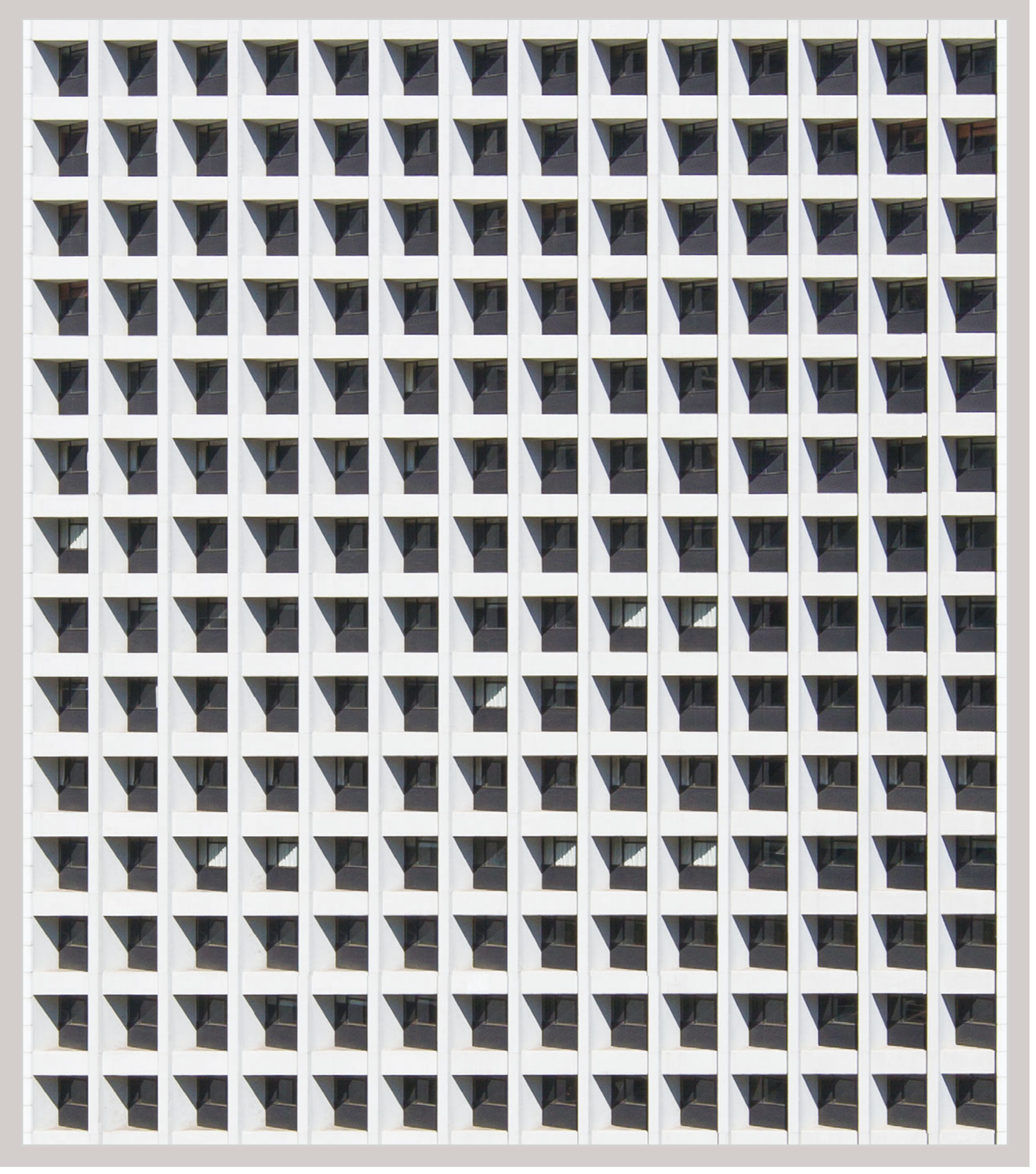

Harbour Centre Development Limited

Annual Report 2014

Stock Code: 51

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Corporate Information

BOARD OF DIRECTORS

Chairman

Mr Stephen T H Ng

Non-executive Directors

Mr Kevin K P Chan
Mr Paul Y C Tsui
Hon Frankie C M Yick

Independent Non-executive Directors

Dr Joseph M K Chow, *OBE, JP*
Mr H M V de Lacy Staunton
Hon Andrew K Y Leung, *GBS, JP*
Mr Michael T P Sze
Mr Brian S K Tang

COMPANY SECRETARY

Mr Kevin C Y Hui, FCCA, HKICPA

AUDITORS

KPMG, Certified Public Accountants

PRINCIPAL BANKER

The Hongkong and Shanghai Banking Corporation Limited

REGISTRARS

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

REGISTERED OFFICE

16th Floor, Ocean Centre, Harbour City
Canton Road, Kowloon, Hong Kong
Tel: (852) 2118 8118
Fax: (852) 2118 8018
Website: www.harbourcentre.com.hk

Chairman's Statement

The Group's long-standing core businesses, namely Investment Properties ("IP") and Hotel in Hong Kong presented a mixed picture in 2014. The IP segment, powered by resilient local and consumption demand, performed satisfactorily in both occupancy and average rent. Total visitor arrivals to Hong Kong edged up by 12% to 60.8 million in 2014 and continued to propel the hospitality industry but the Hotel segment's financial performance was somewhat dented by price resistance and escalating costs as well as the "Occupy Movement" towards the end of 2014. In the near term, the unfavourable macro environment will inevitably weigh on the retail and hospitality sectors. In the Mainland, lower margin for Development Properties ("DP") decreased profit contribution notwithstanding steady turnover. Pre-opening and initial operating losses for the newly opened hotel in Changzhou further hurt profitability. As a result, Group profit before revaluation surplus decreased by 42% from 2013 to HK$851 million.

In the Mainland, while adjusting economic structure toward services and consumption is a priority, economic slow-down is widely anticipated and we will take that on board. On the other hand, loosening of restrictions on home mortgages in September and a surprise interest-rate cut in November boosted property sales in the months that followed. While a spate of positive news and early signs of stabilisation of property sales provides fresh hope for the DP business in the near term, the Group tends to be cautious and prudent towards the outlook given the unpredictable political and economic situations. In the longer term, the Mainland's next phase of economic growth will continue to be underpinned by accelerating urbanisation and domestic consumption as well as further development of the service sector. On the back of the sustainable economic development, the underlying demand for quality residences will continuously be stoked by the expanding middle class aspiring to modern urban living.

Various challenges in the market for most of 2014 weighed on the Group's DP sales. Attributable DP sales totalled RMB3.7 billion. As at the end of 2014, the net order book stood at RMB4.1 billion for 2,910 residences with a total GFA of 362,000 square metres. The attributable land bank was 1.5 million square metres and stated at a book value of HK$12.3 billion including cumulative development cost of HK$4.6 billion.

In Changzhou, Marco Polo Changzhou, an exclusive urban oasis and a prime destination for sophisticated events and weddings, opened in late August 2014. Located in the Xinbei District, an hour from Shanghai by high-speed train, the new hotel offers 271 rooms and suites in the main hotel building and a further 31 rooms and suites in The Mansion, including the luxurious Presidential Suite. Though initial operating losses for the new hotel will take a toll on the Hotel segment's results in the near term, Marco Polo Changzhou marks an additional income stream in the years to come.

In Suzhou, designed by the internationally renowned architect Kohn Pederson Fox, Suzhou International Finance Square ("IFS") is set to be the leading tower in the emerging new CBD and comparable in height to the tallest building in Hong Kong. The 450-metre landmark envisages a total GFA of 278,000 square metres, including 237,000 square metres of Grade A offices, 17,000 square metres of luxurious apartments and a premium boutique hotel with full scenery of Suzhou. This 80%-owned development is slated for completion by 2017 at an estimated cost of RMB5.4 billion. Bundled with a larger and profitable DP project, Suzhou IFS will be held as IP for recurrent income. Thanks to its opportune location and good quality, IFS is expected to outperform the competition amidst a challenging market.

2014 FINANCIAL SUMMARY

Compared to 2013, consolidated revenue decreased by 2% to HK$5,646 million and profit before IP revaluation surplus by 42% to HK$851 million.

The Group's net cash as at 31 December 2014 amounted to HK$767 million. Looking ahead, commercial realisation of the Group's investment in the new IP and Hotel assets is expected to commence from 2017. The Group, capitalising on its solid operating and financial foundation, has earmarked primarily internal resources to fund its investment in these new assets. DP sales are anticipated to continue to generate cash inflow and to strengthen the Group's financial position. Net asset value increased by 5% to HK$22.9 per share, or HK$29.0 per share if Marco Polo Hongkong Hotel and Marco Polo Changzhou are restated at market value.

In lieu of a final dividend, the Board has approved a second interim dividend of 48 HK cents per share. This would bring the total dividend for 2014 to 60 HK cents per share.

PROSPECTS

China's economy has entered a "new normal" of a lower growth trajectory as leaders of the world's second largest economy look to transition from decades of super-charged growth to more sustainable expansion. China's strenuous efforts in shifting economy towards consumption and services alongside embracing market dynamics to boost economic development will be beneficial to the country and its real estate market in the long run. The commitment to double 2013 GDP and GDP per capita by 2020 will further expedite the pace of urbanisation and wealth accumulation for the next decades.

Continuous realisation for our China property business will further strengthen the Group's financial position and fund the Suzhou IFS development.

Sustained inbound tourism will continue to benefit Marco Polo Hongkong Hotel. Emboldened by its premier location and enhanced product offerings, the hotel will be well-placed to capture the growing spending of international and Chinese travellers. Operating costs, however, will be under upward pressure. That, along with the initial operating losses for Macro Polo Changzhou as well as the unpredictable macro environment, will weigh on the performance of Hotel segment in the near term.

The global political and economic situations are still subject to various uncertainties. An uneven recovery in the advanced economies, the divergence in monetary policy stance among major central banks, the collapse in oil prices, currency turmoil, emerging-market slowdown as well as elevated geo-political risks in various parts of the world are poised to derail global growth prospects. The Group will closely monitor these risks and properly assess their implications to the Group's business. On the other hand, monetary tightening in the US is unlikely to result in significant interest rate hikes in the wake of soft loan demand.

Our 2014 strategy in fact served us well in this macro environment and has laid a solid foundation for us to move forward in 2015. Caution and selectivity would make a good strategy for 2015. Given the Group's investment in substantial new development will be accompanied by new opportunities and challenges, we will be highly vigilant in managing all potential risks in a proper manner.

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 bank on such support to deliver favourable returns on our investment.

Stephen T H Ng
Chairman

Hong Kong, 11 March 2015

Financial Highlights

	2014 HK$ Million	2013 HK$ Million	Change
Results			
Revenue	5,646	5,758	–2%
Operating profit	1,124	1,653	–32%
Core profit (Note a)	851	1,464	–42%
Profit attributable to equity shareholders	1,082	1,276	–15%
Total dividend for the year	425	553	–23%
Earnings per share			
Core profit (Note a)	HK$1.20	HK$2.07	–42%
Reported profit	HK$1.53	HK$1.80	–15%
Dividend per share			
First interim/special	HK$0.12	HK$0.30	–60%
Second interim	HK$0.48	HK$0.48	–
Total for the year	HK$0.60	HK$0.78	–23%
Financial Position			
Total assets	29,542	31,076	–5%
Total business assets (Note b)	22,704	23,858	–5%
Net cash/(debt)	767	(413)	+286%
Shareholders' equity	16,205	15,381	+5%
Total equity	17,246	16,447	+5%
Number of issued shares (in million)	709	709	–
Net asset value per share	HK$22.86	HK$21.70	+5%
Net debt to total equity	N/A	2.5%	N/A

	Profit to 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$
2005	293	517	4,096	4,096	13.00	0.93	1.64	0.17
2006	345	423	4,778	4,778	15.17	1.09	1.34	0.29
2007	503	638	5,945	5,748	18.24	1.60	2.03	0.29
2008	133	171	7,763	7,067	14.96	0.28	0.36	0.20
2009	304	535	9,877	9,175	12.95	0.48	0.84	0.20
2010	226	1,015	11,440	10,674	15.06	0.32	1.43	0.20
2011	336	1,096	12,279	11,463	16.17	0.47	1.55	0.24
2012	1,937	3,058	15,563	14,591	20.59	2.73	4.31	0.96
2013	1,464	1,276	16,447	15,381	21.70	2.07	1.80	0.78
2014	851	1,082	17,246	16,205	22.86	1.20	1.53	0.60

Notes:

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

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

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

Business and Financial Review

BUSINESS REVIEW

Hong Kong Portfolio

Investment Properties ("IP")

The IP segment (mainly comprising prime Canton Road properties) was propelled by solid consumption demand, with a 12% increase in revenue and a 13% increase in operating profit. The Group's IP portfolio was independently revalued as at 31 December 2014, resulting in a net revaluation surplus of HK$231 million for the year.

