centre Development Limited

Annual Report 2013

Stock Code: 51

Acquired by Harbour Centre Development Limited in 2013, Murray Building guards the intersection of traffic arteries in Central that run east-west and north-south, commands open green views over Hong Kong Park and to Victoria Peak, and is well connected to other buildings in the neighbourhood as well as to the Mass Transit Railway

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Stephen T H Ng *(Chairman)*
Kevin K P Chan
Joseph M K Chow, *OBE, JP**
H M V de Lacy Staunton*
Hon Andrew K Y Leung, *GBS, JP**
Michael T P Sze*
Brian S K Tang*
Paul Y C Tsui
Hon Frankie C M Yick

* *Independent Non-executive Directors*

SECRETARY

H O Hung

REGISTERED OFFICE

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

REGISTRARS

Tricor Tengis Limited
Level 22, Hopewell Centre,
183 Queen's Road East,
Wanchai,
Hong Kong

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited

AUDITORS

KPMG, Certified Public Accountants

Chairman's Statement

2013 profit before provision for hotel property and Investment Properties ("IP") revaluation surplus declined by 24% from 2012 to HK$1,464 million. IP and Hotel were steady but contribution from Development Properties ("DP") was substantially lower in the absence of the exceptional profit (over HK$1 billion) attributable to the highly successful Xiyuan project in Shanghai in 2012. In addition, a provision in the amount of HK$542.8 million was made against impairment in the value of the new hotel opening in Changzhou in mid-2014.

In Hong Kong, the Group's IP segment delivered a solid performance in both occupancy and average rent, thanks to resilient local and international consumption demand.

Sustained inbound tourism also continued to propel the hospitality industry. Total visitor arrivals surged by 11.7% to 54.3 million in 2013. However, price resistance and escalating costs are constraining the Hotel segment's financial performance.

The Group acquired Murray Building in a government tender in late 2013 for HK$4,400 million. It is a majestic building with towering arches and quite possibly the last remaining prime site in Central for a major hotel. Nearly 50 years of history at the heart of Hong Kong makes this a very interesting conservation and conversion project. On completion, targeted for 2017 and at a total budget of over HK$7 billion, this new hotel will join the similarly historic and successful Marco Polo Hongkong Hotel in Tsimshatsui in the Group's stable of two unique hotels in Hong Kong that are both distinguished not only in location, but also rich in history and superior in market position.

In the Mainland, unfavourable government policy has dampened prospects for the DP business in the near to medium term. In the longer term, accelerating urbanisation and domestic consumption, as well as the development of services industries, will continue to bolster economic development. The expanding middle class aspiring to modern urban living will continue to boost the underlying demand for quality residences.

Amidst various challenges in the market, attributable DP sales in 2013 totalled RMB3.9 billion. As at the end of 2013, the net order book stood at RMB4.5 billion for 4,005 residences with a total GFA of 475,000 square metres. The attributable land bank was 1.9 million square metres and stated at a book value of HK$13.9 billion.

In Suzhou, the 450-metre landmark Suzhou International Finance Square ("IFS") designed by the internationally renowned architect Kohn Pedersen Fox is targeted for completion by 2017 at an estimated cost of RMB5.3 billion. With a total GFA of 278,000 square metres, including 176,000 square metres of international Grade A offices, 73,000 square metres of luxurious apartments and a boutique premium sky hotel, it promises to be the leading tower in the emerging new CBD. This 80%-owned investment is bundled with a larger and profitable DP project in Suzhou but the majority of IFS will be held as IP. A challenging market is envisaged but we expect IFS to outperform the competition due to its location and quality.

In Changzhou, the new hotel is part of a larger DP project that is profitable overall. However, it will open into a challenging market that is over-supplied. In addition, demand has been hard hit by the government's austerity measures. The Board has therefore decided to take a pragmatic approach to write down this hotel's book value to more accurately reflect the current state of the market.

2013 FINANCIAL SUMMARY

Compared to an exceptional 2012, lower contribution from DP reduced consolidated revenue by 8% to HK$5,758 million and profit before provision for hotel property and IP revaluation surplus by 24% to HK$1,464 million.

Following the acquisition of Murray Building, the Group was in a small net debt position (of HK$413 million) by year end. DP sales are expected to continue to generate cash inflow and to enhance the Group's financial position. Net asset value increased by 5% to HK$21.7 per share, or to HK$27.8 per share if Marco Polo Hongkong Hotel is restated at market value.

In lieu of a final dividend, the Board has approved a second interim dividend of 48 cents per share. Inclusive of the special dividend paid together with the first interim dividend, this would bring the total dividend for 2013 to 78 cents per share.

PROSPECTS

The Third Plenum of the 18th Central Committee held in November 2013 affirmed China's commitment to urbanisation and to increasingly embrace market dynamics to determine resource allocation, which bodes well for the longer-term outlook for the economy and the real estate market in the Mainland. The commitment to double 2010 GDP and GDP per capita by 2020 will further propel economic growth and expedite the pace of urbanisation and wealth accumulation for the next decades.

The continuous realisation for our China property business will help to strengthen the Group's financial position and fund the Suzhou IFS development in a challenging market environment. However, profit margins for the net order book in hand will generally be tighter than those reported for the past two years. Government policy will remain unfavourable to developers.

Marco Polo Hongkong Hotel will continue to benefit from inbound tourism. In particular, its premier location and enhanced product offerings will place the hotel in a good position to capture the spending of international and Chinese travellers. However, operating costs will be under upward pressure. Furthermore, the opening of the new hotel in Changzhou is expected to incur pre-opening and initial post-opening losses.

On the other hand, actual or expected "tapering" of various "quantitative easing" government programmes in major developed economies around the world has been giving rise to uncertainties and gyrations in financial and physical markets. This will be closely monitored for implications to the Group's businesses.

The Group is investing in substantial new development, which will bring both opportunities and threats. On behalf of the Board, I wish to thank all customers, staff and business partners most sincerely for their support over the years. We will continue to rely on such support to deliver good returns on our investment.

Stephen T H Ng
Chairman

Hong Kong, 28 February 2014

Financial Highlights

	2013 HK$ Million	2012 HK$ Million	Change
Results			
Revenue	5,757.7	6,260.5	–8%
Operating profit	1,652.9	2,358.5	–30%
Core profit (Note a)	1,464.3	1,936.5	–24%
Profit attributable to equity shareholders	1,276.4	3,057.5	–58%
Earnings per share			
Core profit (Note a)	HK$2.07	HK$2.73	–24%
Reported profit	HK$1.80	HK$4.31	–58%
Dividends per share			
First interim/special	HK$0.30	HK$0.48	–38%
Second interim	HK$0.48	HK$0.48	–
Total for the year	HK$0.78	HK$0.96	–19%
Financial position			
Total assets	31,076.2	26,782.7	+16%
Total business assets (Note b)	23,857.7	17,371.6	+37%
Net (debt)/cash	(413.4)	4,580.5	–109%
Share capital (708.8 million ordinary shares of HK$0.5 each)	354.4	354.4	–
Shareholders' equity	15,381.6	14,591.3	+5%
Total equity	16,447.5	15,563.4	+6%
Net asset value per share	HK$21.70	HK$20.59	+5%
Net debt to total equity	2.5%	–	–

	Group profit to equity shareholders			Shareholders' equity		Earnings per share		
Financial year	Core profit HK$ Million	Reported profit HK$ Million	Total equity HK$ Million	Total HK$ Million	Per share HK$	Core profit HK$	Reported profit HK$	Dividends per share HK$
2004	249.0	371.7	3,505.6	3,505.6	11.13	0.79	1.18	0.17
2005	293.4	517.1	4,096.3	4,096.3	13.00	0.93	1.64	0.17
2006	344.9	422.7	4,778.0	4,778.0	15.17	1.09	1.34	0.29
2007	503.4	638.4	5,945.1	5,748.1	18.24	1.60	2.03	0.29
2008	133.3	170.5	7,762.8	7,067.0	14.96	0.28	0.36	0.20
2009	303.7	535.1	9,876.8	9,175.0	12.95	0.48	0.84	0.20
2010	226.0	1,014.9	11,439.7	10,673.9	15.06	0.32	1.43	0.20
2011	336.0	1,095.5	12,278.7	11,462.9	16.17	0.47	1.55	0.24
2012	1,936.5	3,057.5	15,563.4	14,591.3	20.59	2.73	4.31	0.96
2013	**1,464.3**	**1,276.4**	**16,447.5**	**15,381.6**	**21.70**	**2.07**	**1.80**	**0.78**

Notes:

(a) Core profit excludes impairment for hotel properties under development and investment property revaluation surplus.

(b) Business assets exclude unallocated corporate assets mainly comprise available-for-sale investments, deferred tax assets, bank deposits and cash and derivative financial assets.

(c) Ten-Year Financial Summary is detailed on page 92.

Business and Financial Review

BUSINESS REVIEW

China Portfolio

Development Properties (DP)

2012 had been an exceptional year with completion of the highly successful Shanghai Xiyuan project which contributed a net profit of over HK$1 billion. In the absence of a similarly exceptional project in 2013, revenue and operating profit for the segment decreased to HK$4,577.3 million and HK$970.1 million respectively, mainly from Suzhou Times City and Changzhou Times Palace. Net contribution from the joint venture totalled HK$270.8 million, as a result of the completion of additional phases of The U World in Chongqing.

Inclusive of joint ventures on an attributable basis, property sales contracted in 2013 totalled RMB3,937.6 million (2012: RMB4,219.5 million). As at 31 December 2013, the net order book amounted to RMB4,486.8 million (31/12/2012: RMB5,378.8 million), pending recognition on completion of the respective properties.

As at 31 December 2013, the Group had an attributable land bank of 1.9 million square metres at a book value of HK$13.9 billion, which represented 58% of the Group's business assets.

Sales

The fast-growing middle class spurred the underlying demand for quality residences and rendered support to the real estate market.

Including the attributable share in the joint venture project, over 2,100 residences with a total GFA of 287,200 square metres were contracted for sale in 2013 for RMB3.9 billion (HK$5.0 billion). At the end of 2013, the net order book stood at RMB4.5 billion for 4,005 residences with a total GFA of 475,000 square metres. Profit margins for the net order book in hand, however, will generally be tighter than those reported for the past two years. In 2013, sales order recognition was about RMB4.6 billion.

Initial phases of retail units and additional phases of residential units of Suzhou Times City were launched for pre-sale in 2013. 131,000 square metres were sold or pre-sold at an average price of RMB12,300 per square metre for residential and RMB28,000 per square metre for retail. Total proceeds amounted to RMB1.7 billion. The cumulative GFA sold/pre-sold represents 45% of the project total.

Changzhou Times Palace launched additional phases for pre-sale and sold or pre-sold 107,000 square metres at an average price of RMB7,900 per square metre. Contracted sales proceeds increased by 10% to RMB847 million. The cumulative GFA sold/pre-sold represents 56% of the project total.

Additional phases of residential units of The U World in Chongqing were launched for pre-sale in 2013. On an attributable basis, 40,300 square metres were sold or pre-sold at an average price of RMB19,500 per square metre for residential and RMB40,800 per square metre for retail. Total proceeds amounted to RMB864 million, 56% higher than in 2012. The cumulative GFA sold/pre-sold represents 47% of the project total.

Shanghai Xiyuan sold a further 8,900 square metres at an average price of RMB50,000 per square metre for proceeds of RMB528 million. The cumulative GFA sold represents 99% of the project total.

Development Progress

Changzhou Times Palace comprises residential towers and carparks, semi-detached houses and villas, a State Guest House, a five-star Marco Polo Hotel and serviced apartments with a total GFA of 800,000 square metres. Additional phases of residential units were completed in 2013. Construction of the remaining residential towers is underway with full completion scheduled for 2016.

The U World in Chongqing, 55%-owned joint venture residential and commercial development with China Overseas Land & Investment Limited, offers an attributable GFA of 235,000 square metres with most of the residences enjoying a panoramic river view from different angles. The development, being adjacent to the Grand Theatre, Chongqing Science and Technology Museum and the Central Park in the new Jiangbei CBD, is in close proximity to the future Chongqing IFS. Additional phases of residential units were completed in 2013. Construction of the remaining residential towers is underway with full completion scheduled for 2016.

Suzhou Times City, a joint venture owned 80:20 between the Group and a unit of the local government, is located along the main east-west thoroughfare of Xiandai Da Dao and near a future metro station, with a residential GFA of 907,000 square metres. Initial phases were completed in 2013. Construction of the remaining towers is underway with full completion scheduled for 2018.

Shanghai South Station is a 493,000-square-metre commercial development in Xuhui District, in which the Group owns a 27% interest (attributable 133,000 square metres), led by major Mainland developer China Vanke Company Limited with a 51% interest. The development, situated next to Shanghai South Railway Station, is well-connected to the existing Metro Line 1, Line 3 and future Line 15 stations. Construction is underway with full completion scheduled for 2018.

Investment Properties (IP)

Suzhou IFS (80% attributable to the Group) is a 450-metre landmark commercial development in the new CBD of Suzhou overlooking Jinji Lake, and will be comparable in height to the tallest building in Hong Kong. Designed by Kohn Pedersen Fox, the development consists of international Grade A office, luxurious apartments as well as a boutique premium sky hotel with full scenery of Suzhou. It offers a total GFA of 278,000 square metres and will be directly connected to the future metro station. Construction is underway with the initial phases targeted for completion by 2017. Total estimated cost amounted to RMB5.3 billion.

Hotel

In Changzhou, the 31-suite State Guest House, a 271-room five-star hotel and 139-unit serviced apartments are scheduled for completion by 2014. The hotel is part of the State Guest House complex with vast garden space for major events and weddings. Pre-operating expenses affected the Hotel segment's results in 2013 and are expected to continue in 2014. Initial post-opening losses are also expected. Its book value has been written down by HK$542.8 million to more accurately reflect the current state of the market.

In Suzhou, construction of a 129-room sky hotel with full scenery of the city in the Suzhou IFS project is also underway.

Hong Kong Portfolio

Investment Properties (IP)

The IP segment (mainly comprising prime Canton Road retail properties) was powered by the solid local and international consumption demand, with a 23% increase in revenue and a 26% increase in operating profit. The Group's IP portfolio was independently revalued as at 31 December 2013, resulting in a net revaluation surplus of HK$354.9 million for the year.

Hotel

With its favourable location in Harbour City, Marco Polo Hongkong Hotel ("MPHK Hotel") provides convenience for discerning travellers and will continue to benefit from inbound tourism. Average room rate increased by 3% while average occupancy was maintained at 90%. Profitability was however affected by rising operating costs and higher depreciation charges. Operating costs will continue to come under upward pressure in 2014.

Business and Financial Review

Acquisition

In November 2013, the Group acquired the 27-storey Murray Building on Cotton Tree Drive in Central, which is probably the last remaining prime site in Central area for a major hotel, for HK$4.4 billion. Murray Building, a majestic building with towering arches, is a unique, prominent landmark building featuring an intricate design and part of Hong Kong's heritage for nearly 50 years. It guards the intersection of traffic arteries in Central that run east-west and north-south, commands open green views over Hong Kong Park and is well connected to other buildings in the neighbourhood, as well as to the Mass Transit Railway.