Hotel

The Group's two unique hotels in Hong Kong are not only distinguished in location, but also rich in history and superior in market position.

Marco Polo Hongkong Hotel ("MPHK Hotel"), with its favourable location in Harbour City, continued to provide convenience for discerning travellers. The Hotel performed steadily with average room rate increased by 1.3% and average occupancy maintained at 89%. However, impacted by escalating costs, profitability was further worsened by the "Occupy Movement" towards the end of the year.

Murray Building, a majestic building with towering arches, is a prominent landmark and part of Hong Kong's heritage for nearly 50 years. Conveniently located on Cotton Tree Drive in Central, the building guards the intersection of traffic arteries in Central that run east-west and north-south and commands an open green view over Hong Kong Park. It is also well connected to other buildings in the neighbourhood, as well as to the Mass Transit Railway. The Group will convert this iconic property to an urban chic hotel for a total investment of over HK$7 billion. Site-preparation works have commenced, with target opening scheduled for 2017.

China Portfolio

Development Properties ("DP")

While total DP turnover remained steady at HK$4,361 million (2013: HK$4,577 million), a lower profit margin reduced operating profit to HK$380 million during the year (2013: HK$970 million). Profit recognised mainly included contributions from Changzhou Times Palace and Suzhou Times City. A lack of new completion of The U World in Chongqing reduced contribution from the joint venture by 64% to HK$97 million (2013: HK$271 million). China DP's share of Group core profit decreased to 34% (2013: 49%).

Notwithstanding early signs of sales improvement spurred by China's loosening property measures in recent months, various challenges in the market for most of 2014 weighed on the Group's property sales. That said, the rising middle class will continue to underpin the underlying demand for quality residences and henceforth support the real estate market in the longer run.

As at 31 December 2014, the Group had an attributable land bank of 1.5 million square metres at a book value of HK$12.3 billion including cumulative development cost of HK$4.6 billion.

Sales

Including attributable share in the joint venture project, 2,282 residences and retail units with a total GFA of 316,500 square metres were contracted for sale in 2014 for RMB3.7 billion (2013: RMB3.9 billion). The net order book as at the end of December 2014 was RMB4.1 billion for 2,910 residences and retail units with a total GFA of 362,000 square metres. Excluding attributable share in the joint venture project, sales order recognition during the year was HK$4.4 billion.

Development Progress

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

The U World in Chongqing, 55%-owned joint venture development, offers an attributable GFA of 232,000 square metres with most of the residences enjoying a panoramic river view from different angles. The development, adjacent to the Grand Theatre, Chongqing Science and Technology Museum and the Central park, is in close proximity to the future Chongqing International Finance Square. 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. Additional phases were completed in 2014. Construction of the remaining towers is underway, with full completion scheduled for 2017.

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 2020.

Investment Properties

Suzhou International Finance Square (80% attributable to the Group) is a 450-metre landmark commercial development in the new CBD overlooking Jinji Lake, and will be comparable in height to the tallest building in Hong Kong. Designed by Kohn Pederson Fox, the development consists of Grade A office, luxurious apartments as well as a premium boutique hotel with full scenery of Suzhou. The development, with a total GFA of 278,000 square metres, will be directly connected to the future metro station. Construction is underway with completion scheduled for 2017. Total estimated cost amounted to RMB5.4 billion. Bundled with a larger and profitable DP project, Suzhou IFS will be held as IP for recurrent income. Its favourable location and good quality will drive IFS to outperform the competition amidst a challenging market.

Hotel

In Changzhou, a 271-room five-star Marco Polo Hotel and a 31-suite Mansion were completed during the year. Initial phases have opened since August 2014. The opening of Marco Polo Changzhou, with a large garden for major events and weddings, defines a new luxury experience with unique facilities in this urban oasis. It marks an additional income stream for the Group and enriches the Group's hospitality portfolio. Initial operating losses, however, will weigh on the Hotel segment's results in the near term.

In Suzhou, construction of a 147-room premium boutique hotel with full scenery of the city in the Suzhou IFS project is underway. The hotel's first revenue contribution is not expected to begin before 2017.

FINANCIAL REVIEW

(I) Review of 2014 Final Results

The Group recorded a core profit of HK$851 million for year 2014 (2013: HK$1,464 million before HK$543 million provision for hotel property). This represents a decrease of 42% from that of last year due to the anticipated lower profit margin from China DP and lower non-operating gain against the exceptional large gain in 2013.

Including profit from IP revaluation of HK$231 million (2013: HK$355 million), profit attributable to shareholders stood at HK$1,082 million (HK$1,276 million), a decrease of 15% from last year.

Revenue and Operating Profit

Group revenue and operating profit declined by 2% to HK$5,646 million (2013: HK$5,758 million) and by 32% to HK$1,124 million (2013: HK$1,653 million), respectively.

Investment Properties ("IP") revenue continued to grow with an increase of 12% to HK$363 million (2013: HK$325 million), benefitting from higher rental income from the retail areas in Marco Polo Hongkong Hotel ("MPHK Hotel"). Operating profit increased by 13% to HK$334 million (2013: HK$296 million).

Hotel revenue increased by 3% to HK$674 million (2013: HK$657 million) with higher average room rate achieved by MPHK Hotel. However, operating profit fell by 14% to HK$175 million (2013: HK$203 million) primarily as a result of operating loss incurred by Marco Polo Changzhou ("MP Changzhou") which was still in the process of building up its business since its soft opening in August 2014.

Operating profit from Investment and Other Income, consisting of interest and dividend from the Group's surplus cash and investments, rose by 25% to HK$248 million (2013: HK$199 million).

Development Property ("DP") revenue and operating profit declined by 5% to HK$4,361 million (2013: HK$4,577 million) and by 61% to HK$380 million (2013: HK$970 million), respectively, which was mainly impacted by the narrow margin attributable to Changzhou Times Palace and lower completion recognition from Shanghai Xiyuan. Together with the reduction in contribution from joint venture, DP underlying profit fell by 60% to HK$289 million (2013: HK$717 million).

Contracted DP Sales

Inclusive of joint venture on an attributable basis, the Group recorded contracted property sales totalling RMB3,734 million (2013: RMB3,938 million). The net order book was accumulated to RMB4,064 million (December 2013: RMB4,487 million) that is available for recognition in stages of completion of various DP projects.

Increase in Fair Value of Investment Properties

The Group's completed IP were stated at fair value based on an independent valuation as at 31 December 2014 which resulted in a revaluation surplus of HK$231 million in 2014 (2013: HK$355 million). IP 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.

Other Net Income

Other net income of HK$53 million (2013: HK$211 million) was mainly derived from lower foreign exchange gain of HK$36 million (2013: HK$201 million) but without having realised profit (2013: HK$44 million) from disposal of available-for-sale investments for the period.

Finance Costs

Net finance costs amounted to HK$35 million (2013: HK$70 million) after netting off capitalisation of HK$126 million (2013: HK$19 million) for the Group's projects (mainly from Murray Building).

Share of Results after Tax of Joint Ventures

Joint venture profit decreased by 64% to HK$97 million (2013: HK$271 million) with lower profit contribution from The U World in Chongqing.

Income Tax

Taxation charge for the period dropped by 34% to HK$355 million (2013: HK$536 million) due to decrease in taxable profits.

Profit Attributable to Equity Shareholders

Group profit attributable to equity shareholders for the year ended amounted to HK$1,082 million (2013: HK$1,276 million), representing a decrease of 15%.

Earnings per share ("EPS") was reported at HK$1.53 (2013: HK$1.80) based on 708.8 million issued shares. Excluding IP revaluation surplus and before hotel property provision (in 2013), EPS was HK$1.20 (2013: HK$2.07).

(II) Liquidity, Financial Resources and Commitments

Shareholders' and Total Equity

As at 31 December 2014, the Group's shareholders' equity increased by 5% to HK$16,205 million (31/12/2013: HK$15,381 million), equivalent to HK$22.86 per share (31/12/2013: HK$21.70 per share). Including the non-controlling interests, the Group's total equity stood at HK17,246 million (31/12/2013: HK$16,447 million).

MPHK Hotel and MP Changzhou are stated at cost less accumulated depreciation in accordance with prevailing Hong Kong Financial Reporting Standards. Restating the hotel properties based on independent valuation as at 31 December 2014 would give rise to an additional revaluation surplus totalling HK$4,319 million and increase the Group's shareholders' equity as at 31 December 2014 to HK$20,524 million, equivalent to HK$28.96 per share.

Assets

The Group's total assets decreased by 5% to HK$29,542 million (31/12/2013: HK$31,076 million). Total business assets, excluding bank deposits and cash, available-for-sale investments, deferred tax assets and other derivative financial assets, decreased by 5% to HK$22,704 million (31/12/2013: HK$23,858 million).

The Group's IP as at 31 December 2014 amounted to HK$7,253 million, representing 32% of the Group's total business assets. Hong Kong IP amounted to HK$5,377 million (31/12/2013: HK$5,146 million), comprising MPHK Hotel's podium and Star House units, which were valued at HK$4,800 million and HK$577 million, respectively. The book value of Mainland IP, Suzhou IFS under development, was stated at HK$1,876 million (31/12/2013: HK$1,289 million).

The Group's China DP for sale decreased by 32% to HK$4,979 million (31/12/2013: HK$7,376 million). In addition, DP investments undertaken through associates and joint ventures amounted to HK$4,186 million (31/12/2013: HK$4,087 million). Other major business assets mainly included hotel properties at MPHK Hotel, Murray Building and MP Changzhou and fixed assets totalling HK$5,429 million.

Geographically, the Group's business assets in the Mainland decreased by 11% to HK$12,350 million (31/12/2013: HK$13,887 million), representing 54% of the Group's total business assets.

Net Cash/Debt and Gearing

The Group's net cash as at 31 December 2014 amounted to HK$767 million, consisting of HK$5,185 million in cash and HK$4,418 million in bank borrowings in various currencies, turned around from net debt of HK$413 million as at 31 December 2013.

Finance and Availability of Facilities and Funds

As at 31 December 2014, the Group's available loan facilities amounted to HK$5,300 million, of which HK$4,418 million were utilised. HK$250 million is repayable within one year while the balance 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 million (31/12/2013: HK$209 million).

The Group's debts were denominated in HKD, USD and RMB. All the Group's borrowing 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 is strictly controlled. The majority of the derivative financial instruments entered into by the Group are primarily used for hedging of the Group's interest rate and currency exposures.

The Group continued to maintain a reasonable level of surplus cash denominated principally in HKD and RMB to facilitate the Group's business and investment activities. As at 31 December 2014, the Group also maintained a portfolio of available-for-sale investments principally consisting of blue chip listed securities, with an aggregate market value of HK$1,550 million (31/12/2013: HK$1,340 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 a net cash inflow from operating activities of HK$2,553 million (2013: HK$1,947 million), mainly 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$879 million (2013: HK$6,595 million), primarily for the Group's hotel development projects and Suzhou IFS.

Commitments

As at 31 December 2014, the Group's total authorised and contracted for commitments amounted to HK$4.2 billion which was chiefly for Mainland development projects. In addition, the Group intends to invest HK$1.9 billion for the conversion of Murray Building into a hotel. Moreover, the Group intends to invest HK$5.1 billion mainly for the existing DP in the Mainland, which will be incurred in stages in the forthcoming years.

The above commitments and planned expenditures are for years to be executed and will be funded by the Group's internal financial resources including cash of HK$5.2 billion and property pre-sales proceeds as well as bank loans. Other available resources include available-for-sale investments.

(III) Human Resources

The Group had approximately 900 employees as at 31 December 2014. 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.

Attributable land bank in China totalled 1.5 million square metres at the end of 2014, 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 properties. 2014 contribution from the Mainland reached 81% and 48% of Group revenue and operating profit respectively.

Flagship assets in Hong Kong include the Marco Polo Hongkong Hotel and Murray Building. The former, strategically located in Harbour City in Canton Road with 665 hotel rooms, has long been a core operating asset. The latter, a prominent landmark building standing on a prime site in Central, is being converted into an urban chic hotel, with target opening in 2017.

BUSINESS STRATEGY

The Group endeavours 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 and developing prime hotels and investment properties through continuous product and service enhancement to maximise income and value; and

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

(A) CORPORATE GOVERNANCE PRACTICES

During the financial year ended 31 December 2014, all the code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited were met by the Company, with one exception as regards Code Provision A.2.1 as explained under section (D) below.

(B) DIRECTORS' SECURITIES TRANSACTIONS

During the financial year ended 31 December 2014, the Company adopted its own set of code of conduct regarding directors' securities transactions (the "Company's Code") with terms thereof being no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors and all Directors have confirmed that they have complied with the required standard set out in the Model Code and/or the Company's Code during the financial year.

(C) BOARD OF DIRECTORS

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

The 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 2014. The composition of the Board and attendance of the Directors are set out below:

	Number of Meeting(s) (Attendance/Eligible to attend)	
Directors	**Board Meetings**	**General Meeting**
Chairman		
Stephen T H Ng	5/5	1/1
Non-executive Directors		
Kevin K P Chan	5/5	1/1
Paul Y C Tsui	5/5	1/1
Frankie C M Yick	4/5	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	5/5	0/1
Michael T P Sze	5/5	1/1
Brian S K Tang	5/5	1/1

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

(II) Board Diversity

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

At present, more than half of the directors on the Board are Independent Non-executive Directors ("INED(s)"). They represent diverse career experience in both international and local enterprises. They bring with them diverse professional backgrounds, spanning engineering, 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, 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, B
Kevin K P Chan	A, B
Joseph M K Chow	A, B
H M V de Lacy Staunton	A, B
Andrew K Y Leung	A, B
Michael T P Sze	A, B
Brian S K Tang	A, B
Paul Y C Tsui	A, B
Frankie C M Yick	A, B

Remarks:

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

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

(D) CHAIRMAN AND CHIEF EXECUTIVE

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

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

(E) NON-EXECUTIVE DIRECTORS

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

(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 2014. 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 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 set out in the CG Code;

(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 has been adopted by the Group, with the authority and responsibility being delegated to the AC. Such Whistleblowing Policy is for employees and those who deal with the Group (e.g. customers and suppliers) to raise concerns, in confidence, with the Company Secretary, and any and all relevant complaints received may then be referred to the 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 2014 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 2014. 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 2014 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, 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, 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.

During the financial year ended 31 December 2014, no NC meeting was held.

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 particular the Chairman of the Board and the chief executive.

(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 15 under sub-section "(I) Audit Committee" of section "(F) Board Committees" above.

(G) AUDITORS' REMUNERATION

For the financial year ended 31 December 2014, the external auditors of the Company received approximately HK$2 million for audit services and 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 2014. Based on the result of the review, in respect of the financial year ended 31 December 2014, 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 2014, 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 2014:

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

(II) Send Enquiries to the Board

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

(III) Make Proposals at General Meetings

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

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

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

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

The relevant written requisition must–

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

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

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

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

(L) AMENDMENTS TO CONSTITUTIONAL DOCUMENTS

In accordance with the Companies Ordinance ("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 are deemed to form part of the Company's articles of association by operation of laws. A special resolution for the adoption of a revised set of articles of association ("New Articles") for the purpose of, *inter alia*, keeping in line with the CO was passed by the Shareholders at the Annual General Meeting held on 23 May 2014. The set of New Articles is available at the Company's corporate website (www.harbourcentre.com.hk).

Report of the Directors

The Directors have pleasure in submitting their Report and the Audited Financial Statements for the financial year ended 31 December 2014.

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 2014 are set out in the Consolidated Income Statement and the Consolidated Statement of Comprehensive Income on pages 32 and 33 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 36 and in Note 24 to the Financial Statements on pages 68 to 69 respectively.

DIVIDENDS

A first interim dividend of 12 HK cents per share was paid on 26 September 2014. In lieu of a final dividend, a second interim dividend of 48 HK cents per share will be paid on 12 May 2015 to Shareholders on record as at 5 May 2015. Total distribution for the year of 2014 will amount to 60 HK cents (2013: 78 HK cents inclusive of a special dividend of 18 HK cents) per share.

FIXED ASSETS

Movements in fixed assets during the financial year are set out in Note 10 to the Financial Statements on pages 48 to 49.

SHARE CAPITAL

Details of movement in share capital of the Company during the financial year are set out in Note 24 to the Financial Statements on pages 68 to 69.

DONATIONS

The Group made donations during the financial year totalling HK$4 million.

DIRECTORS

The Directors of the Company during the financial year were Mr Stephen T H Ng, Mr Kevin K P Chan, Dr Joseph M K Chow, Mr H M V de Lacy Staunton, Hon Andrew K Y Leung, Mr Michael T P Sze, Mr Brian S K Tang, Mr Paul Y C Tsui and Hon Frankie C M Yick.

Messrs Kevin K P Chan, H M V de Lacy Staunton and Michael T P Sze are due to retire by rotation from the Board at the forthcoming Annual General Meeting in accordance with Article 106(A) of the Company's Articles of Association. Mr Kevin K P Chan has decided not to stand for re-election. The other retiring directors, being eligible, offer themselves for re-election. None of the retiring Directors proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

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

During the financial year, no share of Wharf and/or Wheelock was allotted and issued to any Director of the Company under Wharf's and/or Wheelock's share option scheme respectively.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

AUDITORS

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

OTHER CORPORATE INFORMATION

Other corporate information supplementary to this Report of the Directors are set out on pages 22 to 30.

By Order of the Board
Kevin C Y Hui
Company Secretary

Hong Kong, 11 March 2015

OTHER CORPORATE INFORMATION

(A) BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGERS

(i) Directors

Stephen Tin Hoi NG, *Chairman (Age: 62)*

Mr Ng has been the Chairman and a Director of the Company since 2009. He also serves as a member and the chairman of the Company's Nomination Committee and a member of the Company's Remuneration Committee. Among other listed companies in Hong Kong and Singapore, he is the deputy chairman of Wheelock and Company Limited ("Wheelock"), ultimate holding company of the Company, and the deputy chairman and managing director of The Wharf (Holdings) Limited ("Wharf"), holding company of the Company, chairman of i-CABLE Communications Limited ("i-CABLE"), Joyce Boutique Holdings Limited ("Joyce") and Wheelock Properties (Singapore) Limited ("WPSL"), as well as a non-executive director of Hotel Properties Limited; he also formerly served as a non-executive director of Greentown China Holdings Limited ("Greentown") until his resignation effective from 27 March 2015.

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

Kevin Kwok Pong CHAN, *Director (Age: 54)*

Mr Chan has been a Director of the Company since April 2013. He joined Wharf group in 1993 and has been involved in various property development projects of Wharf group in both China and Hong Kong. He is currently director of Wharf China Development Limited and Wharf China Estates Limited, both being fellow subsidiaries of the Company, and is responsible to execute China Development Property strategy as well as to oversee the massive China Investment Property construction projects of Wharf group. 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: 73)*

Dr Chow, *RPE, FHKIE, FICE, FIStructE, FCIT, MIHT*, has been an Independent Non-executive Director ("INED") of the Company since 2010. He also serves as a member of the Company's Audit Committee. He is a professional civil and structural engineer. He is the chairman of Joseph Chow & Partners Limited and is an INED of 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 the president of the Hong Kong Institution of Engineers, the chairman of the Hong Kong Examinations and Assessment Authority, a member of Hong Kong Housing Authority, a member of Hospital Authority and the chairman of the Hong Kong Construction Workers Registration Authority.

Hugh Maurice Victor de LACY STAUNTON, *Director (Age: 79)*

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

Hon Andrew Kwan Yuen LEUNG, *GBS, JP, Director (Age: 64)*

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 and a director of The Hong Kong Mortgage Corporation Limited. He is also the honorary president of Federation of Hong Kong Industries, and the honorary chairman of Textile Council of Hong Kong Limited. Mr Leung is the chairman of Sun Hing Knitting Factory Limited and a founding member and first director of BPA Services Company Limited. He is also an INED of Dah Sing Banking Group Limited and China South City Holdings Limited, both being public companies listed 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: 69)*

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.

Brian See King TANG, *Director (Age: 65)*

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's 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: 68)*

Mr Tsui, *FCCA, FCPA, FCMA, CGMA, 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, Joyce and WPSL, the vice chairman of Wheelock Properties Limited and a non-executive director of Greentown.

Hon Frankie Chi Ming YICK, *Director (Age: 61)*

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 Modern Terminals Limited, both being subsidiaries of Wharf. He is also a director of Hong Kong Air Cargo Terminals Limited which is an associate of Wharf. Other than the private sector, Mr Yick has also been appointed as a board member of the Airport Authority Hong Kong since 1 June 2014. Mr Yick is a chartered engineer. He holds a Bachelor's Degree in Industrial Engineering awarded by The University of Hong Kong and a Master's Degree in Industrial Management awarded by The University of Birmingham, UK.

Notes:

(1) *Wheelock and Wharf (of which (i) Mr Stephen T H Ng and Mr Paul Y C Tsui are directors and (ii) Mr Kevin K P Chan and Hon Frankie Chi Ming YIick are employees) have interests in the share capital of the Company discloseable to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO").*

(2) *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.*

(3) *Both Mr Stephen T H Ng and Mr Paul Y C Tsui are currently directors of certain subsidiaries of the Company.*

(ii) Senior Management

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

(B) DIRECTORS' INTERESTS IN SECURITIES

(i) Interests in Shares and Debt Securities

At 31 December 2014, Directors of the Company had the following beneficial interests, all being long positions, in the shares and/or debt 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). The percentages (where applicable) which the relevant securities represented to the respective total numbers of shares in issue of the five companies respectively are also set out below:

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

Note:

The interests in shares disclosed above do not include interests in share options of the Company's associated corporation(s) held by Directors of the Company as at 31 December 2014. Details of such interests in share options are separately set out below under the sub-sections headed "(ii) Interests in Share Options of Wheelock" and "(iii) Interests in Share Options of Wharf".