Situated on a site of 68,136 square feet, Murray Building envisages a total GFA of 325,000 square feet. The Group will convert this iconic property to a unique, fashionable lifestyle hotel for a total investment of over HK$7 billion. Target opening is scheduled for 2017. Design planning is underway.

With its extensive experience in operating high-quality hotels through its much respected MPHK Hotel, the Group is poised to add another stylish hotel to its hospitality portfolio. On completion, the Group will own two unique hotels in Hong Kong that are distinguished not only in location, but also rich in history and superior in market position.

FINANCIAL REVIEW

(I) Review of 2013 Final Results

In 2013, the Group reported profit before provision for hotel property and IP revaluation surplus of HK$1,464.3 million despite the absence of the exceptionally large profit of over HK$1 billion from the Shanghai Xiyuan project in 2012.

Including profit from IP revaluation and impairment provision for hotel properties under development, profit attributable to shareholders decreased by 58% to HK$1,276.4 million (2012: HK$3,057.5 million).

Revenue

Group revenue decreased by 8% to HK$5,757.7 million (2012: HK$6,260.5 million).

DP revenue of HK$4,577.3 million (2012: HK$5,229.3 million) was recognised, mainly from the phased completion of Suzhou Times City and Changzhou Times Palace and sales of the remaining Shanghai Xiyuan units.

IP revenue increased by 23% to HK$324.7 million (2012: HK$263.6 million), benefitting from higher retail rental, particularly in MPHK Hotel.

Hotel revenue rose by 3% to HK$656.4 million (2012: HK$637.1 million).

Investment and Other Income comprising interest and dividend from the Group's surplus cash and investments increased by 53% to HK$199.3 million (2012: HK$130.5 million).

Operating Profit

Group operating profit decreased by 30% to HK$1,652.9 million (2012: HK$2,358.5 million).

DP profit decreased by 46% to HK$970.1 million (2012: HK$1,790.8 million) with an operating margin of 21% (2012: 34%).

IP contribution increased by 26% to HK$296.0 million (2012: HK$235.6 million).

Hotel profit fell by 5% to HK$203.2 million (2012: HK$214.5 million) mainly due to increase in depreciation charges at MPHK Hotel and pre-operating expenses incurred by Changzhou Marco Polo Hotel.

Profit contribution from Investment and Others increased by 53% to HK$199.3 million (2012: HK$130.5 million).

Increase in Fair Value of Investment Properties

The Group's completed investment properties were stated at fair value based on an independent valuation as at 31 December 2013 which resulted in a revaluation surplus of HK$354.9 million in 2013 (2012: HK$1,121.0 million). Investment properties under development are carried at cost and will not be carried at fair value until the earlier of their fair values first becoming reliably measurable or the dates of completion.

Impairment of Hotel Properties Under Development

An impairment provision in the amount of HK$542.8 million was made in respect of the Changzhou Marco Polo Hotel (2012: HK$Nil) which is expected to open into a challenging market environment in mid-2014.

Other Net Income

Other net income for the year amounted to HK$210.7 million mainly including foreign exchange gain of HK$201.2 million (2012: HK$129.9 million).

Finance Costs

Net finance costs amounted to HK$69.6 million (2012: HK$30.7 million) mainly as a result of the increase in bank borrowings. The charge was stated after capitalisation of HK$19.0 million (2012: HK$24.1 million) for the Group's projects.

Share of Results after Tax of Joint Ventures

The attributable profit after tax from joint ventures amounted to HK$270.8 million (2012: HK$312.4 million), representing a decrease of HK$41.6 million, with the profit contribution from The U World in Chongqing development project in the Mainland.

Income Tax

Taxation charge for the year decreased to HK$535.8 million (2012: HK$819.7 million) resulting from a decrease in taxable profit.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the year ended 31 December 2013 amounted to HK$1,276.4 million (2012: HK$3,057.5 million), representing a year-on-year decrease of 58%. Earnings per share were HK$1.80 (2012: HK$4.31) based on 708.8 million issued shares.

Excluding the investment property revaluation surplus of HK$354.9 million (2012: HK$1,121.0 million) and impairment provision for hotel properties under development of HK$542.8 million (2012: HK$Nil), the Group's profit attributable to shareholders for the year was HK$1,464.3 million (2012: HK$1,936.5 million), representing a decrease of 24%. Earnings per share before hotel property provision and IP revaluation surplus were HK$2.07 (2012: HK$2.73) based on 708.8 million issued shares.

(II) Liquidity, Financial Resources and Commitments

Shareholders' and Total Equity

As at 31 December 2013, the Group's shareholders' equity increased by 5% to HK$15,381.6 million (31/12/2012: HK$14,591.3 million), equivalent to HK$21.70 per share (31/12/2012: HK$20.59 per share). Including the non-controlling interests, the Group's total equity stood at HK$16,447.5 million (31/12/2012: HK$15,563.4 million).

MPHK Hotel 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 2013 carried out by an independent valuer would give rise to an additional revaluation surplus of HK$4,283.5 million and increase the Group's shareholders' equity as at 31 December 2013 to HK$19,665.1 million, equivalent to HK$27.75 per share.

Total Assets

The Group's total assets increased by 16% to HK$31,076.2 million (31/12/2012: HK$26,782.7 million), including HK$23,857.7 million of business assets, HK$5,824.6 million of bank deposits and cash and HK$1,340.5 million of available-for-sale investments.

The Group's major business assets included DP for sale of HK$7,375.4 million, interest held through joint ventures of HK$2,161.9 million, IP of HK$6,434.8 million and fixed assets of HK$4,764.5 million. Geographically, HK$13,887.3 million or 58% of the Group's total business assets were located in the Mainland.

IP increased by HK$868.9 million to HK$6,434.8 million (31/12/2012: HK$5,565.9 million). The increase reflects the surplus of HK$354.9 million arisen from revaluation of the completed IPs and the construction cost incurred for Suzhou IFS.

Fixed assets increased by HK$4,114.7 million to HK$4,764.5 million (31/12/2012: HK$649.8 million). The increase is principally due to the acquisition of the Murray Building site for hotel purpose at HK$4,400 million.

Interest in associates was HK$1,924.7 million (31/12/2012: HK$0.1 million), increasing by HK$1,924.6 million mainly resulting from the new investment in the Shanghai South Station project in the Mainland.

Debt/Cash and Gearing

As at 31 December 2013, the Group had net debt of HK$413.4 million (31/12/2012: Net Cash HK$4,580.5 million), which comprised HK$5,824.6 million of cash and HK$6,238.0 million of bank borrowings in various currencies. The ratio of net debt to total equity was 2.5% (31/12/2012: N/A).

Finance and Availability of Facilities and Funds

As at 31 December 2013, the Group's available loan facilities amounted to HK$6,970.2 million, of which HK$6,238.0 million was drawn. HK$500.0 million is repayable within one year while the balance is due between two and five years. Certain banking facilities were secured by mortgage over the Group's certain properties under development for sale with total carrying value of HK$208.6 million (31/12/2012: HK$963.5 million).

The Group's debts were denominated in HKD, USD and RMB. As as 31 December 2013, all the Group's borrowings were at floating rate. Further borrowings will be sourced to finance the Group's property and hotel development 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.

The Group continued to maintain a reasonable level of surplus cash denominated principally in HKD and RMB to facilitate the Group's business and investment activities. As at 31 December 2013, the Group also maintained a portfolio of available-for-sale investments primarily consisting of blue chip listed securities, with an aggregate market value of HK$1,340.5 million (31/12/2012: HK$1,541.6 million), which is available for liquidation to meet the Group's needs if necessary. The performance of the portfolio was largely in line with the general stock market.

Net Cash Flows for Operating and Investing Activities

For the year under review, the Group generated HK$1,946.7 million of net cash inflow from operating activities (2012: HK$2,617.4 million), primarily from pre-sales proceeds net of construction cost payment for the Group's Mainland development projects. For investing activities, the Group recorded a net cash outflow of HK$6,595.4 million (2012: HK$436.4 million), mainly comprising HK$4,422.1 million for the Murray Building project in Hong Kong and HK$1,563.7 million for the South Station project in Shanghai.

Commitments

As at 31 December 2013, the Group's total authorised and contracted for commitments amounted to HK$5.1 billion which was mainly for Mainland development projects. Furthermore, the Group intends to invest HK$2.1 billion for the conversion of Murray Building into a hotel. Besides that, the Group also intends to invest HK$7.7 billion primarily for the existing DP in the Mainland, which will be incurred by stages in the coming years.

The above commitments and planned expenditures will be funded by the Group's internal financial resources including cash of HK$5,824.6 million and proceeds from property pre-sales as well as bank loans. Other available resources include available-for-sale investments.

(III) Human Resources

The Group had approximately 710 employees as at 31 December 2013. Employees are remunerated according to their job responsibilities and the market pay trend with a discretionary annual performance bonus as variable pay for rewarding individual performance and contributions to the Group's achievement and results.

BUSINESS MODEL

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

Total attributable land bank in China totalled 1.9 million square metres at the end of 2013, which comprised six projects in the prime areas of Shanghai, Chongqing, Suzhou and Changzhou. These projects benefit from Wharf's trusted brand in the development of quality and well-located residences. 2013 contribution from the Mainland reached 82% and 67% of Group revenue and operating profit.

Flagship assets in Hong Kong include the Marco Polo Hongkong Hotel and the newly-acquired Murray Building. The former is strategically located in Harbour City in Canton Road with 665 hotel rooms. The latter is an interesting, prominent landmark building standing on a prime site in Central to be conserved and converted into a fashionable hotel, with target opening in 2017. Spurred by the thriving inbound tourism and strong hotel room demand, hotel and property investment in Hong Kong continued to deliver solid growth.

BUSINESS STRATEGY

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

(a) Leveraging Wharf's core competencies in site acquisition, financing, development planning, design, construction, premium brand building and marketing to operate a profitable and sustainable development property business in the Mainland;

(b) Owning, developing and operating prime hotels and investment properties through continuous product and service enhancement and retail property management to maximise income and value; and

(c) Exercising prudent and disciplined financial management at all times.

(A) CORPORATE GOVERNANCE PRACTICES

During the financial year ended 31 December 2013, all the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited were met by the Company, with one exception as regards Code Provision A.2.1 as explained under section (D) below.

(B) DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors of the Company who were in office during the financial year ended 31 December 2013, all of them have confirmed that they have complied with the required standard set out in the Model Code and the code of conduct adopted by the Company regarding directors' securities transactions during the financial year.

(C) BOARD OF DIRECTORS

(I) Composition of the Board, number of Board/General 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 and one general meeting were held during the financial year ended 31 December 2013. The composition of the Board and attendance of the Directors are set out below:

Directors	Attendance/Number of Meeting(s) Board Meetings	General Meeting
Chairman		
Stephen T H Ng	5/5	1/1
Non-executive Directors		
Kevin K P Chan *(appointed with effect from 11 April 2013)*	3/3	1/1
Y T Leng *(resigned with effect from 11 April 2013)*	2/2	N/A
T Y Ng *(resigned with effect from 11 April 2013)*	2/2	N/A
Paul Y C Tsui	5/5	1/1
Frankie C M Yick	5/5	1/1
Independent Non-executive Directors		
Joseph M K Chow	5/5	1/1
H M V de Lacy Staunton	5/5	1/1
Andrew K Y Leung	4/5	1/1
Michael T P Sze	3/5	0/1
Brian S K Tang	5/5	1/1

Each Director of the Company has been appointed on the strength of his/her calibre, experience and stature, and his/her 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) Board Diversity

The Company's Board adopted a Board Diversity Policy during the year. Under the Policy, the Company recognizes and embraces the benefits of having a diverse Board with a vision for the Company to achieving a sustainable and balanced development. Appointments of directors are made on merits while having due regard for the benefits of diversity of the Board.

At present, over 55% of the directors on the Board are Independent Non-executive Directors ("INED(s)"). They represent diverse career experience in both international and local enterprises. They bring with them diverse professional backgrounds, spanning engineering, textile, financial and securities, banking, trustee services and entrepreneurship. They also hold or have held important public service positions in Hong Kong and China, covering business, industry and commerce, educations, regulatory and politics.

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

(III) Operation of the Board

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

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

(IV) Directors' Continuous Professional Development

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

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

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

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

(D) CHAIRMAN AND CHIEF EXECUTIVE

Mr Stephen T H Ng serves as the Chairman and also as the *de facto* chief executive of the Company. This is a deviation from Code Provision A.2.1 with respect to the roles of chairman and chief executive to be performed by different individuals. Such deviation is deemed appropriate as it is considered to be more efficient to have one single person to be the Chairman of the Company as well as to discharge the executive functions of a chief executive. The Board of Directors believes that the balance of power and authority is adequately ensured by the operations of the Board which comprises experienced and high calibre individuals, with more than half of them being INEDs.

(E) NON-EXECUTIVE DIRECTORS

All those existing Directors of the Company who do not hold any executive office of the Company (including INEDs) have their respective terms of appointment coming to an end normally three years after their appointment to the Board or (in the case of Directors who were re-elected to the Board at previous Annual General Meetings) their last re-election as Directors. The re-election of each of those INEDs who has served on the Board for more than nine years is subject to (i) a separate resolution to be approved by Shareholders at the relevant Annual General Meeting; and (ii) further information being given to Shareholders together with the notice of meeting regarding the reasons why the Board believes the relevant Director is still independent and should be re-elected.

(F) BOARD COMMITTEES

(I) Audit Committee

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

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

Three AC meetings were held during the financial year ended 31 December 2013. Attendance of the AC members is set out below:

Members	Attendance/Number of Meetings
Michael T P Sze, *Chairman*	3/3
Joseph M K Chow	3/3
Brian S K Tang	3/3

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

(A) Relationship with the Company's auditors

(a) to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditors, and to approve the remuneration and terms of engagement of the external auditors, and any questions of their resignation or dismissal;

(b) to review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Committee should discuss with the auditors the nature and scope of the audit and reporting obligations before the audit commences; and

(c) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed.

(B) Review of financial information of the Company

(a) to monitor integrity of financial statements of the Company and the Company's annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgements contained in them. In reviewing these reports before submission to the Board, the Committee should focus particularly on:–

(i) any changes in accounting policies and practices;

(ii) major judgemental areas;

(iii) significant adjustments resulting from audit;

(iv) the going concern assumptions and any qualifications;

(v) compliance with accounting standards; and

(vi) compliance with the Listing Rules and legal requirements in relation to financial reporting;

(b) regarding (B)(a) above:–

(i) members of the Committee should liaise with the Company's Board and Senior Management and the Committee must meet, at least twice a year, with the Company's auditors; and

(ii) the Committee should consider any significant or unusual items that are, or may need to be, reflected in the report and accounts, it should give due consideration to any matters that have been raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or auditors.

(C) Oversight of the Company's financial reporting system and internal control procedures

(a) to review the Company's financial controls, internal control and risk management systems;

(b) to discuss the internal control system with management to ensure that management has performed its duty to have an effective internal control system. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

(c) to consider major investigation findings on internal control matters as delegated by the Board or on its own initiative and management's response to these findings;

(d) where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

(e) to review the Group's financial and accounting policies and practices;

(f) to review the external auditors' management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;

(g) to ensure that the Board will provide a timely response to the issues raised in the external auditors' management letter;

(h) to report to the Board on the matters in the Code Provisions in the Listing Rules;

(i) to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters. The Committee should ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action;

(j) to act as the key representative body for overseeing the Company's relations with the external auditors; and

(k) to consider other topics, as defined by the Board.

(D) Oversight of the Company's Corporate Governance Matters

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and Senior Management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to consider other topics, as defined by the Board.

(ii) A Whistleblowing Policy & Procedures of the Group has been established and approved by the Company's AC, which has the delegated authority and responsibility, for employees and those who deal with the Group (e.g. customers and suppliers) to raise concerns, in confidence, with the Company Secretary, and any and all relevant complaints received may then be referred to the AC and/or Chairman of the Company about possible improprieties in any matter related to the Group.

(iii) The other work performed by the AC for the financial year ended 31 December 2013 is summarised below:

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

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

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

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

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

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

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

(II) Remuneration Committee

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

One RC meeting was held during the financial year ended 31 December 2013. Attendance of the RC members is set out below:

Members	Attendance/Number of Meeting
Michael T P Sze, *Chairman*	1/1
Stephen T H Ng	1/1
Brian S K Tang	1/1

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

(a) to make recommendations to the Board on the Company's policy and structure for all Directors' and Senior Management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

(b) to review and approve the management's remuneration proposals by reference to the Board's corporate goals and objectives;

(c) either:

(i) to determine, with delegated responsibility, the remuneration packages of individual executive Directors and Senior Management; or

(ii) to make recommendations to the Board on the remuneration packages of individual executive Directors and Senior Management.

This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(d) to make recommendations to the Board on the remuneration of non-executive Directors;

(e) to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

(f) to review and approve compensation payable to executive Directors and Senior Management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive;

(g) to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate;

(h) to ensure that no Director or any of his associates is involved in deciding his own remuneration; and

(i) to advise Shareholders on how to vote with respect to any service contracts of Directors that require Shareholders' approval under the Listing Rules.

(ii) The work performed by the RC, which has the delegated authority and responsibility, for the financial year ended 31 December 2013 is summarised below:

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

(b) consideration and approval of the emoluments for all Directors and Senior Management; and

(c) review of the level of fees for Directors and AC members.

The basis of determining the emoluments payable to its Directors and Senior Management by the Company is by reference to the level of emoluments normally paid by a listed company in Hong Kong to directors and senior executives of comparable calibre and job responsibilities so as to ensure a fair and competitive remuneration package as is fit and appropriate. The basis of determining the fee payable to each of the Directors of the Company, currently at the rate of HK$50,000 per annum (with effect from 1 January 2013), and the fee payable to each of those Directors who are also members of the AC of the Company, currently at the rate of HK$20,000 per annum (with effect from 1 January 2013), is by reference to the level of fees of similar nature normally paid by a listed company in Hong Kong to its directors.

(III) Nomination Committee

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

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

(a) to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

(c) to assess the independence of INEDs; and

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particulars the Chairman of the Board and the chief executive.

(ii) The work performed by the NC for the financial year ended 31 December 2013 is the nomination of a candidate, for the Board's approval, for filling one of the vacancies on the Board occasioned by the resignation of two Directors of the Company.

During the financial year ended 31 December 2013, no physical meeting of the NC was held and the nomination of the Director of the Company mentioned above was dealt with by way of circulation of written resolution approved by the NC.

(IV) Corporate Governance Functions

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

(G) AUDITORS' REMUNERATION

For the financial year ended 31 December 2013, the external auditor of the Company received approximately HK$1.6 million for audit services and HK$0.1 million for other services.

(H) INTERNAL CONTROL

The Directors are ultimately responsible for the internal control system of the Group and, through the AC, 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 AC. 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, and the adequacy of, *inter alia*, resources, qualifications, experience and training of staff of the Company's accounting and financial reporting function was conducted by the AC and subsequently reported to the Board during the financial year ended 31 December 2013. Based on the result of the review, in respect of the financial year ended 31 December 2013, the Directors considered that the internal control system and procedures of the Group were effective and adequate.

(I) DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for overseeing the preparation of financial statements for the financial year ended 31 December 2013, 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 2013:

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

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

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

(J) COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

(K) SHAREHOLDERS' RIGHTS

(I) Convene an Extraordinary General Meeting

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

(II) Send Enquiries to the Board

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

(III) Make Proposals at General Meetings

(i) The procedures for proposing candidate(s) for election as Director(s) at a Shareholders' meeting are set out in the Corporate Governance section of the Company's corporate website.

(ii) The procedures for proposing resolution(s) to be moved at the Company's annual general meeting(s) are as follows:

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

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

The relevant written requisition must–

(a) identify the resolution of which notice is to be given;

(b) be authenticated by the person or persons making it; and

(c) be received by the Company not later than 6 weeks before the relevant annual general meeting to which the requests relate; or if later, the time at which notice is given of that meeting.

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

(L) AMENDMENTS TO CONSTITUTIONAL DOCUMENTS

There is no significant change in the Company's constitutional documents during the financial year ended 31 December 2013.

However, in accordance with the CO which came into effect on 3 March 2014, the Company's memorandum of association is technically regarded to have ceased to be in existence, and all provisions thereof have been deemed to form part of the Company's articles of association by operation of laws. In addition, a special resolution for adoption of a revised set of articles of association ("New Articles") in line with the CO is proposed for consideration and, if thought fit, approval by the Shareholders at the forthcoming Annual General Meeting to be held on 23 May 2014. Please refer to the Company's circular to shareholders dated 17 April 2014 for details of those major changes to be effected by the proposed adoption of the New Articles.

Report of the Directors

The Directors have pleasure in submitting their Report and the Audited Financial Statements for the financial year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and those of its principal subsidiaries, associate and joint ventures are set out on pages 89 and 90.

RESULTS, APPROPRIATIONS AND RESERVES

The results of the Group for the financial year ended 31 December 2013 are set out in the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income on pages 33 and 34 respectively.

Appropriations of profits and movements in reserves of the Group and of the Company during the financial year are set out in the Consolidated Statement of Changes in Equity on page 37 and in Note 26 to the Financial Statements on pages 69 to 70 respectively.

DIVIDENDS

A first interim dividend of 12 cents per share and a special first interim dividend of 18 cents per share were paid on 27 September 2013. The Board has declared a second interim dividend of 48 cents per share in respect of the financial year ended 31 December 2013, payable on 23 May 2014 to Shareholders on record as at 16 May 2014. This second interim dividend is to be paid in lieu of a final dividend in respect of the financial year ended 31 December 2013.

FIXED ASSETS

Movements in fixed assets during the financial year are set out in Note 11 to the Financial Statements on pages 49 and 50.

DONATIONS

The Group made donations during the financial year totalling HK$4.2 million.

DIRECTORS

The Directors of the Company during the financial year were Mr Stephen T H Ng, Mr Kevin K P Chan (appointed with effect from 11 April 2013), Dr Joseph M K Chow, Mr H M V de Lacy Staunton, Ms Y T Leng (resigned with effect from 11 April 2013), Hon Andrew K Y Leung, Mr T Y Ng (resigned with effect from 11 April 2013), Mr Michael T P Sze, Mr Brian S K Tang, Mr Paul Y C Tsui and Hon Frankie C M Yick.

Dr Joseph M K Chow, Mr Stephen T H Ng and Mr Paul Y C Tsui are due to retire by rotation 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 such 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, with the exception that during the year, there existed certain outstanding options to subscribe for ordinary shares of The Wharf (Holdings) Limited ("Wharf"), the Company's parent company, and of Wheelock and Company Limited ("Wheelock"), the Company's ultimate holding company, granted under Wharf's share option scheme and Wheelock's share option scheme respectively to certain employees/directors of companies in Wharf group and in Wheelock group respectively, some of whom were Directors of the Company during the financial year.

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

During the financial year, 300,000 shares of Wharf were allotted and issued to Mr. Paul Y. C. Tsui, a Director of the Company, on his exercise of options under Wharf's share option scheme while no share of Wheelock was allotted and issued to any Director of the Company under Wheelock's share option scheme.

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
H O Hung
Secretary

Hong Kong, 28 February 2014

SUPPLEMENTARY CORPORATE INFORMATION

(A) BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGERS ETC.

(i) Directors

Stephen Tin Hoi NG, *Chairman (Age: 61)*

Mr Ng has been the Chairman and a Director of the Company since 2009. He also serves as a member and the chairman of the Company's Nomination Committee and a member of the Company's Remuneration Committee. He is the 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, as well as the chairman and chief executive officer of i-CABLE Communications Limited ("i-CABLE") and chairman of Wheelock Properties (Singapore) Limited ("WPSL"), both being publicly-listed fellow subsidiaries of the Company. Furthermore, Mr Ng is chairman of Modern Terminals Limited ("MTL"), 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 the chairman of Joyce Boutique Holdings Limited ("Joyce") and a non-executive director of Greentown China Holdings Limited ("Greentown"), both being publicly-listed companies in Hong Kong.

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

Kevin Kwok Pong CHAN, *Director (Age: 53)*

Mr Chan has been a Director of the Company since April 2013. He joined Wharf group, of which the Company is a subsidiary, in 1993 and has been involved in various property development projects of the Wharf group in both China and Hong Kong. He is currently a director of Wharf China Development Limited, a fellow subsidiary of the Company, and is responsible for the planning, project management and construction of new commercial property projects of the Wharf group in China. Mr. Chan graduated from the Polytechnic University of Hong Kong with Associateship in Civil & Structural Engineering. He is a member of the Hong Kong Institution of Engineers as well as the Institution of Civil Engineers, UK and also a chartered engineer of the Engineering Council UK.

Joseph Ming Kuen CHOW, *OBE, JP, Director (Age: 72)*

Dr Chow, *RPE, FHKIE, FICE, FIStructE, FCIT, MIHT*, has been an INED of the Company since 2010. He also serves as a member of the Company's Audit Committee. He is a professional civil and structural engineer. He is the chairman of Joseph Chow & Partners Limited and is an INED of four companies publicly listed in Hong Kong, namely, Build King Holdings Limited, Chevalier International Holdings Limited, Hsin Chong Construction Group Limited and Road King Infrastructure Limited. He was formerly an INED of PYI Corporation Limited from 2004 to 2011 and a non-executive director of Wheelock Properties Limited ("WPL", formerly a listed public company until it became a wholly-owned subsidiary of Wheelock in July 2010) from 2003 to 2010. He was formerly the president of The Hong Kong Institution of Engineers, the chairman of the Hong Kong Examinations and Assessment Authority, a member of Hong Kong Housing Authority, a member of Hospital Authority and chairman of the Hong Kong Construction Workers Regulatory Authority.

Hugh Maurice Victor de LACY STAUNTON, *Director (Age: 78)*

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

Hon Andrew Kwan Yuen LEUNG, *GBS, JP, Director (Age: 63)*

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

Michael Tsai Ping SZE, *Director (Age: 68)*

Mr Sze, *FCA (Eng. & Wales), FCCA, FCPA*, has been an INED of the Company since 2007. He also serves as a member and the chairman of the Company's Audit Committee and Remuneration Committee as well as a member of the Company's Nomination Committee. Mr Sze has over 30 years of experience in the financial and securities field. He graduated with a Master of Laws (LLM) Degree from The University of Hong Kong. He was a former member of The Securities and Futures Appeals Tribunal. He was also a former council member and member of the Main Board Listing Committee of the Stock Exchange. Mr Sze is an INED of GOME Electrical Appliances Holding Limited, Greentown and Walker Group Holdings Limited, all of which are listed on the Stock Exchange. He was formerly a non-executive director of publicly-listed Burwill Holdings Limited from 2000 to 2011.

Brian See King TANG, *Director (Age: 64)*

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

Paul Yiu Cheung TSUI, *Director (Age: 67)*

Mr Tsui, *FCCA, FCPA, FCMA, FCIS, CGA-Canada*, has been a Director of the Company since 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 is presently a director of i-CABLE and WPSL, both being publicly-listed fellow subsidiaries of the Company. Furthermore, he is the vice chairman of WPL as well as a director of certain subsidiaries of the Company. Mr Tsui is also a director of Joyce and a non-executive director of Greentown.

Hon Frankie Chi Ming YICK, *Director (Age: 60)*

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

Notes:

(1) Wheelock and Wharf (Mr Stephen T H Ng and Mr Paul Y C Tsui being directors of both of them) 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 INEDs of the Company 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 Management

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

(B) DIRECTORS' INTERESTS IN SECURITIES

At 31 December 2013, 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), Wheelock (which is Wharf's parent company), i-CABLE and Wharf Finance Limited (both being fellow subsidiaries of the Company), and the percentages (where applicable) which the relevant securities represented to the issued share capitals of the five companies respectively are also set out below:

	Quantity Held (percentage of issued capital or US$, where applicable)	**Nature of Interest**
The Company – Ordinary Shares		
Michael T P Sze	37,500 (0.0053%)	Family interest
Wheelock – Ordinary Shares		
Stephen T H Ng	300,000 (0.0148%)	Personal interest
Paul Y C Tsui *(Note 1)*	1,500,000 (0.0738%)	Personal interest in options for shares
Frankie C M Yick	7,000 (0.0003%)	Personal interest
Wharf – Ordinary Shares		
Stephen T H Ng *(Note 2)*	4,304,445 (0.1421%)	Personal interest in shares and options for shares
Kevin K P Chan *(Note 3)*	1,250,000 (0.0413%)	Personal interest in options for shares
Andrew K Y Leung	6,629 (0.0002%)	Personal interest
Michael T P Sze	50,099 (0.0017%)	Family interest
Paul Y C Tsui *(Note 4)*	2,200,000 (0.0726%)	Personal interest in options for shares
Frankie C M Yick	20,000 (0.0007%)	Personal interest
i-CABLE – Ordinary Shares		
Stephen T H Ng	1,265,005 (0.0629%)	Personal interest
Andrew K Y Leung	9,535 (0.0005%)	Personal interest
Wharf Finance Limited – USD Fixed Rate Notes due 2017		
Brian S K Tang	US$400,000	Personal interest

Notes:

(1) The 1,500,000 Wheelock share options represent the outstanding options granted to, and yet to be exercised by Mr Paul Y C Tsui under Wheelock's share option scheme in June 2013.

(2) Personal interest in 804,445 shares and 3,500,000 Wharf share options, of which, 1,500,000 options and 2,000,000 options represent the outstanding options granted to, and yet to be exercised by, Mr Stephen T H Ng under Wharf's share option scheme in July 2011 and June 2013 respectively.

(3) Of the 1,250,000 Wharf share options, 500,000 options and 750,000 options represent the outstanding options granted to, and yet to be exercised by, Mr Kevin K P Chan under Wharf's share option scheme in July 2011 and June 2013 respectively.

(4) Of the 2,200,000 Wharf share options, 1,200,000 options and 1,000,000 options represent the outstanding options granted to, and yet to be exercised by, Mr Paul Y C Tsui under Wharf's share option scheme in July 2011 and June 2013 respectively.