(ii) Interests in Share Options of Wheelock

Set out below are particulars of all interests (all being personal interests) in options held during the financial year ended 31 December 2014 by the Director of the Company to subscribe for ordinary shares of Wheelock granted/exercisable under the share option scheme of Wheelock:

Name of Director	Date of grant (Day/Month/Year)	No. of Wheelock's shares under option: As at 1 January 2014	No. of Wheelock's shares under option: As at 31 December 2014 (percentage based on no. of shares in issue)	Subscription price per Share (HK$)
Paul Y C Tsui	14/06/2013	1,500,000	1,500,000 (0.074%)	39.98

Notes:

(a) *The share options of Wheelock outstanding as at both 1 January 2014 and 31 December 2014 were/will be vested in five tranches within a period of 5 years, with each tranche covering one-fifth of the relevant options, i.e. exercisable to the extent of one-fifth of the relevant total number of Wheelock's shares, and with the 1st, 2nd, 3rd, 4th and 5th tranche being exercisable from 15th of June in the years 2013, 2014, 2015, 2016 and 2017 respectively.*

(b) *Except as disclosed above, no share option of Wheelock held by Directors of the Company lapsed or was exercised or cancelled during the financial year and no share option of Wheelock was granted to any Director of the Company during the financial year.*

(iii) Interests in Share Options of Wharf

Set out below are particulars of all interests (all being personal interests) in options held during the financial year ended 31 December 2014 by the Director of the Company to subscribe for ordinary shares of Wharf granted/exercisable under the share option scheme of Wharf:

Name of Director	Total no. as at 31 December 2014 (percentage based on no. of shares in issue)	Date of grant (Day/Month/Year)	No. of Wharf's shares under option: As at 1 January 2014	No. of Wharf's shares under option: As at 31 December 2014	Subscription Price per Share (HK$)	Vesting/Exercise Period (Day/Month/Year)
Stephen T H Ng	3,500,000 (0.12%)	04/07/2011	1,500,000	1,500,000	55.15	05/07/2011–04/07/2016[1]
		05/06/2013	2,000,000	2,000,000	70.20	06/06/2013–05/06/2018[2]
Kevin K P Chan	1,250,000 (0.04%)	04/07/2011	500,000	500,000	55.15	05/07/2011–04/07/2016[1]
		05/06/2013	750,000	750,000	70.20	06/06/2013–05/06/2018[2]
Paul Y C Tsui	2,200,000 (0.07%)	04/07/2011	1,200,000	1,200,000	55.15	05/07/2011–04/07/2016[1]
		05/06/2013	1,000,000	1,000,000	70.20	06/06/2013–05/06/2018[2]

Notes:

(1) The share options of Wharf granted on 4 July 2011 outstanding as at both 1 January 2014 and 31 December 2014 were/will be vested in five tranches within a period of 5 years, with each tranche covering one-fifth of the relevant Wharf's share options, i.e. exercisable to the extent of one-fifth of the relevant total number of Wharf's shares, and with the 1st, 2nd, 3rd, 4th and 5th tranche being exercisable from 5th of July in the years 2011, 2012, 2013, 2014 and 2015 respectively, with one exception that the relevant options held by Mr Paul Y C Tsui as at 31 December 2014 were/will be vested in four tranches, with each tranche covering options for 300,000 Wharf's shares being exercisable from 5th of July in the years 2012, 2013, 2014 and 2015 respectively.

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

(3) Except as disclosed above, no share option of Wharf held by Directors of the Company lapsed or was exercised or cancelled during the financial year and no share option of Wharf was granted to any Director of the Company during the financial year.

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 2014 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 any class of voting shares of the Company as at 31 December 2014, 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 total number of shares in issue of the Company:

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

Notes:

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

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

(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 2014, 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(2) 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(2) of the Listing Rules.

Ownership of hotels, and ownership of property for letting and for development in Hong Kong and Mainland China carried on by subsidiaries of Wharf constitute competing businesses to the Group. In view of the Wharf group's expertise and very good track record in the management and operation of hotels throughout the Asia Pacific region, the Group has engaged Marco Polo Hotels Management Limited ("MPHML"; being a wholly-owned subsidiary of Wharf) to act as manager to operate, direct, manage and supervise Marco Polo Hongkong Hotel and Marco Polo Changzhou. MPHML is also responsible for the operation of the hotels of Wharf group in the Asia Pacific region. MPHML has agreed, *inter alia*, to operate 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 manager and sales and marketing agent 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 contributions by the Group are expensed as incurred and may be reduced by contributions forfeited for those employees who have left the schemes prior to full vesting of the related employers' contributions.

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

(F) MAJOR CUSTOMERS AND SUPPLIERS

For the financial year ended 31 December 2014:

(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 2014 which are repayable on demand or within a period not exceeding one year or after one year are set out in Note 21 to the Financial Statements on page 59.

(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 2014.

(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 1 June 2012, 31 December 2013 and 10 November 2014 respectively and are required under the Listing Rules to be disclosed in the Annual Report and Financial Statements of the Company:

(i) Master Hotel Services Agreement with Wharf group

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

On 10 November 2014, a renewal master hotel services agreement (the "Renewal Agreement") was entered into between the Company and Wharf for a new fixed term of three years from 1 January 2015 to 31 December 2017. The Renewal Agreement is for the same purpose as the Mater Hotel Services Agreement, i.e. for regulating various Individual Hotel Services Agreement and relevant transactions, and providing for the maximum annual aggregate amounts of remuneration that would or will be payable by the Group to Wharf group in relation thereto during the renewed three-year term.

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 2014 amounted to HK$53 million.

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

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

On 31 December 2013, a master property services agreement (the "Master Property Services Agreement") was entered into between the Company and Wharf for a fixed term of three years commencing on 1 January 2014 and expiring on 31 December 2016. The Master Property Services Agreement is for purpose of, *inter alia*, regulating various continuing connected transactions (including those under the Individual Property Services Agreements) involving the provision of the Property Services by Wharf group to the Group and providing for the maximum annual aggregate amount of remuneration that would or will be payable by the Group to the Manager/Agent in relation thereto during the said three-year term.

The annual aggregate amount of remuneration under the Renewal Master Property Services Agreement, which is subject to relevant aggregate annual cap amount previously disclosed in the abovementioned announcement dated 31 December 2013, paid by the Group to Wharf group for the financial year ended 31 December 2014 amounted to HK$125 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) With regard to the Related Party Transactions as disclosed under Note 25 to the Financial Statements on pages 69 to 70, the transactions stated under paragraphs (a) and (b) therein constitute connected transactions (as defined under the Listing Rules) of the Company, the one under paragraph (c) does not constitute a connected transaction under the Listing Rules, and those under paragraph (d) constitute a fully exempt connected transaction of the Company, for all of which the applicable requirements under the Listing Rules have been duly complied with.

(iv) Confirmation from Directors

(a) 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:

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

(2) on normal commercial terms; and

(3) according to the relevant agreements governing such Transactions on terms that are fair and reasonable and in the interests of the Shareholders of the Company as a whole.

(b) In accordance with paragraph 14A.56 of the Listing Rules, the Board of Directors engaged the Company's auditors to perform procedures on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants.

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

(1) the Transactions had not been approved by the Company's Board of Directors;

(2) the Transactions were not, in all material respects, entered into in accordance with the terms of the related agreements governing the Transactions;

(3) the relevant cap amounts, where applicable, have been exceeded during the financial year ended 31 December 2014; and

(4) in the event that there would be any transactions involving the provision of goods and services by the Group, the transactions were not, in any material respects, in accordance with the pricing policies of the Group.

KPMG

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 32 to 90, which comprise the consolidated and company statements of financial position as at 31 December 2014, 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 80 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), 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 2014 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

11 March 2015

Consolidated Income Statement

For the year ended 31 December 2014

	Note	2014 HK$ Million	2013 HK$ Million
Revenue	1	5,646	5,758
Direct costs and operating expenses		(4,253)	(3,804)
Selling and marketing expenses		(134)	(170)
Administrative and corporate expenses		(72)	(77)
Operating profit before depreciation, interest and tax		1,187	1,707
Depreciation		(63)	(54)
Operating profit	2	1,124	1,653
Increase in fair value of investment properties		231	355
Impairment for hotel properties under development		–	(543)
Other net income	3	53	211
		1,408	1,676
Finance costs	4	(35)	(70)
Share of results after tax of:			
Joint ventures	13(b)	97	271
Associates	12(b)	(4)	(2)
Profit before taxation		1,466	1,875
Income tax	5(a)	(355)	(536)
Profit for the year		1,111	1,339
Profit attributable to:			
Equity shareholders	6	1,082	1,276
Non-controlling interests		29	63
		1,111	1,339
Earnings per share	7		
Basic		HK$1.53	HK$1.80
Diluted		HK$1.53	HK$1.80

The notes and principal accounting policies on pages 39 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 8.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2014

	2014 HK$ Million	2013 HK$ Million
Profit for the year	1,111	1,339
Other comprehensive income for the year:		
Items that may be reclassified subsequently to profit or loss:		
Exchange difference on translation of the operations of:	(44)	376
– subsidiaries	(36)	311
– joint ventures	(8)	65
Fair value changes on available-for-sale investments:	210	(286)
– surplus/(deficit) on revaluation	210	(245)
– transferred to consolidated income statement on disposal	–	(41)
Others	(3)	8
Other comprehensive income for the year	163	98
Total comprehensive income for the year	1,274	1,437
Total comprehensive income attributable to:		
Equity shareholders	1,249	1,343
Non-controlling interests	25	94
	1,274	1,437

The notes and principal accounting policies on pages 39 to 90 form part of these financial statements.

Consolidated Statement of Financial Position

At 31 December 2014

	Note	2014 HK$ Million	2013 HK$ Million
Non-current assets			
Investment properties	9	7,253	6,435
Fixed assets	10	5,429	4,764
Interest in associates	12	2,059	1,925
Interest in joint ventures	13	2,127	2,162
Available-for-sale investments	14	1,550	1,340
Deferred tax assets	22	19	1
Derivative financial assets	17	4	–
Other non-current assets		17	20
		18,458	16,647
Current assets			
Properties for sale	15	4,979	7,376
Inventories		5	2
Trade and other receivables	16	716	1,066
Derivative financial assets	17	80	52
Prepaid tax	5(g)	119	108
Bank deposits and cash	18	5,185	5,825
		11,084	14,429
Current liabilities			
Trade and other payables	19	(3,303)	(3,116)
Pre-sale deposits and proceeds	20	(4,373)	(4,998)
Derivative financial liabilities	17	(45)	–
Taxation payable	5(f)	(119)	(215)
Bank loans	21	(250)	(500)
		(8,090)	(8,829)
Net current assets		2,994	5,600
Total assets less current liabilities		21,452	22,247
Non-current liabilities			
Derivative financial liabilities	17	(3)	(4)
Deferred tax liabilities	22	(35)	(58)
Bank loans	21	(4,168)	(5,738)
		(4,206)	(5,800)
NET ASSETS		17,246	16,447
Capital and reserves			
Share capital: nominal value		–	354
Other statutory capital reserve		–	3,287
Share capital and other statutory capital reserve	24	3,641	3,641
Reserves		12,564	11,740
Shareholders' equity		16,205	15,381
Non-controlling interests		1,041	1,066
TOTAL EQUITY		17,246	16,447

The notes and principal accounting policies on pages 39 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 2014

	Note	2014 HK$ Million	2013 HK$ Million
Non-current assets			
Interest in subsidiaries	11	5,237	7,173
Loans to subsidiaries	11	2,250	4,900
Prepayment		–	3
		7,487	12,076
Current assets			
Trade and other receivables		–	1
Bank deposits and cash		4	20
		4	21
Current liabilities			
Trade and other payables		(3)	(3)
Amounts due to subsidiaries	11	(587)	(2,012)
		(590)	(2,015)
Net current liabilities		(586)	(1,994)
Total assets less current liabilities		6,901	10,082
Non-current liabilities			
Bank loans	21	(2,250)	(5,432)
NET ASSETS		4,651	4,650
Capital and reserves			
Share capital: nominal value		–	354
Other statutory capital reserve		–	3,287
Share capital and other statutory capital reserve	24	3,641	3,641
Reserves		1,010	1,009
TOTAL EQUITY		4,651	4,650

The notes and principal accounting policies on pages 39 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 2014