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the SFO in respect of information required to be notified to the Company and the Stock Exchange by the Directors and/or Chief Executive of the Company pursuant to the SFO or to the Model Code for Securities Transactions by Directors of Listed Issuers, there were no interests, both long and short positions, held as at 31 December 2013 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 rights to subscribe for any shares, underlying shares or debentures of the Company and its associated corporations held by any of them at any time during the financial year.

(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 2013, 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)	The Wharf (Holdings) Limited	505,210,196 (71.28%)
(ii)	Wheelock and Company Limited	505,210,196 (71.28%)
(iii)	HSBC Trustee (Guernsey) Limited	505,210,196 (71.28%)
(iv)	Harson Investment Limited	57,054,375 (8.05%)

Notes:

(1) For the avoidance of doubt and double counting, it should be noted that the shareholdings stated against parties (i) to (iii) above represented the same block of shares.

(2) Wheelock's deemed shareholding interests stated above were held through, inter alia, its two wholly-owned subsidiaries, namely, Wheelock Investments Limited and WF Investment Partners Limited.

(3) Wharf's deemed shareholding interests stated above were held through its two wholly-owned subsidiaries, namely, Wharf Estates Limited and Upfront International Limited.

All the interests stated above represented long positions and as at 31 December 2013, 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.

Four Directors of the Company, namely, Mr Stephen T H Ng, Mr Kevin K P Chan, Mr Paul Y C Tsui and Hon Frankie C M Yick, being also directors of Wharf and/or certain subsidiaries of Wharf, are considered as having an interest in Wharf under Rule 8.10 of the Listing Rules.

Ownership of hotels, and ownership of property for letting and for development carried on by subsidiaries of Wharf constitute competing businesses to the Group.

Two hotels in Hong Kong, namely, The Gateway and The Prince, owned by wholly-owned subsidiaries of Wharf are considered as competing with Marco Polo Hongkong Hotel ("MPHK 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 Marco Polo Hotels Management Limited ("MPHML"; being a wholly-owned subsidiary of Wharf) to act as manager to operate, direct, manage and supervise MPHK Hotel. MPHML is also responsible for the operation of The Gateway and The Prince, and some other hotels in the Asia Pacific region. MPHML has agreed, *inter alia*, to operate MPHK Hotel as a first class hotel, failing which, the Group has the right to unilaterally terminate the engagement of MPHML.

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

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

(E) RETIREMENT BENEFITS SCHEMES

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

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

(F) MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2013:

(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 revenue attributable to the Group's five largest customers represented less than 30% of the Group's total revenue.

(G) 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 2013 which are repayable on demand or within a period not exceeding one year or after one year are set out in Note 22 to the Financial Statements on page 60.

(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 2013.

(I) DISCLOSURE OF CONNECTED TRANSACTIONS

Set out below is information in relation to certain continuing connected transactions involving the Company and/or its subsidiaries, particulars of which were previously disclosed in the announcements of the Company dated 28 May 2012, 1 June 2012 and 31 December 2013 respectively and are required under the Listing Rules to be disclosed in the Annual Report and Financial Statements of the Company:

(i) Master Hotel Services Agreement with Wharf group

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

On 1 June 2012, a master hotel services agreement (the "Master Hotel Services Agreement") was entered into between the Company and Wharf for a fixed term of two years and seven months commencing on 1 June 2012 and expiring on 31 December 2014. The Master Hotel Services Agreement is for the purpose of, *inter alia*, regulating various continuing connected transactions (including the Individual Hotel Services Agreements) involving the provision by Wharf group to the Group of services relating to management, marketing and technical services and/or any other services relating to the development and/or operations of hotel and/or serviced apartments property(ies) (the "Hotel-related Services") and providing for the maximum annual aggregate amount of remuneration that would be payable by the Group to Wharf group under the Individual Hotel Services Agreements and any and all further individual hotel services agreements from time to time during the term of the Master Hotel Services Agreement to be separately entered into between member(s) of the Group and member(s) of Wharf group in respect of the Hotel-related Services provided by Wharf group for the hotel properties owned by the Group.

The annual aggregate amount of remuneration under the Master Hotel Services Agreement, which is subject to the relevant aggregate annual cap amount previously disclosed in the abovementioned announcement dated 1 June 2012, paid by the Group to Wharf group for the financial year ended 31 December 2013 amounted to HK$54.7 million.

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

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

On 28 May 2012, a master property services agreement (the "Master Property Services Agreement") was entered into between the Company and Wharf for a term of one year and seven months from 1 June 2012 to 31 December 2013 for the purpose of, *inter alia*, regulating various continuing connected transactions (including those under the Individual Property Agreements) involving the provision of the Property Services by Wharf group to the Group.

On 31 December 2013, a renewal master property services agreement (the "Renewal Master Property Services Agreement") resembling the Master Property Services Agreement was entered into between the Company and Wharf for a further fixed term of three years from 1 January 2014 to 31 December 2016. Both the Master Property Services Agreement and the Renewal Master Property Services Agreement provided for the maximum annual aggregate amounts of remuneration that would or will be payable by the Group to the Manager/Agent under the Individual Property Agreements and any and all further individual property services agreements from time to time during their respective terms to be separately entered into between member(s) of the Group and member(s) of Wharf group in respect of the Property Services provided by the Manager/Agent for the property projects owned by the Group.

The annual aggregate amount of remuneration under the Master Property Services Agreement, which is subject to relevant aggregate annual cap amount previously disclosed in the abovementioned announcement dated 28 May 2012, paid by the Group to Wharf group for the financial year ended 31 December 2013 amounted to HK$60.0 million.

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

(iii) Confirmation from Directors etc.

The Directors, including the INEDs, of the Company have reviewed the continuing connected transactions mentioned under Section I(i) and Section I(ii) above (the "Transactions") and have confirmed that the Transactions were entered into:

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

(b) either on normal commercial terms or, if there are not sufficient comparable transactions, 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 Transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the Company's auditors to perform procedures on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

The auditors of the Company have advised the following:

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

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

(3) the relevant cap amounts, where applicable, have not been exceeded during the financial year ended 31 December 2013; and

(4) for transactions involving the provision of goods and services by the Group, nothing came to the attention of the auditors of the Company that caused them to believe the transactions were not, in any material respects, in accordance with the pricing policies of the Group.

Independent Auditor's Report

TO THE SHAREHOLDERS OF HARBOUR CENTRE DEVELOPMENT LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of Harbour Centre Development Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 33 to 90 which comprise the consolidated and company statements of financial position as at 31 December 2013, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013 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

28 February 2014

Consolidated Income Statement

For the year ended 31 December 2013

	Note	2013 HK$ Million	2012 HK$ Million
Revenue	1	5,757.7	6,260.5
Direct costs and operating expenses		(3,804.0)	(3,564.3)
Selling and marketing expenses		(169.7)	(239.1)
Administrative and corporate expenses		(77.2)	(55.9)
Operating profit before depreciation, interest and tax		1,706.8	2,401.2
Depreciation		(53.9)	(42.7)
Operating profit	2	1,652.9	2,358.5
Increase in fair value of investment properties		354.9	1,121.0
Impairment for hotel properties under development	3	(542.8)	–
Other net income	4	210.7	103.9
		1,675.7	3,583.4
Finance costs	5	(69.6)	(30.7)
Share of results after tax of:			
Joint ventures	14(b)	270.8	312.4
Associates	13(b)	(2.3)	–
Profit before taxation		1,874.6	3,865.1
Income tax	6(a)	(535.8)	(819.7)
Profit for the year		1,338.8	3,045.4
Profit attributable to:			
Equity shareholders	7	1,276.4	3,057.5
Non-controlling interests		62.4	(12.1)
		1,338.8	3,045.4
Earnings per share	8		
Basic		HK$1.80	HK$4.31
Diluted		HK$1.80	HK$4.31

The notes and principal accounting policies on pages 40 to 90 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 2013

	2013 HK$ Million	2012 HK$ Million
Profit for the year	1,338.8	3,045.4
Other comprehensive income for the year:		
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation the operations of:	376.6	12.0
– subsidiaries	310.9	10.8
– joint ventures	65.7	1.2
Fair value changes on available-for-sale investments:	(286.3)	528.1
– (deficit)/surplus on revaluation	(245.3)	496.3
– transferred to consolidated income statement on disposal	(41.0)	31.8
Others	7.8	–
Other comprehensive income for the year	98.1	540.1
Total comprehensive income for the year	1,436.9	3,585.5
Total comprehensive income attributable to:		
Equity shareholders	1,343.1	3,596.2
Non-controlling interests	93.8	(10.7)
	1,436.9	3,585.5

The notes and principal accounting policies on pages 40 to 90 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2013

	Note	2013 HK$ Million	2012 HK$ Million
Non-current assets			
Investment properties	10	6,434.8	5,565.9
Fixed assets	11	4,764.5	649.8
Interest in associates	13	1,924.7	0.1
Interest in joint ventures	14	2,161.9	2,082.3
Available-for-sale investments	15	1,340.5	1,541.6
Deferred tax assets	23	1.1	44.0
Other non-current assets		19.5	375.9
		16,647.0	10,259.6
Current assets			
Properties for sale	16	7,375.4	7,822.2
Inventories		2.4	2.0
Trade and other receivables	17	1,066.3	750.7
Prepaid tax	6(h)	108.2	122.7
Derivative financial assets	18	52.3	95.0
Bank deposits and cash	19	5,824.6	7,730.5
		14,429.2	16,523.1
Current liabilities			
Trade and other payables	20	(3,116.3)	(1,791.2)
Pre-sale deposits and proceeds	21	(4,998.0)	(5,700.4)
Derivative financial liabilities	18	–	(9.3)
Bank loans	22	(500.0)	(800.0)
Taxation payable	6(g)	(214.6)	(488.9)
		(8,828.9)	(8,789.8)
Net current assets		5,600.3	7,733.3
Total assets less current liabilities		22,247.3	17,992.9
Non-current liabilities			
Bank loans	22	(5,738.0)	(2,350.0)
Derivative financial liabilities	18	(3.9)	–
Deferred tax liabilities	23	(57.9)	(79.5)
		(5,799.8)	(2,429.5)
NET ASSETS		16,447.5	15,563.4
Capital and reserves			
Share capital	25	354.4	354.4
Reserves		15,027.2	14,236.9
Shareholders' equity		15,381.6	14,591.3
Non-controlling interests		1,065.9	972.1
TOTAL EQUITY		16,447.5	15,563.4

The notes and principal accounting policies on pages 40 to 90 form part of these financial statements.

Stephen T H Ng
Chairman

Paul Y C Tsui
Director

Company Statement of Financial Position

At 31 December 2013

	Note	2013 HK$ Million	2012 HK$ Million
Non-current assets			
Interest in subsidiaries	12	7,173.0	7,426.2
Loans to subsidiaries	12	4,900.0	500.0
Prepayment		2.8	20.1
		12,075.8	7,946.3
Current assets			
Trade and other receivables		1.0	10.1
Bank deposits and cash		19.7	0.3
		20.7	10.4
Current liabilities			
Trade and other payables		(3.3)	(1.3)
Amounts due to subsidiaries	12	(2,012.0)	(1,606.4)
		(2,015.3)	(1,607.7)
Net current liabilities		(1,994.6)	(1,597.3)
Total assets less current liabilities		10,081.2	6,349.0
Non-current liabilities			
Bank loans	22	(5,431.7)	(1,700.0)
NET ASSETS		4,649.5	4,649.0
Capital and reserves			
Share capital	25	354.4	354.4
Reserves	26(a)	4,295.1	4,294.6
TOTAL EQUITY		4,649.5	4,649.0

The notes and principal accounting policies on pages 40 to 90 form part of these financial statements.

Stephen T H Ng
Chairman

Paul Y C Tsui
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

	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	Non-controlling interests HK$ Million	Total equity HK$ Million
At 1 January 2012	354.4	3,287.0	464.9	6,415.9	940.7	11,462.9	815.8	12,278.7
Change in equity for 2012:								
Profit	–	–	–	3,057.5	–	3,057.5	(12.1)	3,045.4
Other comprehensive income	–	–	528.1	–	10.6	538.7	1.4	540.1
Total comprehensive income	–	–	528.1	3,057.5	10.6	3,596.2	(10.7)	3,585.5
Shares issued by a subsidiary	–	–	–	–	–	–	167.0	167.0
Second interim dividends paid for 2011	–	–	–	(127.6)	–	(127.6)	–	(127.6)
First interim dividends paid for 2012	–	–	–	(85.1)	–	(85.1)	–	(85.1)
Special first interim dividends paid for 2012	–	–	–	(255.1)	–	(255.1)	–	(255.1)
At 31 December 2012 and 1 January 2013	354.4	3,287.0	993.0	9,005.6	951.3	14,591.3	972.1	15,563.4
Change in equity for 2013:								
Profit	–	–	–	1,276.4	–	1,276.4	62.4	1,338.8
Other comprehensive income	–	–	(286.3)	7.8	345.2	66.7	31.4	98.1
Total comprehensive income	–	–	(286.3)	1,284.2	345.2	1,343.1	93.8	1,436.9
Second interim dividends paid for 2012 (Note 9)	–	–	–	(340.2)	–	(340.2)	–	(340.2)
First interim dividends paid for 2013 (Note 9)	–	–	–	(85.1)	–	(85.1)	–	(85.1)
Special first interim dividends paid for 2013 (Note 9)	–	–	–	(127.5)	–	(127.5)	–	(127.5)
At 31 December 2013	354.4	3,287.0	706.7	9,737.0	1,296.5	15,381.6	1,065.9	16,447.5

The notes and principal accounting policies on pages 40 to 90 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2013

	Note	2013 HK$ Million	2012 HK$ Million
Operating cash inflow	(a)	1,507.5	2,270.7
Changes in working capital	(a)	846.7	521.3
Cash generated from operations	(a)	2,354.2	2,792.0
Net interest received		77.1	54.8
Interest received		159.6	91.6
Interest paid on bank loans		(82.5)	(36.8)
Dividends income from listed investments		40.9	42.0
Dividends income from a joint venture		256.9	–
Hong Kong profits tax paid		(86.9)	(65.8)
PRC taxation paid		(695.5)	(205.6)
Net cash generated from operating activities		1,946.7	2,617.4
Investing activities			
Additions of fixed assets and investment properties		(5,186.8)	(489.3)
Increase in other non-current assets		–	(363.2)
Net increase in interest in associates		(1,563.7)	–
Net decrease in interest in joint ventures		196.5	326.8
Purchase of available-for-sale investments		(98.1)	(52.3)
Proceeds from disposal of available-for-sale investments		56.7	141.6
Net cash used in investing activities		(6,595.4)	(436.4)
Financing activities			
Drawdown of bank loans		3,883.1	1,700.0
Repayment of bank loans		(800.0)	(1,691.2)
Issue of shares by a subsidiary to non-controlling interests		–	167.0
Dividends paid		(552.8)	(467.8)
Net cash generated from/(used in) financing activities		2,530.3	(292.0)
(Decrease)/increase in cash and cash equivalents		(2,118.4)	1,889.0
Cash and cash equivalents at 1 January		7,730.5	5,841.5
Effect on exchange rate changes		212.5	–
Cash and cash equivalents at 31 December		5,824.6	7,730.5

Cash and cash equivalents represent bank deposits and cash.