	Shareholders' equity							
	Share capital HK$ Million	Share premium HK$ Million	Investments revaluation reserve HK$ Million	Exchange reserve HK$ Million	Revenue reserve HK$ Million	Total shareholders' equity HK$ Million	Non-controlling interests HK$ Million	Total equity HK$ Million
At 1 January 2013	354	3,287	993	951	9,006	14,591	972	15,563
Changes in equity for 2013:								
Profit	–	–	–	–	1,276	1,276	63	1,339
Other comprehensive income	–	–	(286)	345	8	67	31	98
Total comprehensive income	–	–	(286)	345	1,284	1,343	94	1,437
2012 second interim dividend paid	–	–	–	–	(340)	(340)	–	(340)
2013 first interim dividend paid	–	–	–	–	(85)	(85)	–	(85)
2013 special interim dividend paid	–	–	–	–	(128)	(128)	–	(128)
At 31 December 2013 and 1 January 2014	354	3,287	707	1,296	9,737	15,381	1,066	16,447
Changes in equity for 2014:								
Profit	–	–	–	–	1,082	1,082	29	1,111
Other comprehensive income	–	–	210	(40)	(3)	167	(4)	163
Total comprehensive income	–	–	210	(40)	1,079	1,249	25	1,274
Transition to no-par value regime on 3 March 2014	3,287	(3,287)	–	–	–	–	–	–
2013 second interim dividend paid	–	–	–	–	(340)	(340)	–	(340)
2014 first interim dividend paid	–	–	–	–	(85)	(85)	–	(85)
Dividends paid to non-controlling interests	–	–	–	–	–	–	(50)	(50)
At 31 December 2014	3,641	–	917	1,256	10,391	16,205	1,041	17,246

The notes and principal accounting policies on pages 39 to 90 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2014

	Note	2014 HK$ Million	2013 HK$ Million
Operating cash inflow	(a)	939	1,507
Changes in working capital	(a)	2,007	847
Cash generated from operations	(a)	2,946	2,354
Net interest (paid)/received		(57)	77
Interest received		101	160
Interest paid on bank loans		(158)	(83)
Dividends income from listed investments		42	41
Dividends income from joint venture		124	257
Hong Kong profits tax paid		(73)	(87)
PRC taxation paid		(429)	(695)
Net cash generated from operating activities		2,553	1,947
Investing activities			
Additions of fixed assets and investment properties		(1,182)	(5,187)
Net increase in interest in associates		–	(1,564)
Net decrease in interest in joint ventures		303	197
Purchase of available-for-sale investments		–	(98)
Proceeds from disposal of available-for-sale investments		–	57
Net cash used in investing activities		(879)	(6,595)
Financing activities			
Drawdown of bank loans		4,112	3,883
Repayment of bank loans		(5,932)	(800)
Dividends paid to equity shareholders		(425)	(553)
Dividends paid to non-controlling interests		(50)	–
Net cash (used in)/generated from financing activities		(2,295)	2,530
Decrease in cash and cash equivalents		(621)	(2,118)
Cash and cash equivalents at 1 January		5,825	7,731
Effect on exchange rate changes		(19)	212
Cash and cash equivalents at 31 December		5,185	5,825

Cash and cash equivalents represent bank deposits and cash.

The notes and principal accounting policies on pages 39 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

	2014 HK$ Million	2013 HK$ Million
Operating profit	1,124	1,653
Depreciation	63	54
Dividends income from listed investments	(42)	(40)
Interest income	(206)	(160)
Operating cash inflow	939	1,507
Decrease in other non-current assets	–	1
Decrease in properties for sale	2,337	1,817
Increase in inventories	(3)	–
Decrease/(increase) in trade and other receivables	322	(319)
Decrease in trade and other payables	(109)	(24)
Decrease in pre-sale deposits and proceeds	(608)	(880)
Changes in derivative financial instruments (net)	51	248
Increase in amounts due to fellow subsidiaries (net)	17	4
Changes in working capital	2,007	847
Cash generated from operations	2,946	2,354

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 and Marco Polo Changzhou. It also includes Murray Building which is under construction.

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

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

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

(a) Analysis of segment revenue and results

	Revenue HK$ Million	Operating profit HK$ Million	Increase in fair value of investment properties HK$ Million	Other net income and provision HK$ Million	Finance costs HK$ Million	Joint ventures HK$ Million	Associates HK$ Million	Profit before taxation HK$ Million
2014								
Development property	4,361	380	–	2	(12)	97	(4)	463
Investment property	363	334	231	–	(12)	–	–	553
Hotel	674	175	–	–	(6)	–	–	169
Segment total	5,398	889	231	2	(30)	97	(4)	1,185
Investment and others	248	248	–	51	(5)	–	–	294
Corporate expenses	–	(13)	–	–	–	–	–	(13)
Group total	5,646	1,124	231	53	(35)	97	(4)	1,466
2013								
Development property	4,577	970	–	(9)	–	271	(2)	1,230
Investment property	325	296	355	–	–	–	–	651
Hotel	657	203	–	(543)	(16)	–	–	(356)
Segment total	5,559	1,469	355	(552)	(16)	271	(2)	1,525
Investment and others	199	199	–	220	(54)	–	–	365
Corporate expenses	–	(15)	–	–	–	–	–	(15)
Group total	5,758	1,653	355	(332)	(70)	271	(2)	1,875

(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) In 2013, other net income and provision included impairment for hotel properties under development of HK$543 million.

(b) Analysis of segment business assets

	2014 HK$ Million	2013 HK$ Million
Development property	9,772	12,408
Investment property	7,427	6,446
Hotel	5,505	5,004
Total segment business assets	22,704	23,858
Unallocated corporate assets	6,838	7,218
Total assets	29,542	31,076

(i) Hotel is stated at amortised cost. Should the completed hotel property be stated based on the valuation as at 31 December 2014 of HK$4,990 million (2013: HK$4,310 million), the total segment business assets would be increased to HK$27,023 million (2013: HK$28,141 million).

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

(c) Geographical information

	Revenue		Operating profit	
	2014 HK$ Million	2013 HK$ Million	2014 HK$ Million	2013 HK$ Million
Hong Kong	1,038	994	549	512
Mainland China	4,575	4,732	542	1,109
Singapore	33	32	33	32
Group total	5,646	5,758	1,124	1,653

	Specified non-current assets		Total business assets	
	2014 HK$ Million	2013 HK$ Million	2014 HK$ Million	2013 HK$ Million
Hong Kong	10,105	9,718	10,354	9,971
Mainland China	6,763	5,568	12,350	13,887
Group total	16,868	15,286	22,704	23,858

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

Geographically, HK$12,350 million (2013: HK$13,887 million) or 54% (2013: 58%) 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:

	2014 HK$ Million	2013 HK$ Million
After charging/(crediting):		
Depreciation	63	54
Staff costs	220	228
Including:		
– contributions to defined contribution pension schemes including MPF schemes	9	7
Auditors' remuneration	2	2
Cost of trading properties for recognised sales	3,859	3,420
Rental charges under operating leases	19	17
Rental income less direct outgoings of HK$21 million (2013: HK$22 million) (Note i)	(342)	(303)
Interest income (Note ii)	(206)	(160)
Dividend income from listed investments	(42)	(40)

Notes:

(i) Rental income included contingent rentals of HK$163 million (2013: HK$132 million).

(ii) Interest income included HK$105 million (2013: HK$Nil) from an associate.

(b) Directors' emoluments

Directors' emoluments disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap.32), are as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Discretionary bonuses and/or performance related bonuses HK$'000	Retirement scheme contributions HK$'000	2014 Total HK$'000	2013 Total HK$'000
Executive Director						
Stephen T H Ng	50	960	–	–	1,010	1,010
Non-executive Directors						
Paul Y C Tsui	50	–	–	–	50	50
Frankie C M Yick	50	–	–	–	50	50
Kevin K P Chan (iv)	50	–	–	–	50	36
T Y Ng (iii)	–	–	–	–	–	14
Y T Leng (iii)	–	–	–	–	–	14
Independent Non–executive Directors						
Michael T P Sze (ii)	70	–	–	–	70	70
H M V de Lacy Staunton	50	–	–	–	50	50
Brian S K Tang (ii)	70	–	–	–	70	70
Joseph M K Chow (ii)	70	–	–	–	70	70
Andrew K Y Leung	50	–	–	–	50	50
	510	960	–	–	1,470	
Total for 2013	524	960	–	–		1,484

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 2014 and 2013.

(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 2014 (2013: HK$20,000 per annum).

(iii) 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 2014 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	2014 HK$ Million	2013 HK$ Million
Salaries, allowances and benefits in kind	7	6
Discretionary bonuses and/or performance-related bonuses	1	2
	8	8

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

Bands (in HK$)	2014 Number	2013 Number
$1,000,001 – $1,500,000	2	2
$1,500,001 – $2,000,000	3	2
$2,000,001 – $2,500,000	–	1

3. OTHER NET INCOME

	2014 HK$ Million	2013 HK$ Million
Profit on disposal of available-for-sale investments, including revaluation surplus of HK$Nil (2013: HK$41 million) transferred from the investments revaluation reserve	–	44
Net exchange gain, including the impact of forward foreign exchange contracts	53	167
	53	211

Apart from the above net exchange differences, the Group also had a total exchange loss arising from the translation of the net investments in Mainland China subsidiaries, joint ventures and associates of HK$44 million (2013: gain of HK$376 million), which has been dealt with as other comprehensive income.

4. FINANCE COSTS

	2014 HK$ Million	2013 HK$ Million
Interest on bank borrowings wholly repayable within five years	95	77
Other finance costs	66	21
	161	98
Less: Amount capitalised	(126)	(19)
	35	79
Fair value changes on cross currency interest rate swaps	–	(9)
	35	70

(a) Interest was capitalised at an average annual rate of approximately 1.7% (2013: 0.5%).

(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.

5. INCOME TAX

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

	2014 HK$ Million	2013 HK$ Million
Current income tax		
Hong Kong		
– provision for the year	96	80
– overprovision in respect of prior years	(2)	(2)
Mainland China		
– provision for the year	182	221
	276	299
Land appreciation tax ("LAT") (Note (d))	119	215
Deferred tax		
Origination and reversal of temporary differences	(40)	22
Total	355	536

(b) The provision for Hong Kong profits tax is at the rate of 16.5% (2013: 16.5%) of the estimated assessable profits for the year.

(c) Income tax on profits assessable in Mainland China are China corporate income tax calculated at a rate of 25% and China withholding tax at a rate of up to 10%.

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

(e) The China tax law also imposes a withholding tax at 10% unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside Mainland China. For the year ended 31 December 2014, the Group has provided HK$15 million (2013: HK$28 million) for withholding tax on distributed/undistributed earnings generated by its Mainland China subsidiaries.

(f) The prepaid tax/taxation payable in the consolidated statement of financial position is expected to be recovered/settled within one year.

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

(h) Tax attributable to joint ventures for the year ended 31 December 2014 of HK$88 million (2013: HK$231 million) is included in the share of results of joint ventures.

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

	2014 HK$ Million	2013 HK$ Million
Profit before taxation	1,466	1,875
Notional tax on accounting profit calculated at applicable tax rates	247	383
Tax effect of non-deductible expenses	66	85
Tax effect of non-taxable fair value gain on investment properties	(38)	(58)
Tax effect of other non-taxable income	(48)	(204)
Tax effect of tax losses not recognised	9	146
Tax effect of utilisation of tax losses and other temporary differences	(13)	(57)
Overprovision in respect of prior years	(2)	(2)
LAT on trading properties	119	215
Withholding tax on distributed/undistributed earnings	15	28
Actual total tax charge	355	536

6. 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$426 million (2013: HK$554 million).

7. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year attributable to equity shareholders of HK$1,082 million (2013: HK$1,276 million) and the weighted average of 709 million (2013: 709 million) ordinary shares in issue during the year.

There were no potential dilutive ordinary shares in existence during the years ended 31 December 2014 and 2013.