The notes and principal accounting policies on pages 40 to 90 form part of these financial statements.

NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

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

	2013 HK$ Million	2012 HK$ Million
Operating profit	**1,652.9**	2,358.5
Depreciation	**53.9**	42.7
Dividends income from listed investments	**(39.7)**	(38.9)
Interest income	**(159.6)**	(91.6)
Operating cash inflow	**1,507.5**	2,270.7
Decrease/(increase) in other non-current assets	**1.0**	(2.0)
Decrease in properties for sale	**1,817.5**	1,336.0
(Increase)/decrease in inventories	**(0.4)**	0.9
Increase in trade and other receivables	**(319.3)**	(69.0)
(Decrease)/increase in trade and other payables	**(23.8)**	108.3
Decrease in pre-sale deposits and proceeds	**(879.9)**	(861.3)
Changes in derivative financial instruments (net)	**247.8**	5.1
Increase in amounts due to fellow subsidiaries (net)	**3.8**	3.3
Changes in working capital	**846.7**	521.3
Cash generated from operations	**2,354.2**	2,792.0

1. SEGMENT REPORTING

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

Development property (DP) segment encompasses activities relating to the acquisition, development, design, marketing and sale of trading properties primarily in Mainland China.

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

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

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

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

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

(a) Analysis of segment revenue and results

	Revenue HK$ Million	Operating profit HK$ Million	Increase in fair value of investment properties HK$ Million	Other net income and provision HK$ Million	Finance costs HK$ Million	Joint ventures HK$ Million	Associates HK$ Million	Profit before taxation HK$ Million
2013								
Development property	4,577.3	970.1	–	(9.1)	–	270.8	(2.3)	1,229.5
Investment property	324.7	296.0	354.9	–	–	–	–	650.9
Hotel	656.4	203.2	–	(542.8)	(16.3)	–	–	(355.9)
Segment total	5,558.4	1,469.3	354.9	(551.9)	(16.3)	270.8	(2.3)	1,524.5
Investment and others	199.3	199.3	–	219.8	(53.3)	–	–	365.8
Corporate expenses	–	(15.7)	–	–	–	–	–	(15.7)
Group total	5,757.7	1,652.9	354.9	(332.1)	(69.6)	270.8	(2.3)	1,874.6
2012								
Development property	5,229.3	1,790.8	–	(13.1)	–	312.4	–	2,090.1
Investment property	263.6	235.6	1,121.0	–	–	–	–	1,356.6
Hotel	637.1	214.5	–	3.3	(12.2)	–	–	205.6
Segment total	6,130.0	2,240.9	1,121.0	(9.8)	(12.2)	312.4	–	3,652.3
Investment and others	130.5	130.5	–	113.7	(18.5)	–	–	225.7
Corporate expenses	–	(12.9)	–	–	–	–	–	(12.9)
Group total	6,260.5	2,358.5	1,121.0	103.9	(30.7)	312.4	–	3,865.1

(i) Substantially all depreciation was attributable to the Hotel Segment.

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

(iii) Other net income and provision of hotel segment included impairment for hotel properties under development of HK$542.8 million (2012: HK$Nil).

(b) Analysis of segment business assets

	2013 HK$ Million	2012 HK$ Million
Development property	12,408.1	10,963.8
Investment property	6,446.2	5,669.6
Hotel	5,003.4	738.2
Total segment business assets	23,857.7	17,371.6
Unallocated corporate assets	7,218.5	9,411.1
Total assets	31,076.2	26,782.7

(i) Hotel is stated at amortised cost. Should the completed hotel property be stated based on the valuation as at 31 December 2013 of HK$4,310.0 million (2012: HK$4,120.0 million), the total segment business assets would be increased to HK$28,141.2 million (2012: HK$21,460.1 million).

(ii) Unallocated corporate assets mainly comprise available-for-sale investments, deferred tax assets, bank deposits and cash and derivative financial assets.

(c) Geographical information

	Revenue		Operating profit	
	2013 HK$ Million	2012 HK$ Million	2013 HK$ Million	2012 HK$ Million
Hong Kong	994.3	910.4	512.2	460.6
Mainland China	4,731.8	5,320.4	1,109.1	1,868.2
Singapore	31.6	29.7	31.6	29.7
Group total	5,757.7	6,260.5	1,652.9	2,358.5

	Specified non-current assets		Total business assets	
	2013 HK$ Million	2012 HK$ Million	2013 HK$ Million	2012 HK$ Million
Hong Kong	9,717.8	4,949.3	9,970.4	5,146.5
Mainland China	5,568.1	3,348.8	13,887.3	12,225.1
Group total	15,285.9	8,298.1	23,857.7	17,371.6

Specified non-current assets represented non-current assets other than deferred tax assets, available-for-sale investments and other non-current assets.

Geographically, HK$13,887.3 million (2012: HK$12,225.1 million) or 58% (2012: 70%) of the Group's total business assets, based on book cost, were located in Mainland China.

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

2. OPERATING PROFIT

(a) Operating profit is arrived at:

	2013 HK$ Million	2012 HK$ Million
After charging/(crediting):		
Depreciation	53.9	42.7
Staff costs	227.5	198.5
Including:		
– Contributions to defined contribution pension schemes including MPF schemes	6.9	6.6
Auditors' remuneration		
– Audit services	1.6	1.6
– Other services	0.1	–
Cost of trading properties for recognised sales	3,419.7	3,195.7
Rental charges under operating leases	16.9	10.4
Rental income less direct outgoings of HK$21.8 million (2012: HK$21.9 million) (Note)	(302.9)	(241.7)
Interest income	(159.6)	(91.6)
Dividend income from listed investments	(39.7)	(38.9)

Note: Rental income included contingent rentals of HK$131.9 million (2012: HK$91.3 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	2013 Total HK$'000	2012 Total HK$'000
Executive Director						
Stephen T H Ng	50	960	–	–	1,010	820
Non-executive Directors						
Paul Y C Tsui	50	–	–	–	50	40
Frankie C M Yick	50	–	–	–	50	20
Kevin K P Chan (iv)	36	–	–	–	36	–
T Y Ng (iii)	14	–	–	–	14	40
Y T Leng (iii)	14	–	–	–	14	20
Doreen Y F Lee (iii)	–	–	–	–	–	20
Independent Non-executive Directors						
Michael T P Sze (ii)	70	–	–	–	70	55
H M V de Lacy Staunton	50	–	–	–	50	40
Brian S K Tang (ii)	70	–	–	–	70	55
Joseph M K Chow (ii)	70	–	–	–	70	55
Andrew K Y Leung	50	–	–	–	50	20
	524	960	–	–	1,484	
Total for 2012	405	780	–	–		1,185

Notes:

(i) There was no compensation for loss of office and/or inducement for joining the Group paid/payable to the Company's Directors in respect of the years ended 31 December 2013 and 2012.

(ii) Includes Audit Committee Member's fee received by each of relevant Directors based on HK$20,000 per annum for the year ended 31 December 2013 (2012: HK$15,000 per annum).

(iii) Ms Doreen Y F Lee ceased to be a Director of the Company with effect from 1 July 2012. Mr. T Y Ng and Ms Y T Leng ceased to be Directors of the Company with effect from 11 April 2013.

(iv) Mr. Kevin K. P. Chan was appointed as a Director of the Company with effect from 11 April 2013.

(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 2013 of the five highest paid employees of the Group, none of whom is a director of the Company. The aggregate of the emoluments in respect of the individuals are as follows:

Aggregate emoluments	2013 HK$ Million	2012 HK$ Million
Basic salaries, housing allowances, and other allowances and benefits in kind	6.3	5.6
Retirement scheme contributions	0.4	0.3
Discretionary bonuses and/or performance-related bonuses	1.7	1.9
	8.4	7.8

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

Bands (in HK$)	2013 Number	2012 Number
$1,000,001 – $1,500,000	2	3
$1,500,001 – $2,000,000	2	1
$2,000,001 – $2,500,000	1	1

3. IMPAIRMENT FOR HOTEL PROPERTIES UNDER DEVELOPMENT

During the year, the Group conducted an impairment review of hotel properties under development and determined that the Changzhou Marco Polo Hotel in Mainland China was impaired. Impairment provision of HK$542.8 million (2012: HK$Nil) was recognised during this year (Note 11(b)).

4. OTHER NET INCOME

	2013 HK$ Million	2012 HK$ Million
Profit/(loss) on disposal of available-for-sale investments – including revaluation surplus of HK$41.0 million (2012: deficit HK$31.8 million) transferred from the investments revaluation reserve	43.9	(16.2)
Net exchange gain, including the impact of forward foreign exchange contracts	166.8	120.1
	210.7	103.9

Apart from the above net exchange differences, the Group also had a total exchange gain arising from the translation of the net investments in Mainland China subsidiaries, joint ventures and associates of HK$376.6 million (2012: HK$12.0 million), which has been dealt with as other comprehensive income.

5. FINANCE COSTS

	2013 HK$ Million	2012 HK$ Million
Interest on bank borrowings wholly repayable within five years	76.7	36.1
Other finance costs	21.2	9.9
	97.9	46.0
Less: Amount capitalised	(19.0)	(24.1)
	78.9	21.9
Fair value changes on cross currency interest rate swaps	(9.3)	8.8
	69.6	30.7

(a) Interest was capitalised at an average annual rate of approximately 0.5% (2012: 1.3%).

(b) All 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. INCOME TAX

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

	2013 HK$ Million	2012 HK$ Million
Current income tax		
Hong Kong		
– provision for the year	79.8	68.4
– (overprovision)/underprovision in respect of prior years	(1.6)	5.3
Mainland China		
– provision for the year	220.7	420.6
	298.9	494.3
Land appreciation tax ("LAT") (Note (d))	215.1	293.1
Deferred tax		
Origination and reversal of temporary differences	21.8	32.3
Total	535.8	819.7

(b) The provision for Hong Kong profits tax is at the rate of 16.5% (2012: 16.5%) of the estimated assessable profits for the year.

(c) Income tax on profits assessable in Mainland China are China enterprise income tax calculated at a rate of 25%.

(d) Under the Provisional Regulations on LAT, all gains arising from transfer of real estate property in Mainland China are subject to LAT at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use rights, borrowings costs and all property development expenditures.

(e) The China tax law also imposes a withholding tax at 10% unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside Mainland China.

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

	2013 HK$ Million	2012 HK$ Million
Profit before taxation	1,874.6	3,865.1
Notional tax on accounting profit calculated at applicable tax rates	382.9	816.0
Tax effect of non-deductible expenses	85.2	27.2
Tax effect of non-taxable fair value gain on investment properties	(58.6)	(185.0)
Tax effect of other non-taxable income	(203.9)	(196.9)
Tax effect of tax losses not recognised	145.6	(4.6)
Tax effect of utilisation of tax loss	(56.7)	10.1
(Overprovision)/underprovision in respect of prior years	(1.6)	5.3
LAT on trading properties	215.1	293.1
Withholding tax on distributed/undistributed earnings	27.8	54.5
Actual total tax charge	535.8	819.7

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

(h) Prepaid tax represents advance LAT and enterprise income tax paid in respect of pre-sale proceeds received from sale of properties in the Mainland China.

(i) Tax attributable to joint ventures for the year ended 31 December 2013 of HK$230.6 million (2012: HK$196.9 million) is included in the share of results of joint ventures.

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$553.3 million (2012: HK$333.8 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$1,276.4 million (2012: HK$3,057.5 million) and the weighted average of 708.8 million ordinary shares (2012: 708.8 million ordinary shares) in issue during the year.

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2013 and 2012.

9. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	2013 HK$ Million	2012 HK$ Million
First interim dividend declared and paid of 12.0 cents (2012: 12.0 cents) per share	**85.1**	85.1
Special first interim dividend declared and paid of 18.0 cents (2012: 36.0 cents) per share	**127.5**	255.1
Second interim dividend of 48.0 cents (2012: 48.0 cents) per share declared after the end of the reporting period	**340.2**	340.2
	552.8	680.4

(a) The declared second interim dividend has not been recognised as a liability at the end of the reporting period.

(b) The second interim dividend of HK$340.2 million for 2012 was declared and paid in 2013.

10. INVESTMENT PROPERTIES

	Completed HK$ Million	Under development HK$ Million	Total HK$ Million
(a) Cost or valuation			
At 1 January 2012	3,665.0	624.7	4,289.7
Additions	–	155.2	155.2
Revaluation surpluses	1,121.0	–	1,121.0
At 31 December 2012 and 1 January 2013	4,786.0	779.9	5,565.9
Exchange adjustment	–	24.2	24.2
Additions	5.1	484.7	489.8
Revaluation surpluses	354.9	–	354.9
At 31 December 2013	5,146.0	1,288.8	6,434.8
(b) The analysis of cost or valuation of the above asset is as follows:			
2013 valuation	5,146.0	–	5,146.0
At cost	–	1,288.8	1,288.8
	5,146.0	1,288.8	6,434.8
2012 valuation	4,786.0	–	4,786.0
At cost	–	779.9	779.9
	4,786.0	779.9	5,565.9
(c) Tenure of title to properties:			
At 31 December 2013			
Held in Hong Kong			
Long term leases	5,146.0	–	5,146.0
Held outside Hong Kong			
Medium term leases	–	1,288.8	1,288.8
	5,146.0	1,288.8	6,434.8
At 31 December 2012			
Held in Hong Kong			
Long term leases	4,786.0	–	4,786.0
Held outside Hong Kong			
Medium term leases	–	779.9	779.9
	4,786.0	779.9	5,565.9

(d) Investment properties revaluation

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

The investment properties stated at fair value as at 31 December 2013 were revalued by Knight Frank Petty Limited ("Knight Frank"), an independent firm of professional surveyors who have among their staff Fellows of the Hong Kong Institute of Surveyors with extensive experience in valuing properties in Hong Kong and Mainland China. Knight Frank has valued the investment properties on a market value basis and has taken into account the net income of the respective properties, allowing for reversionary potential and the redevelopment potential of the properties where appropriate.

Investment properties are measured at fair value at the end of the reporting date across the three levels of the inputs to the revaluation methodologies in accordance with HKFRS 13. The levels are defined as follows:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

The Group's completed investment properties measured at HK$5,146.0 million mainly represent the retail properties located in Hong Kong, were classified as Level 3 under the fair value hierarchy in accordance with HKFRS13.

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

During the year ended 31 December 2013, there were no transfers among Level 1, Level 2, or transfers into or out of Level 3.

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

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

Valuation processes

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

Valuation methodologies

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

Level 3 valuation methodologies

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

(e) Gross rental revenue from investment properties amounted to HK$324.7 million (2012: HK$263.6 million).