8. DIVIDENDS ATTRIBUTABLE TO EQUITY SHAREHOLDERS

	2014 HK$ Per share	2014 HK$ Million	2013 HK$ Per share	2013 HK$ Million
First interim dividend declared and paid	0.12	85	0.12	85
Special interim dividend declared and paid	–	–	0.18	128
Second interim dividend declared after the end of the reporting period	0.48	340	0.48	340
	0.60	425	0.78	553

(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 million for 2013 was approved and paid in 2014.

9. INVESTMENT PROPERTIES

	Completed HK$ Million	Under Development HK$ Million	Total HK$ Million
(a) Cost or valuation			
At 1 January 2013	4,786	780	5,566
Exchange adjustment	–	24	24
Additions	5	485	490
Revaluation surpluses	355	–	355
At 31 December 2013 and 1 January 2014	5,146	1,289	6,435
Exchange adjustment	–	(4)	(4)
Additions	–	591	591
Revaluation surpluses	231	–	231
At 31 December 2014	5,377	1,876	7,253
(b) The analysis of cost or valuation of the above asset is as follows:			
2014 valuation	5,377	–	5,377
At cost	–	1,876	1,876
	5,377	1,876	7,253
2013 valuation	5,146	–	5,146
At cost	–	1,289	1,289
	5,146	1,289	6,435
(c) Tenure of title to properties:			
At 31 December 2014			
Held in Hong Kong			
Long term leases	5,377	–	5,377
Held outside Hong Kong			
Medium term leases	–	1,876	1,876
	5,377	1,876	7,253
At 31 December 2013			
Held in Hong Kong			
Long term leases	5,146	–	5,146
Held outside Hong Kong			
Medium term leases	–	1,289	1,289
	5,146	1,289	6,435

(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 2014 were revalued by Knight Frank Petty Limited ("Knight Frank"), an independent firm of professional surveyors who have among their staff Fellows of the Hong Kong Institute of Surveyors with extensive experience in valuing properties in Hong Kong and Mainland China. Knight Frank has valued the investment properties on a market value basis and has taken into account the net income of the respective properties, allowing for reversionary potential and the redevelopment potential of the properties where appropriate.

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

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

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

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

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

The Group's completed investment properties measured at HK$5,377 million (2013: HK$5,146 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 measured at fair value are categorised as Level 1 and Level 2 input.

During the year ended 31 December 2014, there were no transfers among Level 1, Level 2, or transfers into or out of Level 3 (2013: Nil).

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

Valuation processes

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

Valuation methodologies

The valuation of completed retail properties in Hong Kong were based on income capitalisation approach which capitalised the net income of the properties and taking into account the significant adjustment on term yield to account for the risk upon 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% (2013: 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$363 million (2013: HK$325 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	
	2014 HK$ Million	2013 HK$ Million
Within 1 year	**78**	180
After 1 year but within 5 years	**25**	56
	103	236

10. FIXED ASSETS

	Group		
	Hotel properties HK$ Million	**Others HK$ Million**	**Total HK$ Million**
(a) Cost or valuation			
At 1 January 2013	617	390	1,007
Exchange adjustment	15	–	15
Additions	4,656	41	4,697
Disposals	–	(7)	(7)
At 31 December 2013 and 1 January 2014	**5,288**	**424**	**5,712**
Exchange adjustment	**(3)**	**–**	**(3)**
Additions	**691**	**38**	**729**
Disposals	**–**	**(3)**	**(3)**
At 31 December 2014	**5,976**	**459**	**6,435**
Accumulated depreciation and impairment			
At 1 January 2013	104	253	357
Charge for the year	5	49	54
Written back on disposals	–	(7)	(7)
Impairment	543	–	543
Reclassification	–	1	1
At 31 December 2013 and 1 January 2014	**652**	**296**	**948**
Exchange adjustment	**(2)**	**–**	**(2)**
Charge for the year	**11**	**52**	**63**
Written back on disposals	**–**	**(3)**	**(3)**
At 31 December 2014	**661**	**345**	**1,006**
Net book value			
At 31 December 2014	**5,315**	**114**	**5,429**
At 31 December 2013	4,636	128	4,764

(b) Tenure of title to properties:

	Group
	Hotel properties HK$ Million
At 31 December 2014	
Held in Hong Kong	
Long term leases	22
Medium term leases	4,625
Held outside Hong Kong	
Medium term leases	668
	5,315
At 31 December 2013	
Held in Hong Kong	
Long term leases	27
Medium term leases	4,422
Held outside Hong Kong	
Medium term leases	187
	4,636

(c) Impairment of fixed assets

The value of properties, other than investment properties which are revalued annually, is assessed at the end of each reporting 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 2013, impairment provision for hotel properties under development of HK$543 million was made for Marco Polo Changzhou in Mainland China. The recoverable amount of HK$187 million was determined on the basis of its fair value less costs to sell on a market value basis, which was at level 3 valuation based on discount rate of 7.5% and has taken into account the net income of the hotel property.

(d) Hotels properties under development

As at 31 December 2014, hotel properties under development amounted to HK$4,644 million (2013: HK$4,609 million) was not subject to depreciation.

11. INTEREST IN SUBSIDIARIES

	Company	
	2014 **HK$ Million**	2013 HK$ Million
Unlisted shares, at cost	**–**	–
Amounts due from subsidiaries	**5,237**	7,173
	5,237	7,173
Loans to subsidiaries	**2,250**	4,900
Amounts due to subsidiaries	**(587)**	(2,012)

Details of principal subsidiaries at 31 December 2014 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.

12. INTEREST IN ASSOCIATES

	Group	
	2014 **HK$ Million**	2013 HK$ Million
Share of net assets	**610**	616
Amount due from an associate	**1,449**	1,309
	2,059	1,925

Details of principal associate at 31 December 2014 are shown on page 90.

(a) Interest in associates at 31 December 2014 and 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 for development property in Shanghai in Mainland China.

(b) Amount due from an associate is unsecured, interest bearing, has no fixed terms of repayment and not expected to be recoverable within twelve months from the end of the reporting period. The amount is neither past due nor impaired.

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

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

	2014 HK$ Million	2013 HK$ Million
Summarised statement of financial position		
Current assets	8,721	7,544
Non-current assets	8	3
Current liabilities	(5,964)	(5,266)
Non-current liabilities	(507)	–
Net assets	2,258	2,281
Summarised statement of comprehensive income		
Revenue	–	–
Loss from continuing operations	(15)	(8)
Other comprehensive income	–	–
Total comprehensive income	(15)	(8)
Reconciled to the Group's interest in the associate		
Gross amounts of net assets of the associate	2,258	2,281
Group's effective interest	27%	27%
Group's share of net assets of the associate	610	616
Carrying amount in the consolidated financial statement	610	616

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

13. INTEREST IN JOINT VENTURES

	Group	
	2014 HK$ Million	2013 HK$ Million
Share of net assets	**2,127**	2,162

Details of principal joint ventures at 31 December 2014 are shown on page 90.

(a) The Group's interest in joint ventures at 31 December 2014 and 2013 mainly represents its 55%-interest in a limited liability company, Speedy Champ Investments Limited ("Speedy Champ"), which holds 100% interest in a limited liability company, 重慶豐盈房地產開發有限公司, established for development property in Chongqing in Mainland China. Notwithstanding the Group's contribution of 55% of the registered capital, as the Group and the joint venture partner contractually agree to share control of Speedy Champ and have rights to the net assets of Speedy Champ, the Group accounts for its investment as a joint venture.

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

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

	2014 HK$ Million	2013 HK$ Million
Summarised statement of financial position		
Current		
Cash and cash equivalents	339	990
Other current assets	4,107	3,969
Total current assets	4,446	4,959
Trade and other payables	(213)	(304)
Other current liabilities	(392)	(896)
Total current liabilities	(605)	(1,200)
Non-current assets	26	172
Net assets	3,867	3,931
Summarised statement of comprehensive income		
Revenue	1,126	2,166
Interest income	4	6
Profit from continuing operations	337	912
Income tax expense	(160)	(420)
Post-tax profit from continuing operations	177	492
Other comprehensive income	(15)	120
Total comprehensive income	162	612
Dividends received from joint venture	124	257
Reconciled to the Group's interest in the joint venture		
Gross amounts of net assets of the joint venture	3,867	3,931
Group's effective interest	55%	55%
Group's share of net assets of the joint venture	2,127	2,162
Carrying amount in the consolidated financial statement	2,127	2,162

14. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2014 **HK$ Million**	2013 HK$ Million
Listed investments stated at market value		
– in Hong Kong	**303**	252
– outside Hong Kong	**1,247**	1,088
	1,550	1,340

15. PROPERTIES FOR SALE

	Group	
	2014 **HK$ Million**	2013 HK$ Million
Properties under development for sale	**4,528**	7,070
Completed properties for sale	**451**	306
	4,979	7,376

(a) Included in the properties under development for sale are HK$2,059 million (2013: HK$3,647 million) which are not expected to be realised within one year from the end of the reporting period.

(b) As 31 December 2014, the carrying value of leasehold land included in properties under development for sale and completed properties for sale is summarised as follows:

	Group	
	2014 **HK$ Million**	2013 HK$ Million
Held outside Hong Kong		
Long term leases	**2,912**	4,263

16. 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 2014 as follows:

	Group	
	2014 **HK$ Million**	2013 HK$ Million
Trade receivables		
0–30 days	**187**	157
31–60 days	**–**	2
Over 60 days	**1**	–
	188	159
Prepayments	**348**	413
Other receivables	**165**	480
Amounts due from fellow subsidiaries	**15**	14
	716	1,066

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 recoverable within one year.

Other receivables included HK$122 million (2013: HK$428 million) due from a non-controlling shareholder of a subsidiary which is interest free and recoverable on demand.

The amount of the Group's prepayments expected to be recognised as expense after more than one year is HK$37 million (2013: HK$79 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 2014 and 2013, 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 2014 and 2013, the Group assessed that of the total trade receivables, virtually all of them are neither past due nor impaired.

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

17. DERIVATIVE FINANCIAL INSTRUMENTS

	Group			
	2014 Assets HK$ Million	**2014 Liabilities HK$ Million**	2013 Assets HK$ Million	2013 Liabilities HK$ Million
At fair value through profit or loss				
Forward foreign exchange contracts	80	48	52	4
Other derivatives	4	–	–	–
Total	84	48	52	4
Analysis				
Current	80	45	52	–
Non-current	4	3	–	4
Total	84	48	52	4

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

	Group			
	2014 Assets HK$ Million	**2014 Liabilities HK$ Million**	2013 Assets HK$ Million	2013 Liabilities HK$ Million
Forward foreign exchange contracts				
Expiring within 1 year	80	45	52	–
Expiring after more than 1 year but not exceeding 5 years	–	3	–	4
	80	48	52	4
Other derivatives				
Expiring after more than 1 year but not exceeding 5 years	4	–	–	–
Total	84	48	52	4

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

	2014 HK$ Million	2013 HK$ Million
Forward foreign exchange contracts	**2,879**	5,106

(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$36 million (2013: HK$201 million) in respect of forward foreign exchange contracts has been included under other net income in the consolidated income statement.

18. BANK DEPOSITS AND CASH

Bank deposits and cash as at 31 December 2014 include HK$4,933 million equivalent (2013: HK$5,747 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 2014, bank deposits and cash included bank deposits of RMB260 million (equivalent to HK$329 million) (2013: RMB139 million equivalent to HK$177 million) which are solely for certain designated development property projects in Mainland China.

The effective interest rate on bank deposit was 1.8% (2013: 2.4%) per annum.