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

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

	Group	
	2013 **HK$ Million**	2012 HK$ Million
Within 1 year	**180.2**	179.3
After 1 year but within 5 years	**55.8**	210.6
	236.0	389.9

11. FIXED ASSETS

	Group		
	Hotel properties HK$ Million	**Others HK$ Million**	**Total HK$ Million**
Cost or valuation			
At 1 January 2012	354.3	332.3	686.6
Additions	262.6	71.5	334.1
Disposals	–	(14.1)	(14.1)
At 31 December 2012 and 1 January 2013	**616.9**	**389.7**	**1,006.6**
Exchange adjustment	**15.1**	**0.2**	**15.3**
Additions	**4,655.8**	**41.2**	**4,697.0**
Disposals	**–**	**(7.3)**	**(7.3)**
At 31 December 2013	**5,287.8**	**423.8**	**5,711.6**
Accumulated depreciation			
At 1 January 2012	98.6	228.6	327.2
Reclassification	–	1.0	1.0
Charge for the year	5.3	37.4	42.7
Written back on disposals	–	(14.1)	(14.1)
At 31 December 2012 and 1 January 2013	**103.9**	**252.9**	**356.8**
Exchange adjustment	**–**	**0.2**	**0.2**
Reclassification	**–**	**0.7**	**0.7**
Charge for the year	**5.0**	**48.9**	**53.9**
Impairment	**542.8**	**–**	**542.8**
Written back on disposals	**–**	**(7.3)**	**(7.3)**
At 31 December 2013	**651.7**	**295.4**	**947.1**
Net book value			
At 31 December 2013	**4,636.1**	**128.4**	**4,764.5**
At 31 December 2012	513.0	136.8	649.8

(a) Tenure of title to properties:

	Group
	Hotel properties HK$ Million
At 31 December 2013	
Held in Hong Kong	
Long term leases	26.5
Medium term leases	4,422.2
Held outside Hong Kong	
Medium term leases	187.4
	4,636.1
At 31 December 2012	
Held in Hong Kong	
Long term leases	31.5
Held outside Hong Kong	
Medium term leases	481.5
	513.0

(b) Impairment of fixed assets

The value of properties, other than investment properties which are revalued annually, is assessed at the end of each reporting period for indications of impairment with reference to valuations undertaken by management. Such valuations assess the recoverable amount of each property being the higher of its value in use or its fair value less costs to sell. In Changzhou, the hotel is part of a larger DP project that is profitable overall. However, the hotel will open into a challenging market that is over-supplied. In addition, demand has been hard hit by the government's austerity measures. The Board has therefore decided to take a pragmatic approach to write down this hotel's book value to more accurately reflect the current state of the market. During the year, impairment for hotel properties under development of HK$542.8 million (2012: HK$Nil) was made for Changzhou Marco Polo Hotel in Mainland China. The recoverable amount has been determined on the basis of its fair value less costs to sell on a market value basis and has taken into account the net income of the hotel property.

(c) Hotels under development

As at 31 December 2013, hotel properties under development amounted to HK$4,609.6 million (2012: HK$481.5 million), which comprised Murray Building of HK$4,422.2 million and Changzhou Marco Polo Hotel of HK$187.4 million, were not subject to depreciation.

12. INTEREST IN SUBSIDIARIES

	Company	
	2013 HK$ Million	2012 HK$ Million
Unlisted shares, at cost	**–**	–
Amounts due from subsidiaries	**7,173.0**	7,426.2
	7,173.0	7,426.2
Loans to subsidiaries	**4,900.0**	500.0
Amounts due to subsidiaries	**(2,012.0)**	(1,606.4)

Details of principal subsidiaries at 31 December 2013 are shown on pages 89 to 90.

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. Loans to subsidiaries are unsecured, interest bearing and not expected to be recoverable within one year. Amounts due to subsidiaries are unsecured, non-interest bearing with no fixed terms of payment.

13. INTEREST IN ASSOCIATES

	Group	
	2013 HK$ Million	2012 HK$ Million
Share of net assets	**615.9**	0.1
Amount due from an associate	**1,308.8**	–
	1,924.7	0.1

Details of principal associate at 31 December 2013 are shown on page 90.

(a) Interest in associates at 31 December 2013 mainly represents the Group's 27%-interest in a limited liability company, 上海萬九綠合置業有限公司, established during the year for development property in Shanghai in Mainland China.

(b) The associates are unlisted corporate entities whose quoted market price is not available. All of the associates are accounted for using the equity method in the consolidated financial statements.

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

	2013 HK$ Million
Summarised statement of financial position	
Current assets	7,544.0
Current liabilities	(5,265.8)
Non-current assets	2.7
Net assets	2,280.9
Summarised statement of comprehensive income	
Revenue	–
Loss from continuing operations	(8.4)
Other comprehensive income	–
Total comprehensive income	(8.4)
Reconciled to the Group's interest in the associate	
Gross amounts of net assets of the associate	2,280.9
Group's effective interest	27%
Group's share of net assets of the associate	615.9
Carrying amount in the consolidated financial statement	615.9

The financial statements of other associates are not material in aggregate or individually.

14. INTEREST IN JOINT VENTURES

	Group	
	2013 HK$ Million	2012 HK$ Million
Share of net assets	**2,161.9**	2,082.3

Details of principal joint ventures at 31 December 2013 are shown on page 90.

(a) The Group's interest in joint ventures at 31 December 2013 and 2012 mainly represents its 55%-interest in a limited liability company, Speedy Champ Investments Limited ("Speedy Champ"), which holds 100% interest in a limited liability company, 重慶豐盈房地產開發有限公司, established for property development in Chongqing in Mainland China. Notwithstanding the Group's contribution of 55% of the registered capital, as the Group and the joint venture partner contractually agree to share control of Speedy Champ and have rights to the net assets of Speedy Champ, the Group accounts for its investment as a joint venture.

(b) The joint ventures are unlisted corporate entry who quoted market price is not available. All of the joint ventures are accounted for using the equity method in the consolidated financial statements.

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

	Speedy Champ Investments Ltd	
	2013 **HK$ Million**	2012 HK$ Million
Summarised statement of financial position		
Current		
Cash and cash equivalents	**990.2**	394.3
Other current assets	**3,969.3**	4,707.9
Total current assets	**4,959.5**	5,102.2
Trade and other payables	**(304.5)**	(757.1)
Other current liabilities	**(895.8)**	(583.9)
Total current liabilities	**(1,200.3)**	(1,341.0)
Non-current assets	**171.5**	24.8
Net assets	**3,930.7**	3,786.0
Summarised statement of comprehensive income		
Revenue	**2,166.3**	2,266.0
Depreciation	**(0.3)**	(0.3)
Interest income	**5.6**	3.3
Profit from continuing operations	**911.7**	926.1
Income tax expense	**(419.3)**	(358.1)
Post-tax profit from continuing operations	**492.4**	568.0
Other comprehensive income	**119.5**	1.7
Total comprehensive income	**611.9**	569.7
Dividends received from joint venture	**256.9**	–
Reconciled to the Group's interest in the joint venture		
Gross amounts of net assets of the joint venture	**3,930.7**	3,786.0
Group's effective interest	**55%**	55%
Group's share of net assets of the joint venture	**2,161.9**	2,082.3
Carrying amount in the consolidated financial statement	**2,161.9**	2,082.3

15. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2013 **HK$ Million**	2012 HK$ Million
Listed investments stated at market value		
– in Hong Kong	**252.4**	198.4
– outside Hong Kong	**1,088.1**	1,343.2
	1,340.5	1,541.6

16. PROPERTIES FOR SALE

	Group	
	2013 **HK$ Million**	2012 HK$ Million
Properties under development for sale	**7,069.9**	7,250.8
Completed properties for sale	**305.5**	571.4
	7,375.4	7,822.2

(a) Included in the properties under development for sale are HK$3,647.2 million (2012: HK$4,775.6 million) which are not expected to be realised within one year from the end of the reporting period.

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

	Group	
	2013 **HK$ Million**	2012 HK$ Million
Held outside Hong Kong		
Long term leases	**4,262.8**	5,106.6

17. 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 2013 as follows:

	Group	
	2013 HK$ Million	2012 HK$ Million
Trade receivables		
0–30 days	**156.8**	117.6
31–60 days	**1.6**	1.0
61–90 days	**0.1**	0.1
Over 90 days	**0.3**	0.1
	158.8	118.8
Prepayments	**412.8**	424.7
Other receivables	**480.0**	191.7
Amounts due from fellow subsidiaries	**14.7**	15.5
	1,066.3	750.7

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

Other receivables included HK$428.1 million (2012: HK$168.6 million) due from a non-controlling shareholder of a subsidiary which is interest bearing and recoverable on demand.

The amount of the Group's prepayments expected to be recognised as expense after more than one year is HK$79.3 million (2012: HK$218.1 million).

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. At 31 December 2013 and 2012, 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 2013 and 2012, the Group assessed that of the total trade receivables, virtually all of them are neither past due nor impaired.

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

18. DERIVATIVE FINANCIAL INSTRUMENTS

	Group			
	2013 Assets HK$ Million	**2013 Liabilities HK$ Million**	2012 Assets HK$ Million	2012 Liabilities HK$ Million
At fair value through profit or loss (Note c)				
Forward foreign exchange contracts	52.3	3.9	95.0	–
Cross currency interest rate swaps	–	–	–	9.3
Total	52.3	3.9	95.0	9.3
Analysis				
Current	52.3	–	95.0	9.3
Non-current	–	3.9	–	–
Total	52.3	3.9	95.0	9.3

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

	Group			
	2013 Assets HK$ Million	**2013 Liabilities HK$ Million**	2012 Assets HK$ Million	2012 Liabilities HK$ Million
Forward foreign exchange contracts				
Expiring within 1 year	52.3	–	95.0	–
Expiring after more than 1 year but not exceeding 5 years	–	3.9	–	–
	52.3	3.9	95.0	–
Cross currency interest rate swaps				
Expiring within 1 year	–	–	–	9.3
Total	52.3	3.9	95.0	9.3

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

	2013 HK$ Million	2012 HK$ Million
Forward foreign exchange contracts	5,106.1	2,019.8
Cross currency interest rate swaps	–	2,002.6

(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 the reporting period.

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

(d) During the year, a gain of HK$201.2 million (2012: HK$129.9 million) in respect of forward foreign exchange contracts has been included under other net income in the consolidated income statement.

(e) During the year, fair value gain on cross currency interest rate swaps of HK$9.3 million (2012: loss of HK$8.8 million) has been included under finance costs in the consolidated income statement.

19. BANK DEPOSITS AND CASH

Bank deposits and cash as at 31 December 2013 include HK$5,747.2 million equivalent (2012: HK$7,131.2 million) placed with banks in Mainland China, the remittance of which are subject to relevant rules and regulations of foreign exchange control promulgated by the PRC government.

At 31 December 2013, bank deposits and cash included bank deposits of RMB139.3 million (equivalent to HK$177.2 million) (2012: RMB42.0 million equivalent to HK$51.8 million) which are solely for certain designated property development projects in Mainland China.

The effective interest rate on bank deposit was 2.4% (2012: 1.4%) per annum.

Bank deposits and cash are denominated in the following currencies:

	Group	
	2013 HK$ Million	2012 HK$ Million
HKD	49.2	557.8
USD	77.0	346.0
RMB	5,698.4	6,826.7
	5,824.6	7,730.5

20. TRADE AND OTHER PAYABLES

Included in this item are trade creditors with an ageing analysis as at 31 December 2013 as follows:

	Group	
	2013 **HK$ Million**	2012 HK$ Million
Trade payables		
0–30 days	**16.1**	15.6
31–60 days	**1.2**	0.1
61–90 days	**0.1**	0.1
Over 90 days	**0.4**	0.3
	17.8	16.1
Other payables and provisions	**270.8**	226.5
Construction costs payable	**2,052.7**	973.1
Amounts due to fellow subsidiaries	**40.5**	37.5
Amounts due to associates	**1.3**	1.3
Amounts due to a joint venture	**733.2**	536.7
	3,116.3	1,791.2

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

Included in the above other payables and provisions and construction costs payable, are amounts of HK$121.9 million (2012: HK$138.8 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.

21. PRE-SALE DEPOSITS AND PROCEEDS

Of the total pre-sale deposits and proceeds received in respect of Mainland China based properties, HK$1,123.2 million (2012: HK$2,617.3 million) are expected to be recognised as income in the consolidated income statement after more than one year.

22. BANK LOANS

	Group		Company	
	2013 HK$ Million	2012 HK$ Million	**2013 HK$ Million**	2012 HK$ Million
Bank loans				
Due within 1 year or on demand, unsecured	**500.0**	800.0	**–**	–
Due after more than 1 year but not exceeding 2 years, unsecured	**2,902.9**	500.0	**2,602.9**	–
Due after more than 2 years but not exceeding 5 years				
– secured	**6.4**	–	**–**	–
– unsecured	**2.828.7**	1,850.0	**2,828.8**	1,700.0
	2,835.1	1,850.0	**2,828.8**	1,700.0
Total	**6,238.0**	3,150.0	**5,431.7**	1,700.0

(a) The Group's borrowings are considered by the management to be effectively denominated in the following currencies taking into account of the effects of cross currency interest rate swaps arrangements.

	Group		Company	
	2013 HK$ Million	2012 HK$ Million	**2013 HK$ Million**	2012 HK$ Million
HKD	**2,500.0**	3,150.0	**2,200.0**	1,700.0
RMB	**6.4**	–	**–**	–
USD	**3,731.6**	–	**3,231.7**	–
	6,238.0	3,150.0	**5,431.7**	1,700.0

(b) At 31 December 2013, the Group's banking facilities in the amount of HK$138.6 million (2012: HK$425.6 million) were secured by mortgage over the Group's certain properties under development for sale with an aggregate carrying value of HK$208.6 million (2012: HK$963.5 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 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) Net deferred tax (assets)/liabilities recognised in the consolidated statement of financial position:

	Group	
	2013 HK$ Million	2012 HK$ Million
Deferred tax liabilities	**57.9**	79.5
Deferred tax assets	**(1.1)**	(44.0)
Net deferred tax liabilities	**56.8**	35.5

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

	Group					
	Depreciation allowances in excess of the related depreciation HK$ Million	Future benefit of tax losses HK$ Million	Witholding tax for the possible dividend distribution HK$ Million	Deferred tax on unpaid tax HK$ Million	Others HK$ Million	Total HK$ Million
At 1 January 2012	23.6	(23.9)	1.7	–	1.8	3.2
(Credited)/charged to the consolidated income statement	(9.5)	10.1	53.3	(21.6)	–	32.3
At 31 December 2012 and 1 January 2013	**14.1**	**(13.8)**	**55.0**	**(21.6)**	**1.8**	**35.5**
(Credited)/charged to the consolidated income statement	**(2.7)**	**11.8**	**(8.8)**	**21.5**	**–**	**21.8**
Exchange adjustment	**–**	**(0.2)**	**0.4**	**(0.7)**	**–**	**(0.5)**
At 31 December 2013	**11.4**	**(2.2)**	**46.6**	**(0.8)**	**1.8**	**56.8**

(b) Deferred tax assets not recognised

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

	2013		2012	
	Deductible temporary differences/ tax losses HK$ Million	**Deferred tax assets HK$ Million**	Deductible temporary differences/ tax losses HK$ Million	Deferred tax assets HK$ Million
Deductible temporary differences	**550.0**	**137.5**	25.3	6.3
Future benefit of tax losses				
– Hong Kong	**14.0**	**2.3**	314.7	51.9
– Mainland China	**35.8**	**9.0**	77.6	19.4
	49.8	**11.3**	392.3	71.3
	599.8	**148.8**	417.6	77.6

(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 2013. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from Mainland China operations can be carried forward to offset against taxable profits of subsequent years for up to five years from the year in which they arose.

The Company has not recognised tax losses of HK$13.3 million (2012: HK$11.0 million) as the availability of future taxable profits against which the assets can be utilised is uncertain as at 31 December 2013.

24. 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 foreign exchange 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 HKD and USD. Borrowings at variable rates expose the Group to cash flow interest rate risk. The Group manages its interest rate risk exposures in accordance with defined policies and 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 2013, all the Group's borrowings were at floating rate. After taking into account of cross currency interest rate swaps, the interest rate was approximately 1.9% per annum (2012: 1.6% per annum).

Based on the sensitivity analysis performed on 31 December 2013, it was estimated that a general decrease/increase of 1% (2012: 1%) in interest rates, with all other variables held constant, would decrease/increase the Group's post-tax profit and total equity by approximately HK$31.0 million (2012: increase/decrease HK$11.0 million). This takes into account the effect of interest bearing bank deposits.

The sensitivity analysis above indicates the instantaneous change in the Group's post-tax profit and total equity that would arise assuming that the change in interest rates had occurred at the end of the reporting period and is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2012.

(b) Foreign currency risk

The Group owns assets and conducts its businesses both in Hong Kong and Mainland 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 Mainland China. Anticipated foreign exchange payments relate primarily to RMB capital expenditure.

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

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

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

	Group		
	USD Million	RMB Million	JPY Million
At 31 December 2013			
Available-for-sale investments	**139.5**	**–**	**–**
Bank deposits and cash	**3.6**	**–**	**–**
Bank loans	**(478.4)**	**–**	**–**
Inter-company balances	**(4.7)**	**65.7**	**–**
Gross exposure arising from recognised assets and liabilities	**(340.0)**	**65.7**	**–**
Notional amount of forward foreign exchange contracts at fair value through profit or loss	**(115.4)**	**–**	**(12,381.4)**
Overall net exposure	**(455.4)**	**65.7**	**(12,381.4)**
At 31 December 2012			
Available-for-sale investments	172.2	–	–
Bank deposits and cash	5.5	–	–
Bank loans	(102.5)	–	–
Inter-company balances	4.6	65.7	–
Gross exposure arising from recognised assets and liabilities	79.8	65.7	–
Notional amount of forward foreign exchange contracts at fair value through profit or loss	53.2	–	(12,381.4)
Notional amount of cross currency interest rate swaps at fair value through profit or loss	256.7	–	–
Overall net exposure	389.7	65.7	(12,381.4)

At 31 December 2013, the Mainland China subsidiaries of the Group with RMB as their functional currency are exposed to foreign currency risk with respect to HKD/USD denominated bank deposits and cash in the amount of HK$49.0 million (2012: HK$302.9 million).

As at 31 December 2013 and 2012, the Company with HKD as their functional currency has USD denominated bank loan in the amount of USD414.3 million (2012: Nil).

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 the reporting period had changes at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the HKD and the USD would be materially unaffected by any changes movements in value of the USD against other currencies.

- a 5% (2012: 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$38.2 million (2012: HK$46.5 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 an 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 period 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 period, 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 2012.

(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 2013, it is estimated that a 5% (2012: 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$67.0 million (2012: HK$77.1 million). The analysis is performed on the same basis for 2012.

(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 monitors the current and expected liquidity requirements and its compliance with lending covenants.

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

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

		Group Contractual undiscounted cash inflow/(outflow)			
	Carrying amount HK$ Million	Total inflow/ (outflow) 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 2013					
Bank loans	(6,238.0)	(6,545.5)	(618.5)	(3,002.0)	(2,925.0)
Trade and other payables	(3,116.3)	(3,116.3)	(2,994.4)	(121.6)	(0.3)
Forward foreign exchange contracts at fair value through profit or loss	48.4	48.4	52.3	(0.9)	(3.0)
	(9,305.9)	(9,613.4)	(3,560.6)	(3,124.5)	(2,928.3)
At 31 December 2012					
Bank loans	(3,150.0)	(3,256.8)	(843.3)	(541.0)	(1,872.5)
Trade and other payables	(1,791.2)	(1,791.2)	(1,652.4)	(138.8)	–
Forward foreign exchange contracts at fair value through profit or loss	95.0	95.0	95.0	–	–
Cross currency interest rate swaps at fair value through profit or loss	(9.3)	(6.7)	(6.7)	–	–
	(4,855.5)	(4,959.7)	(2,407.4)	(679.8)	(1,872.5)

	Company Contractual undiscounted cash outflow				
	Carrying amount HK$ Million	Total outflow 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 2013					
Bank loans	(5,431.7)	(5,728.0)	(110.7)	(2,698.9)	(2,918.4)
Trade and other payables	(3.3)	(3.3)	(2.8)	(0.5)	–
	(5,435.0)	(5,731.3)	(113.5)	(2,699.4)	(2,918.4)
At 31 December 2012					
Bank loans	(1,700.0)	(1,794.9)	(36.9)	(36.9)	(1,721.1)
Trade and other payables	(1.3)	(1.3)	(1.0)	(0.3)	–
	(1,701.3)	(1,796.2)	(37.9)	(37.2)	(1,721.1)

The Company is exposed to liquidity risk that arise 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 2013 was HK$0.8 billion (2012: HK$1.5 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 28, the Group does not provide any other guarantee which would expose the Group or the Company to material credit risk.

(f) Fair value measurement

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy set out in Note 10(d).

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

	Group Fair value measurements as at 31 December 2013 categorised into		
	Level 1 HK$ Million	**Level 2 HK$ Million**	**Total HK$ Million**
Assets			
Available-for-sale investments:			
– Listed investments	**1,340.5**	**–**	**1,340.5**
Derivative financial instruments:			
– Forward foreign exchange contracts	**–**	**52.3**	**52.3**
	1,340.5	**52.3**	**1,392.8**
Liabilities			
Derivative financial instruments:			
– Forward foreign exchange contracts	**–**	**3.9**	**3.9**
	–	**3.9**	**3.9**

	Group Fair value measurements as at 31 December 2012 categorised into		
	Level 1 HK$ Million	Level 2 HK$ Million	Total HK$ Million
Assets			
Available-for-sale investments:			
– Listed investments	1,541.6	–	1,541.6
Derivative financial instruments:			
– Forward foreign exchange contracts	–	95.0	95.0
	1,541.6	95.0	1,636.6
Liabilities			
Derivative financial instruments:			
– Cross currency interest rate swaps	–	9.3	9.3
	–	9.3	9.3

During the year, there were no transfers of instruments between Level 1 and Level 2, or transfer into or out of Level 3.

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 the reporting period 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 the reporting period taking into account current interest rate and current creditworthiness of the swap counter parties. The fair value of bank loans and other borrowings is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments.

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2013 and 2012. 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 is to safeguard the Group's ability to continue as a going concern, to meet its financial obligations and continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

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

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

The net debt-to-equity ratio as at 31 December 2013 and 2012 were as follows:

	Group	
	2013 HK$ Million	2012 HK$ Million
Total debts (Note 22)	**6,238.0**	3,150.0
Less: Bank deposits and cash	**(5,824.6)**	(7,730.5)
Net debt/(cash)	**413.4**	(4,580.5)
Shareholders' equity	**15,381.6**	14,591.3
Total equity	**16,447.5**	15,563.4
Net debt-to-shareholders' equity ratio	**2.7%**	N/A
Net debt-to-total equity ratio	**2.5%**	N/A

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements, except for the requirement to comply with the financial covenants attached to the Group's borrowing as disclosed in note 22(d).

25. SHARE CAPITAL

	2013		2012	
	No. of shares Million	**HK$ Million**	No. of shares Million	HK$ Million
Authorised				
Ordinary shares of HK$0.5 each	**1,200.0**	**600.0**	1,200.0	600.0
Issued and fully paid				
Ordinary shares of HK$0.5 each	**708.8**	**354.4**	708.8	354.4

26. 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 consolidated statement of 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 reserve mainly comprises exchange differences arising from the translation of the financial statements of foreign operations.

The revenue reserves for the Group at 31 December 2013 included HK$200.7 million (2012: HK$76.7 million) in respect of statutory reserves of the subsidiaries in Mainland China.

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 2012	354.4	3,287.0	1,141.6	4,783.0
Profit and total comprehensive income	–	–	333.8	333.8
2011 second interim dividend paid	–	–	(127.6)	(127.6)
2012 first interim dividend paid	–	–	(85.1)	(85.1)
2012 special first interim dividend paid	–	–	(255.1)	(255.1)
At 31 December 2012 and 1 January 2013	**354.4**	**3,287.0**	**1,007.6**	**4,649.0**
Profit and total comprehensive income	**–**	**–**	**553.3**	**553.3**
2012 second interim dividend paid (Note 9)	**–**	**–**	**(340.2)**	**(340.2)**
2013 first interim dividend paid (Note 9)	**–**	**–**	**(85.1)**	**(85.1)**
2013 special first interim dividend paid (Note 9)	**–**	**–**	**(127.5)**	**(127.5)**
At 31 December 2013	**354.4**	**3,287.0**	**1,008.1**	**4,649.5**

(b) Reserves of the Company available for distribution to shareholders at 31 December 2013 amounted to HK$1,008.1 million (2012: HK$1,007.6 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 the reporting period, the directors declared a second interim dividend of 48.0 cents per share (2012: 48.0 cents per share) amounting to HK$340.2 million (2012: HK$340.2 million). This dividend has not been recognised as a liability at the end of the reporting period.

27. MATERIAL RELATED PARTY TRANSACTIONS

Transactions between the Company and its subsidiaries have been eliminated on consolidation. Material transactions between the Group and other related parties during the year ended 31 December 2013 are set out below:

(a) There were in existence agreements with a subsidiary of the parent company for the management, marketing, project management and technical services of the Group's hotel operations. Total fees payable under this arrangement during the current year amounted to HK$54.7 million (2012: HK$53.8 million). The management fee 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. The project management fee is calculated based on a percentage of costs and expenses actually incurred. The technical services fee is calculated based on relevant fee per hotel room. Such transaction constitutes a connected transaction as defined under the Listing Rules. The disclosure required by Chapter 14A of the Listing Rules are provided in Section (I) of the Report of the Directors.

(b) There were in existence agreements with a subsidiary of the parent company for the project management services and property sales & marketing services in respect of the Group's China property development projects being developed by subsidiaries. Total fees payable under this arrangement during the current year amounted to HK$60.0 million (2012: HK$46.6 million). The project management fee and sales & marketing fee are calculated based on the relevant percentage of total construction cost and sale values of property units respectively. Such transaction constitutes a connected transaction as defined under the Listing Rules. The disclosure required by Chapter 14A of the Listing Rules are provided in Section (I) of the Reports of the Directors.

(c) The Group leased out retail areas situated on G/F, 1/F, 2/F & 3/F of Marco Polo Hongkong Hotel to Lane Crawford (Hong Kong) Limited, which is indirectly wholly owned by a trust of which the chairman of the Company's ultimate holding company is the settlor. The rental earned by the Group from such shops during the current year, including contingent rental income, amounted to HK$255.9 million (2012: HK$199.5 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

(d) Remuneration for key management personnel of the Group, including amounts paid to the Directors of the Company is disclosed in Note 2(b).

28. CONTINGENT LIABILITIES

As at 31 December 2013, 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$836.3 million (2012: HK$1,479.9 million).

As at 31 December 2013, there were guarantees of HK$2,410.3 million (2012: HK$1,736.8 million) provided by the Group to the banks in favour of their customers in respect of the mortgage loans provided by the banks to those customers for the purchase of the Group's development properties.

Except for the above, the Group and the Company do not provide any other guarantee. The Group and the Company have not recognised any deferred income for the guarantees given in respect of borrowings and other banking facilities for subsidiaries as their fair value cannot be reliably measured and their transaction price was HK$Nil (2012: HK$Nil).

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

29. COMMITMENTS

The Group's outstanding commitments as at 31 December 2013 are detailed as below:

	31 December 2013			31 December 2012		
	Authorised and contracted for HK$ Million	**Authorised but not contracted for HK$ Million**	**Total HK$ Million**	Authorised and contracted for HK$ Million	Authorised but not contracted for HK$ Million	Total HK$ Million
Investment Property						
Hong Kong	**2.3**	**–**	**2.3**	–	7.1	7.1
Mainland China	**2,076.0**	**2,321.2**	**4,397.2**	193.1	4,506.8	4,699.9
	2,078.3	**2,321.2**	**4,399.5**	193.1	4,513.9	4,707.0
Hotel						
Hong Kong	**73.5**	**2,061.5**	**2,135.0**	21.9	–	21.9
Mainland China	**202.5**	**523.4**	**725.9**	213.9	335.2	549.1
	276.0	**2,584.9**	**2,860.9**	235.8	335.2	571.0
Development Property						
Hong Kong	**–**	**–**	**–**	–	–	–
Mainland China	**2,746.2**	**4,921.6**	**7,667.8**	3,469.1	8,057.4	11,526.5
	2,746.2	**4,921.6**	**7,667.8**	3,469.1	8,057.4	11,526.5
Total						
Hong Kong	**75.8**	**2,061.5**	**2,137.3**	21.9	7.1	29.0
Mainland China	**5,024.7**	**7,766.2**	**12,790.9**	3,876.1	12,899.4	16,775.5
	5,100.5	**9,827.7**	**14,928.2**	3,898.0	12,906.5	16,804.5

The expenditure for development properties included attributable amounts for developments undertaken by joint ventures and associates of HK$3,105.4 million (2012: HK$4,510.1 million) in Mainland China.

30. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued certain new and revised HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

Amendments to HKAS 1	Presentation of financial statements – Presentation of items of other comprehensive income
Amendments to HKFRS 7	Financial instruments: Disclosures – Offsetting financial assets and financial liabilities
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2009-2011 Cycle
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurement

The amendments to HKAS 1 require companies to classify items within other comprehensive income under two categories: (i) items which may be reclassified to profit or loss in the future if certain conditions are met and (ii) items which would never be reclassified to profit or loss. The Group's presentation of other comprehensive income in these financial statements has been modified accordingly.

Amendments to HKFRS 7 requires new disclosures for all recognised financial instruments that are set off in accordance with HKAS 32, Financial Instruments: Presentation. The adoption of the amendments does not have an impact on the Group's interim financial statements because the Group has not offset financial instruments, nor has it entered into master netting arrangement or similar agreement which is subject to the disclosures of HKFRS 7.

HKFRS 10 introduces a single control model to determine whether an investee should be consolidated, based on the concept of power over the investee, exposure or rights to variability of returns and the ability to use power to affect the amount of returns. This replaces the previous approach which emphasised legal control under HKAS 27 (Revised) (for companies) or exposure to risks and rewards under HK(SIC)-INT 12 (for special purpose entities). The adoption of HKFRS 10 does not have any financial impact on the Group as all subsidiaries within the Group satisfy the requirements for control under HKFRS 10 as at 1 January 2013.