Bank deposits and cash are denominated in the following currencies:

	Group	
	2014 HK$ Million	2013 HK$ Million
HKD	**248**	49
USD	**30**	77
RMB	**4,907**	5,699
	5,185	5,825

19. TRADE AND OTHER PAYABLES

Included in this item are trade payables with an ageing analysis as at 31 December 2014 as follows:

	Group	
	2014 **HK$ Million**	2013 HK$ Million
Trade payables		
0–30 days	**15**	16
31–60 days	**6**	1
Over 60 days	**–**	1
	21	18
Other payables and provisions	**268**	271
Construction costs payable	**1,919**	2,053
Amounts due to fellow subsidiaries	**58**	40
Amounts due to associates	**1**	1
Amounts due to joint ventures	**1,036**	733
	3,303	3,116

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

Included in the above other payables and provisions and construction costs payable, are amounts of HK$455 million (2013: HK$122 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.

20. PRE-SALE DEPOSITS AND PROCEEDS

Of the total pre-sale deposits and proceeds received in respect of Mainland China based properties, HK$786 million (2013: HK$1,123 million) are expected to be recognised as income in the consolidated income statement after more than one year.

21. BANK LOANS

	Group		Company	
	2014 HK$ Million	2013 HK$ Million	**2014 HK$ Million**	2013 HK$ Million
Bank loans				
Due within 1 year or on demand, unsecured	**250**	500	**–**	–
Due after more than 1 year but not exceeding 2 years				
– secured	**6**	–	**–**	–
– unsecured	**–**	2,903	**–**	2,603
	6	2,903	**–**	2,603
Due after more than 2 years but not exceeding 5 years				
– secured	**–**	6	**–**	–
– unsecured	**4,162**	2,829	**2,250**	2,829
	4,162	2,835	**2,250**	2,829
Total	**4,418**	6,238	**2,250**	5,432

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

	Group		Company	
	2014 HK$ Million	2013 HK$ Million	**2014 HK$ Million**	2013 HK$ Million
HKD	**4,100**	2,500	**2,250**	2,200
RMB	**6**	6	**–**	–
USD	**312**	3,732	**–**	3,232
	4,418	6,238	**2,250**	5,432

(b) At 31 December 2014, the Group's banking facilities in the amount of HK$138 million (2013: HK$139 million) were secured by mortgage over the Group's certain properties under development for sale with an aggregate carrying value of HK$208 million (2013: HK$209 million).

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

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

22. DEFERRED TAXATION

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

	Group	
	2014 HK$ Million	2013 HK$ Million
Deferred tax liabilities	**35**	58
Deferred tax assets	**(19)**	(1)
Net deferred tax liabilities	**16**	57

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	Withholding tax for the possible dividend distribution HK$ Million	Deferred tax on unpaid tax HK$ Million	Others HK$ Million	Total HK$ Million
At 1 January 2013	14	(14)	55	(21)	2	36
(Credited)/charged to the consolidated income statement	(3)	12	(9)	22	–	22
Exchange adjustment	–	–	–	(1)	–	(1)
At 31 December 2013 and 1 January 2014	**11**	**(2)**	**46**	**–**	**2**	**57**
(Credited)/charged to the consolidated income statement	**3**	**–**	**(25)**	**–**	**(18)**	**(40)**
Exchange adjustment	**–**	**–**	**–**	**–**	**(1)**	**(1)**
At 31 December 2014	**14**	**(2)**	**21**	**–**	**(17)**	**16**

(b) Deferred tax assets not recognised

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

	2014		2013	
	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	**472**	**118**	550	138
Future benefit of tax losses				
– Hong Kong	**14**	**2**	14	2
– Mainland China	**72**	**18**	36	9
	86	**20**	50	11
	558	**138**	600	149

(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 2014. 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$14 million (2013: HK$13 million) as the availability of future taxable profits against which the assets can be utilised is uncertain as at 31 December 2014.

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

(a) Interest rate risk

The Group's main exposure to interest rate risk relates principally to the Group's 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 maintaining the floating/fixed rate mix appropriate to its current business portfolio.

As at 31 December 2014, all the Group's borrowings were at floating rate and the interest rate was approximately 2.9% per annum (2013: 1.9% per annum).

Based on the sensitivity analysis performed on 31 December 2014, it was estimated that a general decrease/increase of 1% (2013: 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$34 million (2013: decrease/increase HK$31 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 2013.

(b) Foreign currency risk

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

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

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

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

	Group		
	USD Million	RMB Million	JPY Million
At 31 December 2014			
Available-for-sale investments	160	–	–
Bank deposits and cash	4	–	–
Bank loans	(40)	–	–
Inter-company balances	4	66	–
Gross exposure arising from recognised assets and liabilities	128	66	–
Notional amount of forward foreign exchange contracts at fair value through profit or loss	(235)	–	–
Overall net exposure	(107)	66	–
At 31 December 2013			
Available-for-sale investments	140	–	–
Bank deposits and cash	3	–	–
Bank loans	(478)	–	–
Inter-company balances	(5)	66	–
Gross exposure arising from recognised assets and liabilities	(340)	66	–
Notional amount of forward foreign exchange contracts at fair value through profit or loss	(115)	–	(12,381)
Overall net exposure	(455)	66	(12,381)

At 31 December 2014, the Mainland China subsidiaries of the Group with RMB as their functional currency are exposed to foreign currency risk with respect to HKD/USD by holding HKD/USD denominated bank deposits and cash in the amount of HK$27 million (2013: HK$49 million).

As at 31 December 2014, the Company with HKD as their functional currency has USD denominated bank loan in the amount of USD Nil (2013: USD414 million).

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 changed 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 in movements in value of the USD against other currencies.

- a 5% (2013: 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$Nil (2013: HK$38 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 2013.

(c) Equity price risk

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

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

Based on the sensitivity analysis performed on 31 December 2014, it is estimated that a 5% (2013: 5%) increase/decrease in the market value of the Group's available-for-sale investments, with all other variables held constant, would not affect the Group's post-tax profit unless there were impairments but would increase/decrease the Group's total equity by HK$78 million (2013: HK$67 million). The analysis is performed on the same basis as for 2013.

(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 of the Company.

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

	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 2014					
Bank loans	(4,418)	(4,642)	(309)	(63)	(4,270)
Trade and other payables	(3,303)	(3,303)	(2,848)	(455)	–
Forward foreign exchange contracts at fair value through profit or loss	32	32	35	(3)	–
	(7,689)	(7,913)	(3,122)	(521)	(4,270)
At 31 December 2013					
Bank loans	(6,238)	(6,546)	(619)	(3,002)	(2,925)
Trade and other payables	(3,116)	(3,116)	(2,994)	(122)	–
Forward foreign exchange contracts at fair value through profit or loss	48	48	52	(1)	(3)
	(9,306)	(9,614)	(3,561)	(3,125)	(2,928)

	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 2014					
Bank loans	(2,250)	(2,382)	(33)	(33)	(2,316)
Trade and other payables	(3)	(3)	(2)	(1)	–
	(2,253)	(2,385)	(35)	(34)	(2,316)
At 31 December 2013					
Bank loans	(5,432)	(5,728)	(111)	(2,699)	(2,918)
Trade and other payables	(3)	(3)	(3)	–	–
	(5,435)	(5,731)	(114)	(2,699)	(2,918)

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 2014 was HK$2,192 million (2013: HK$836 million).

(e) Credit risk

The Group's credit risk is primarily attributable to rental, trade and other receivables, cash and cash equivalents and over-the-counter derivative financial instruments. The exposures to these credit risks are closely monitored on an ongoing basis by 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 26, the Group does not provide any other guarantee which would expose the Group or the Company to material credit risk.

(f) Fair values measurement

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy set out in Note 9(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 2014 categorised into		
	Level 1 HK$ Million	**Level 2 HK$ Million**	**Total HK$ Million**
Assets			
Available-for-sale investments:			
– Listed investments	1,550	–	1,550
Derivative financial instruments:			
– Forward foreign exchange contracts	–	80	80
– Other derivatives	4	–	4
	1,554	80	1,634
Liabilities			
Derivative financial instruments:			
– Forward foreign exchange contracts	–	48	48

	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	–	1,340
Derivative financial instruments:			
– Forward foreign exchange contracts	–	52	52
	1,340	52	1,392
Liabilities			
Derivative financial instruments:			
– Forward foreign exchange contracts	–	4	4

During the year, there were no transfers of instruments between Level 1 and Level 2, or transfer into or out of Level 3 (2013: Nil).

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

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

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

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

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2014 and 2013. 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 2014 and 2013 were as follows:

	Group	
	2014 HK$ Million	2013 HK$ Million
Total debts (Note 21)	**4,418**	6,238
Less: Bank deposits and cash (Note 18)	**(5,185)**	(5,825)
Net (cash)/debt	**(767)**	413
Shareholders' equity	**16,205**	15,381
Total equity	**17,246**	16,447
Net debt-to-shareholders' equity ratio	**N/A**	2.7%
Net debt-to-total equity ratio	**N/A**	2.5%

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 21(d).

24. CAPITAL AND RESERVES

(a) Share capital

	31 December 2014 No. of shares Million	31 December 2013 No. of shares Million	**31 December 2014 HK$ Million**	31 December 2013 HK$ Million
Issued and fully paid ordinary shares				
At 1 January	**709**	709	**354**	354
Transition to no-par value regime on 3 March 2014	**–**	–	**3,287**	–
At 31 December	**709**	709	**3,641**	354

As at 31 December 2013, 1,200 million ordinary shares, with par value of HK$0.5 each, were authorised for issue. Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concepts of "authorised share capital" and "par value" no longer exist. As part of the transition to the no-par value regime, the amount of the Company's issued and fully paid capital of HK$354 million, and the amount of HK$3,287 million standing to the credit of the share premium account on 3 March 2014 have become part of the Company's share capital, under the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622). These changes do not have an impact on the number of shares in issue or the relative entitlement of any of the members. The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(b) Share premium

Prior to 3 March 2014, the application of the share premium account was governed by section 48B of the predecessor Hong Kong Companies Ordinance (Cap. 32). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014 any amount standing to the credit of the share premium account has become part of the Company's share capital (see note (a)). The use of share capital as from 3 March 2014 is governed by the new Hong Kong Companies Ordinance (Cap. 622).

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

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

The revenue reserves for the Group at 31 December 2014 included HK$220 million (2013: HK$201 million) in respect of statutory reserves of the subsidiaries in Mainland China.

The company's equity and the details of the changes in the individual components between the beginning and the end of the year are set out below.

	Share capital HK$ Million	Share premium HK$ Million	Revenue reserve HK$ Million	Total equity HK$ Million
The Company				
At 1 January 2013	354	3,287	1,008	4,649
Profit and total comprehensive income	–	–	554	554
2012 second interim dividend paid	–	–	(340)	(340)
2013 first interim dividend paid	–	–	(85)	(85)
2013 special interim dividend paid	–	–	(128)	(128)
At 31 December 2013 and 1 January 2014	354	3,287	1,009	4,650
Profit and total comprehensive income	–	–	426	426
Transition to no-par value regime on 3 March 2014	3,287	(3,287)	–	–
2013 second interim dividend paid	–	–	(340)	(340)
2014 first interim dividend paid	–	–	(85)	(85)
At 31 December 2014	3,641	–	1,010	4,651

(d) Reserves of the Company available for distribution to shareholders at 31 December 2014 amounted to HK$1,010 million (2013: HK$1,009 million).

(e) After the end of the reporting period, the directors declared a second interim dividend of 48 HK cents per share (2013: 48 HK cents per share) amounting to HK$340 million (2013: HK$340 million). This dividend has not been recognised as a liability at the end of the reporting period.

25. 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 2014 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$53 million (2013: HK$55 million). Such transaction constitutes a connected transaction as defined under the Listing Rules. The disclosure required by Chapter 14A of the Listing Rules are provided in Section (l) of the Report of the Directors.

(b) There were in existence agreements with subsidiaries of the parent company for the property services in respect of the Group's property projects of subsidiaries. Total fees payable under this arrangement during the current year amounted to HK$125 million (2013: HK$60 million). Such transaction constitutes a connected transaction as defined under the Listing Rules. The disclosure required by Chapter 14A of the Listing Rules are provided in Section (I) of the 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 parent company is the settlor. The rental earned by the Group from such shops during the current year, including contingent rental income, amounted to HK$287 million (2013: HK$256 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

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

In addition to the above transactions, details of the Group's amounts due from and to related parties are disclosed in Note 12, 16 and 19 respectively.