HKFRS 11 provides guidance on what constitutes a joint arrangement by focusing on the rights and obligations of the arrangement, rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and are recognised on a line-by-line basis to the extent of the joint operator's interest in the joint operation. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and are required to be accounted for using the equity method in the Group's consolidated financial statements. HKFRS 11 replaces HKAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities – Non-monetary Contributions by Ventures. Unlike HKAS 31, proportional consolidation of joint ventures is no longer allowed. This new standard does not have a significant impact on the results and financial position of the Group.

HKFRS 12 consolidates and replaces the previous disclosure requirements for subsidiaries, associates in the old HKAS 27 (Revised) Consolidated and Separate Financial Statements and HKAS 28 Investment in Associates and introduces new disclosure requirements for unconsolidated structured entities, such as the judgement and basis of exclusion of the entities for consolidation. This new standard does not have a significant impact on the results and financial position of the Group.

HKFRS 13 establishes a single source of guidance for all fair value measurements required or permitted by HKFRSs. It clarifies the definition of fair value as an exit price, which is defined as a price at which an orderly transaction to sell the asset or transfer the liability would take place between market participants at the measurement date under market conditions. HKFRS 13 contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group, the Group provides those disclosures in Notes 10, 18 and 24.

31. FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2013 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
Amendments to HKAS 32, Financial instruments: Presentation – Offsetting financial assets and financial liabilities	1 January 2014
HKFRS 9, Financial instruments	1 January 2015

The Group is in the process of making an assessment of what the impact of these amendments 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.

32. EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period the Directors declared a second interim dividend. Further details are disclosed in Note 9.

33. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year's presentation.

34. PARENT AND ULTIMATE HOLDING COMPANY

The Directors consider the parent and ultimate holding company at 31 December 2013 to be both The Wharf (Holdings) Limited and Wheelock and Company Limited respectively, both incorporated and listed in Hong Kong. Both The Wharf (Holdings) Limited and Wheelock and Company Limited produce financial statements available for public use.

35. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 28 February 2014.

(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 30 to the financial statements provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(B) Basis of preparation of the financial statements

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

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

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

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

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

(C) Basis of consolidation

(i) Subsidiaries and non-controlling interests

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests proportionate share of the subsidiary's net identifiable assets.

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

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note (F)) unless it is classified as held for sale (or included in a disposal group that is classified as held for sale).

(ii) Associates and joint ventures

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

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

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

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

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

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

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

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (see note (F)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(iii) Goodwill

Goodwill represents the excess of

(a) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(b) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

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

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

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

(D) Fixed assets

(i) Investment properties

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

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

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

(ii) Hotel properties

Hotel properties is stated at cost less accumulated depreciation and impairment losses. Hotel properties under development is stated at cost less impairment losses. Depreciation commences when they are available for use.

(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 properties

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

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

(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 and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale investments are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the group about one or more of the following loss events:

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

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

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

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

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors 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 debtors directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the consolidated income statement.

(ii) Impairment of other assets

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

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs 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 generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

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

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

(G) Leased assets

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

(i) Classification of leased assets

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

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

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

(ii) Assets held under operating lease

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

The cost of acquiring land held under an operating lease is amortised on a straight-line 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)(ii)).

(H) Investments in debt and equity securities

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

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

When the investments are derecognised or impaired (see note (F)), the cumulative gain or loss recognized in equity is reclassified 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 costs incurred in bringing the inventories to their present location and condition.

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

(ii) Properties under development for sale

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

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

(iii) Hotel consumables

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

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

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

(J) Derivative financial instruments

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period, the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in the consolidated income statement, except where the derivatives qualify for cash flow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(K) Trade and other receivables

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

(L) Interest bearing borrowings

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

(M) Trade and other payables

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

(N) Cash and cash equivalents

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

(O) Foreign currencies

Foreign currency transactions during the year are translated at the exchange rates ruling at the transaction dates. Monetary foreign currency balances and the statements of financial position of foreign operations are translated into Hong Kong dollars at the exchange rates ruling at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operating 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 which relate to that foreign operation is reclassified from equity to the consolidated income statement and is included in the calculation of the profit or loss on disposal.

(P) Recognition of revenue

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

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

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

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

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

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

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

(Q) Borrowing costs

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

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

(R) Income tax

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

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

(iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences 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).

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

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

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

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

(S) Employee benefits

Short term employee benefits and contributions to defined contribution retirement plans

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

(T) Segment reporting

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

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

(U) Financially guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the consolidated income statement on initial recognition of any deferred income.

(ii) Other provisions and contingent liabilities

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

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

(V) Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(a) has control or joint control over the Group;

(b) has significant influence over the Group; or

(c) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(a) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(c) Both entities are joint ventures of the same third party.

(d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(e) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(f) The entity is controlled or jointly controlled by a person identified in (i).

(g) A person identified in (i)(a) had significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

(W) Significant accounting estimates and judgements

Key sources of estimation uncertainty

Note 24 contains information about the assumptions and their risk relating to financial instruments. Other key sources of estimation uncertainty are as follows:

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

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

Management's assessment of 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 the reporting period and their fair value cannot be reliably determined at that time. The market value of investment properties is assessed annually by independent qualified valuers, after taking into consideration the net income allowing for reversionary potential.

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

– *Assessment of impairment of non-current assets*

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

– *Assessment of the useful economic lives for depreciation of 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 judgement 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.

– *Recognition of deferred tax assets*

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

– *Income taxes*

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

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

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

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

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

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

Principal Subsidiaries, Associate and Joint Ventures

As 31 December 2013

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/ International	500 US$1 shares	100%	Investment
Mandelson Investments Limited	British Virgin Islands/ International	500 US$1 shares	100%	Investment
Power Castle Limited	British Virgin Islands/ International	500 US$1 shares	100%	Investment
Smart Event Investments Limited	Hong Kong	1 HK$1 shares	100%	Hotel
Manniworth Company Limited	Hong Kong	10,000 HK$1 shares	100%	Property and finance
The Hongkong Hotel Limited	Hong Kong	100,000 HK$1 shares	100%	Hotel and property
#HCDL China Development Limited	British Virgin Islands	500 US$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	RMB4,000,000,000	80%	Property
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

Principal Subsidiaries, Associate and Joint Ventures

As 31 December 2013

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
上海綠源房地產開發有限公司 (Note (b))	The People's Republic of China	RMB770,000,000	100%	Property
常州馬哥孛羅酒店有限公司 (Note (b))	The People's Republic of China	US$1,050,000	100%	Hotel

Associate	Place of incorporation/ operation	Class of shares	Effective equity interest to the Company	Principal activities
上海萬九綠合置業有限公司	The People's Republic of China	Registered	27%	Property

Joint ventures	Place of incorporation/ operation	Class of shares	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	Registered	55%	Property

All the subsidiaries listed above were, as at 31 December 2013, indirectly held by the Company except where marked #, which are held directly by the Company.

Notes:

(a) The entity is registered as a sino-foreign joint venture company under PRC law.

(b) This entity is registered as a wholly foreign owned enterprise under PRC law.

Schedule of Principal Properties

As 31 December 2013

Address	Approximate Gross Floor Areas (sq.ft.) Total	Office	Retail	Residential	Others	Remarks	Site Area (sq.ft.)	Lot Number	Lease Expiry	Year of Completion/ Expected Completion	Stage of Completion	Effective Equity Interest to the Company
HONG KONG												
Investment Properties												
Marco Polo Hongkong Hotel (Commercial Section), Harbour City, Tsimshatsui	189,000	14,000	175,000	–	–	Note (a)	(a)	KML 91 S.A. & KML 10 S.B.	2863	1969	N/A	100%
Units at Star House, 3 Salisbury Road, Kowloon	50,800	–	50,800	–	–		N/A	KML 10 S.A.	2863	1966	N/A	100%
	239,800	14,000	225,800	–	–							
Hotel Properties												
Marco Polo Hongkong Hotel, Harbour City, Tsimshatsui	571,000	–	–	–	571,000	(A 665-room hotel)	58,814	KML 91 S.A. & KML 10 S.B.	2863	1969	N/A	100%
Murray Building, Cotton Tree Drive, Central	325,000	–	–	–	325,000		68,136	9036	2063	2017	Planning stage	100%
	896,000	–	–	–	896,000							
HONG KONG TOTAL	**1,135,800**	**14,000**	**225,800**	**–**	**896,000**							
MAINLAND												
Investment Property												
Suzhou International Finance Square Xing Hu Jie, Suzhou Industrial Park, Suzhou	2,992,000	1,905,000	–	786,000	301,000	(A 129-room hotel)	229,069	N/A	2047/77	2017	Foundation in progress	80%
Development Properties												
Shanghai Xiyuan D1 of Xinjiangwancheng of Yangpu District, Shanghai	44,000	–	–	44,000	–		638,000	N/A	2077	2012	N/A	100%
Changzhou Times Palace China Dinosaur Park, Xinbei District, Jiangsu Province, Changzhou	6,414,000	–	–	5,897,000	517,000	(A 271-room hotel and a State Guest House)	4,427,804	N/A	2047/77	2016	Superstructure in progress	100%
Suzhou Times City Xiandai Da Dao, Suzhou Industrial Park, Suzhou	7,954,000	–	–	7,954,000	–		5,425,454	N/A	2077	2018	Superstructure in progress	80%
	14,412,000	–	–	13,895,000	517,000							
Development Properties (undertaken by joint venture/associates) – Note (b)												
The U World Zone B of Jiangbei City, Jiang Bei District, Chongqing	1,472,000	–	56,000	1,416,000	–		1,002,408	N/A	2057	2016	Superstructure in progress	55%
Shanghai South Station Caohejing Area Lot 278a-05/278b-02/278b-04, South Station Business Zone, Xuhui District, Shanghai	1,437,000	1,321,000	116,000	–	–		1,156,979	N/A	2052/62	2018	Superstructure in progress	27%
	2,909,000	1,321,000	172,000	1,416,000	–							
MAINLAND TOTAL	**20,313,000**	**3,226,000**	**172,000**	**16,097,000**	**818,000**							
GROUP TOTAL	**21,448,800**	**3,240,000**	**397,800**	**16,097,000**	**1,714,000**							

Notes:

(a) Part of Marco Polo Hongkong Hotel building.

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

(c) Total Mainland development properties area included 475,000 sq.m. (5,117,000 sq.ft.) pre-sold areas which have not yet been recognised in the financial statements.

Ten-Year Financial Summary

HK$ Million	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
Consolidated Income Statement										
Revenue	5,757.7	6,260.5	1,296.6	667.3	566.3	664.2	671.1	920.9	526.8	445.0
Core profit (Note a)	1,464.3	1,936.5	336.0	226.0	303.7	133.3	503.4	344.9	293.4	249.0
Profit attributable to shareholders	1,276.4	3,057.5	1,095.5	1,014.9	535.1	170.5	638.4	422.7	517.1	371.7
Dividends attributable to shareholders	552.8	680.4	170.1	141.7	141.7	94.5	129.2	91.4	53.6	53.6
Consolidated Statement of Financial Position										
Fixed assets	11,199.3	6,215.7	4,649.1	3,467.7	2,589.9	1,972.6	1,947.1	1,741.6	1,637.3	1,092.1
Interest in associates	1,924.7	0.1	0.1	0.1	0.2	0.7	0.8	0.8	14.6	42.4
Interest in joint ventures	2,161.9	2,082.3	1,768.7	1,756.3	1,650.9	2,586.7	1,964.6	–	–	–
Available-for-sale investments	1,340.5	1,541.6	1,119.1	1,744.3	1,193.0	604.0	2,516.6	1,490.0	922.8	820.4
Properties under development/for sale	7,375.4	7,822.2	8,716.5	7,335.3	6,472.7	4,972.6	985.3	4.7	240.0	–
Bank deposits and cash	5,824.6	7,730.5	5,841.5	3,521.8	1,124.0	1,258.4	584.8	1,840.2	1,519.6	1,737.5
Other assets	1,249.8	1,390.3	959.5	441.1	119.0	112.1	438.8	91.5	113.7	63.5
Total assets	31,076.2	26,782.7	23,054.5	18,266.6	13,149.7	11,507.1	8,438.0	5,168.8	4,448.0	3,755.9
Bank loans	(6,238.0)	(3,150.0)	(3,141.2)	(3,350.0)	(2,953.2)	(3,065.0)	(1,858.9)	–	–	–
Other liabilities	(8,390.7)	(8,069.3)	(7,634.6)	(3,476.9)	(319.7)	(679.3)	(634.0)	(390.8)	(351.7)	(250.3)
Net assets	16,447.5	15,563.4	12,278.7	11,439.7	9,876.8	7,762.8	5,945.1	4,778.0	4,096.3	3,505.6
Share capital	354.4	354.4	354.4	354.4	354.4	236.3	157.5	157.5	157.5	157.5
Reserves	15,027.2	14,236.9	11,108.5	10,319.5	8,820.6	6,830.7	5,590.6	4,620.5	3,938.8	3,348.1
Shareholders' equity	15,381.6	14,591.3	11,462.9	10,673.9	9,175.0	7,067.0	5,748.1	4,778.0	4,096.3	3,505.6
Non-controlling interests	1,065.9	972.1	815.8	765.8	701.8	695.8	197.0	–	–	–
Total equity	16,447.5	15,563.4	12,278.7	11,439.7	9,876.8	7,762.8	5,945.1	4,778.0	4,096.3	3,505.6
Financial Data										
Per share data										
Earnings per share (HK$)										
– Core profit (Note a)	2.07	2.73	0.47	0.32	0.48	0.28	1.60	1.09	0.93	0.79
– Reported profit	1.80	4.31	1.55	1.43	0.84	0.36	2.03	1.34	1.64	1.18
Net assets value per share (HK$)	21.70	20.59	16.17	15.06	12.95	14.96	18.24	15.17	13.00	11.13
Dividends per share (Cents)	7.80	9.60	24.00	20.00	20.00	20.00	29.00	29.00	17.00	17.00
Financial ratios										
Net debt to total equity (%)	2.5%	N/A	N/A	N/A	18.5%	23.3%	21.4%	N/A	N/A	N/A
Return on shareholders' equity (%) (Note b)	8.5%	23.5%	9.9%	10.2%	6.6%	2.7%	11.1%	9.5%	13.6%	9.1%
Dividend cover (Times)										
– Core profit (Note a)	2.6	2.8	2.0	1.6	2.1	1.4	3.9	3.8	5.5	4.6
– Reported profit	2.3	4.5	6.4	7.2	3.8	1.8	4.9	4.6	9.6	6.9
Interest cover (Times) (Note c)	17.4	52.2	20.1	11.0	12.0	5.1	37.5	N/A	N/A	N/A

Notes:

(a) Core profit excludes impairment for hotel properties under development and investment property revaluation surplus.

(b) Return on shareholders' equity is based on profit attributable to shareholders over average shareholders' equity during the year.

(c) Interest cover is based on EBDITA over finance costs (before capitalisation and fair value cost/gain).

(d) Certain figures have been reclassified or restated to comply with the prevailing HKFRSs.