26. CONTINGENT LIABILITIES

As at 31 December 2014, 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$2,192 million (2013: HK$836 million).

As at 31 December 2014, there were guarantees of HK$3,529 million (2013: HK$2,410 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$Nil (2013: HK$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.

27. COMMITMENTS

The Group's outstanding commitments as at 31 December 2014 are detailed as below:

	31 December 2014			31 December 2013		
	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	3	–	3	2	–	2
Mainland China	2,073	1,746	3,819	2,076	2,321	4,397
	2,076	1,746	3,822	2,078	2,321	4,399
Hotel						
Hong Kong	163	1,881	2,044	73	2,062	2,135
Mainland China	–	158	158	203	523	726
	163	2,039	2,202	276	2,585	2,861
Development Property						
Hong Kong	–	–	–	–	–	–
Mainland China	1,935	3,246	5,181	2,746	4,922	7,668
	1,935	3,246	5,181	2,746	4,922	7,668
Total						
Hong Kong	166	1,881	2,047	75	2,062	2,137
Mainland China	4,008	5,150	9,158	5,025	7,766	12,791
	4,174	7,031	11,205	5,100	9,828	14,928

The expenditure for development properties included attributable amounts for developments undertaken by joint ventures and associates of HK$2,781 million (2013: HK$3,105 million) in Mainland China.

28. CHANGES IN ACCOUNTING POLICIES

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued certain new and revised HKFRSs, amendments to HKFRSs and new interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

With effect from 1 January 2014, the Group has adopted the below amendments which are relevant to the Group's financial statements:

Amendments to HKAS 32	Financial instruments: Presentation – Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amounts disclosure for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuance of hedge accounting

Amendments to HKAS 32 clarified some of the requirements for offsetting financial assets and financial liabilities on the statement of financial position. The amendments do not have a significant impact on the Group's financial statements.

Amendments to HKAS 36 modified certain disclosure requirement for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset on cash generating units whose recoverable amount is based on fair value less costs of disposal. The amendments have no significant impact on the Group's financial statements.

Amendments to HKAS 39 provided relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments have no significant impact on the Group's financial statements.

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

The "Principal accounting policies" set out on pages 74 to 88 summarise the accounting policies of the Group and the Company after the adoption of these policies to the extent that they are relevant to the Group and the Company.

29. FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2014 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 19, Defined benefit plans: Employee Contributions	1 July 2014
Annual improvements to HKFRSs 2010-2012 cycle	1 July 2014
Annual improvements to HKFRSs 2011-2013 cycle	1 July 2014
Amendments to HKFRS 11, Accounting for acquisition of interests in joint operations	1 January 2016
Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortisation	1 January 2016
HKFRS 15, Revenue from contracts with customers	1 January 2017
HKFRS 9, Financial instruments	1 January 2018

The adoption of the amendments to HKFRS 11, HKAS 16, HKAS 19, HKAS 38 and the amendments under the Annual Improvements to HKFRSs 2010–2012 Cycle and HKRFSs 2011–2013 Cycle is not expected to have any material impact on the Group's consolidated financial statements. The Group is in the process of making an assessment on the impact of HKFRS 9 and HKFRS 15.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

30. 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 8.

31. PARENT AND ULTIMATE HOLDING COMPANY

The Directors consider the parent and ultimate holding company at 31 December 2014 to be The Wharf (Holdings) Limited and Wheelock and Company Limited respectively, both incorporated and listed in Hong Kong. Both The Wharf (Holdings) Limited and Wheelock and Company Limited produce financial statements available for public use.

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 11 March 2015.

Principal Accounting Policies

(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") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for Part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that 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 28 to the financial statements provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(B) Basis of preparation of the financial statements

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

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

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

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

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

(C) Basis of consolidation

(i) Subsidiaries and non-controlling interests

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

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

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

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

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

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

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note (F)(i)) 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 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)(i)), 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, in such case they are stated at cost less impairment (see Note (F)(ii)). Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in the consolidated income statement. Rental income from investment properties is accounted for as described in Note (P)(ii).

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

(ii) Hotel properties

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

(iii) Other 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 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 no more than 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 receivables whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in the consolidated income statement.

(ii) Impairment of other assets

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

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs 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 of disposal (if measurable), or value in use, if determinable.

– Reversal of impairment losses

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

– Interim financial reporting and impairment

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

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

(G) Leased assets

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

(i) Classification of leased assets

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

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

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

(ii) Assets held under operating lease

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

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

(H) Investments in debt and equity securities

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

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

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

(I) Inventories

(i) Completed properties for sale

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

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

(ii) Properties under development for sale

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

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

(iii) Hotel consumables

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

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

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

(J) Derivative financial instruments

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

(K) Trade and other receivables

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

(L) Interest bearing borrowings

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

(M) Trade and other payables

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

(N) Cash and cash equivalents

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

(O) Foreign currencies

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

The results of foreign operations are translated into Hong Kong dollars at the monthly weighted average exchange rates for the year. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. Differences arising from the translation of the financial statements of foreign operations are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve and those arising from the financing of properties under development by foreign currency borrowings are capitalised as part of the development costs. All other exchange differences are dealt with in the consolidated income statement.

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

(P) Recognition of revenue

Revenue is measured at the fair value of the consideration received or receivable with the same meaning as turnover. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is 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 23 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, changes in technology and operational and financing cash flows.

– *Income taxes*

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

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

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

– *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 2014

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	HK$1 divided into 1 share	100%	Hotel
Manniworth Company Limited	Hong Kong	HK$10,000 divided into 10,000 shares	100%	Property and finance
The Hongkong Hotel Limited	Hong Kong	HK$100,000 divided into 100,000 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 2014

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	RMB70,000,000	100%	Property
常州馬哥孛羅酒店有限公司 (Note (b))	The People's Republic of China	US$7,000,000	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 2014, 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 2014

Address	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
	Approximate Gross Floor Areas (sq.ft.)											
HONG KONG												
Investment Properties												
Marco Polo Hongkong Hotel (Commercial Section), Harbour City, Tsimshatsui	189,000	14,000	175,000	–	–	Note (a)	(a)	KML 91 S.A. & KML 10 S.B.	2863	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	2,989,000	2,558,000	–	181,000	250,000	(A 147-room hotel)	229,069	N/A	2047/77	2017	Superstructure in progress	80%
Hotel Property												
Marco Polo Changzhou 88 Hehai East Road, Xinbei District, Changzhou	474,000	–	–	–	474,000	(A 271-room hotel, serviced apartment and The Mansion)	842,531	N/A	2048	2014	N/A	100%
Development Properties												
Shanghai Xiyuan D1 of Xinjiangwancheng of Yangpu District, Shanghai	13,000	–	–	13,000	–		638,000	N/A	2077	2012	N/A	100%
Changzhou Times Palace China Dinosaur Park, Xinbei District, Jiangsu Province, Changzhou	3,224,000	–	–	3,224,000	–		3,585,273	N/A	2047/77	2016	Superstructure in progress	100%
Suzhou Times City Xiandai Da Dao, Suzhou Industrial Park, Suzhou	6,297,000	–	–	6,297,000	–		5,425,454	N/A	2077	2017	Superstructure in progress	80%
	9,534,000	–	–	9,534,000	–							
Development Properties (undertaken by joint venture/associates) – Note (b)												
The U World Zone B of Jiangbei City, Jiang Bei District, Chongqing	1,187,000	–	48,000	1,139,000	–		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	2020	Superstructure in progress	27%
	2,624,000	1,321,000	164,000	1,139,000	–							
MAINLAND TOTAL	**15,621,000**	**3,879,000**	**164,000**	**10,854,000**	**724,000**							
GROUP TOTAL	**16,756,800**	**3,893,000**	**389,800**	**10,854,000**	**1,620,000**							

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 362,000 sq.m. (3,899,000 sq. ft.) pre-sold areas have not yet been recognised in the financial statements.

Ten-Year Financial Summary

HK$ Million	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
Consolidated Income Statement										
Revenue	5,646	5,758	6,261	1,297	667	566	664	671	921	527
Core profit (Note a)	851	1,464	1,937	336	226	304	133	503	345	293
Profit attributable to shareholders	1,082	1,276	3,058	1,096	1,015	535	171	638	423	517
Dividends attributable to shareholders	425	553	680	170	142	142	95	129	91	54
Consolidated Statement of Financial Position										
Fixed assets	12,682	11,199	6,216	4,649	3,468	2,590	1,973	1,947	1,742	1,637
Interest in associates	2,059	1,925	–	–	–	–	1	1	1	15
Interest in joint ventures	2,127	2,162	2,082	1,769	1,757	1,651	2,587	1,965	–	–
Available-for-sale investments	1,550	1,340	1,541	1,119	1,744	1,193	604	2,517	1,490	923
Properties under development/for sale	4,979	7,376	7,822	8,717	7,335	6,473	4,972	985	5	240
Bank deposits and cash	5,185	5,825	7,731	5,842	3,522	1,124	1,258	585	1,840	1,520
Other assets	960	1,249	1,390	959	441	119	112	438	91	113
Total assets	29,542	31,076	26,782	23,055	18,267	13,150	11,507	8,438	5,169	4,448
Bank loans	(4,418)	(6,238)	(3,150)	(3,141)	(3,350)	(2,953)	(3,065)	(1,859)	–	–
Other liabilities	(7,878)	(8,391)	(8,069)	(7,635)	(3,477)	(320)	(679)	(634)	(391)	(352)
Net assets	17,246	16,447	15,563	12,279	11,440	9,877	7,763	5,945	4,778	4,096
Share capital: nominal value	–	354	354	354	354	354	236	158	158	158
Other statutory capital reserve	–	3,287	3,287	3,287	3,287	3,287	2,470	542	542	542
Share capital and other statutory capital reserve	3,641	3,641	3,641	3,641	3,641	3,641	2,706	700	700	700
Reserves	12,564	11,740	10,950	7,822	7,033	5,534	4,361	5,048	4,078	3,396
Shareholders' equity	16,205	15,381	14,591	11,463	10,674	9,175	7,067	5,748	4,778	4,096
Non-controlling interests	1,041	1,066	972	816	766	702	696	197	–	–
Total equity	17,246	16,447	15,563	12,279	11,440	9,877	7,763	5,945	4,778	4,096
Financial Data										
Per share data										
Earnings per share (HK$)										
– Core profit (Note a)	1.20	2.07	2.73	0.47	0.32	0.48	0.28	1.60	1.09	0.93
– Reported profit	1.53	1.80	4.31	1.55	1.43	0.84	0.36	2.03	1.34	1.64
Net assets value per share (HK$)	22.86	21.70	20.59	16.17	15.06	12.95	14.96	18.24	15.17	13.00
Dividends per share (HK cents)	60.00	78.00	96.00	24.00	20.00	20.00	20.00	29.00	29.00	17.00
Financial ratios										
Net debt to total equity (%)	N/A	2.5%	N/A	N/A	N/A	18.5%	23.3%	21.4%	N/A	N/A
Return on shareholders' equity (%) (Note b)	6.9%	8.5%	23.5%	9.9%	10.2%	6.6%	2.7%	11.1%	9.5%	13.6%
Dividend cover (Times)										
– Core profit (Note a)	2.0	2.6	2.8	2.0	1.6	2.1	1.4	3.9	3.8	5.5
– Reported profit	2.6	2.3	4.5	6.4	7.2	3.8	1.8	4.9	4.6	9.6
Interest cover (Times) (Note c)	7.3	17.4	52.2	20.1	11.0	12.0	5.1	37.5	N/A	N/A

Notes:

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

(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 EBITDA over finance costs (before capitalisation and fair value loss/gain).

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