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HARBOUR CENTRE DEVELOPMENT LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 51)

MAJOR TRANSACTION

In relation to the acquisition of a piece of land in Changzhou

A letter from the Board is set out on pages 4 to 7 of this circular.

31 January 2008

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DEFINITIONS

In this circular, unless the context otherwise requires, the following terms shall have the following meanings:

“Board”	board of Directors
“Changzhou Land”	a piece of land in Changzhou, the PRC with a site area of approximately 4,427,763 square feet and a total gross floor area of about 8,680,181 square feet located at 常州市新北區巫山路東側、中華恐龍園南側、規劃侏羅紀路西側、河海東路北側
“Changzhou Land Acquisition Transaction”	the successful bidding for the acquisition of the land use rights of the Changzhou Land on 28 December 2007
“Cheer Sky”	Cheer Sky Investment Limited, a wholly-owned subsidiary of the Company
“Chongqing and Suzhou Land Acquisition Transactions”	both of the Chongqing Land Acquisition Transaction and Suzhou Land Acquisition Transaction, together with formation of respective joint venture entities for development of the Chongqing Land and the Suzhou Land respectively
“Chongqing Land”	a piece of land in the central business district of Chongqing, the PRC with a site area of approximately 1,002,400 square feet located at Jiangbei City (江北城) of Jiangbei District (江北區) B02-1, B03-1, B03-2, B04-1, B04-3, B05-1, B05-3 號
“Chongqing Land Acquisition Transaction”	the successful bidding for the acquisition of the land use rights of the Chongqing Land on 24 September 2007
“Company”	Harbour Centre Development Limited (stock code: 51), a company incorporated in Hong Kong with limited liability and whose shares are listed on the Main Board. It is a 67%-owned subsidiary of Wharf
“Directors”	directors of the Company
“Greentown”	Greentown China Holdings Limited (stock code: 3900), a company incorporated with limited liability in the Cayman Islands and whose shares are listed on the Main Board
“Greentown Group”	Greentown together with its subsidiaries
“Group”	the Company together with its subsidiaries

DEFINITIONS

“Hangzhou Land”	a piece of land in Hangzhou, the PRC with a site area of approximately 900,000 square feet and a total gross floor area of about 3,195,000 square feet located at Qianjiang Central Business Development District 上城區 (規劃錢江新城望江區塊C-06，08，17，18地塊)，東至之江路，南至杭政儲出[2005] 41，42號地塊，西至富春江路，北至望江路
“Hangzhou Land Acquisition Transaction”	the successful bidding by the Greentown Group for the acquisition of the Hangzhou Land on 30 May 2007 (together with any subsequent amendments thereto)
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Latest Practicable Date”	25 January 2008, being the latest practicable date prior to the printing of this circular for ascertaining certain information of this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Main Board”	the stock exchange (excluding the option market) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
“PRC”	the People’s Republic of China
“SFO”	Securities and Futures Ordinance, Cap. 571 of the Laws of Hong Kong
“Shareholder(s)”	the shareholder(s) of the Company
“Share(s)”	the ordinary share(s) with par value of HK\$0.50 each in the share capital of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Suzhou Land”	certain landed properties in Suzhou, the PRC with a total site area of approximately 5,654,400 square feet located at Suzhou Industrial Park 湖東中央商貿區翠園路南，星湖街西 (for commercial use) and 現代大道北，鐘南街西 (for residential use)
“Suzhou Land Acquisition Transaction”	the successful bidding for the acquisition of the land use rights of the Suzhou Land on 9 October 2007
“Wharf”	The Wharf (Holdings) Limited (stock code: 4), a company incorporated in Hong Kong with limited liability and whose shares are listed on the Main Board.

DEFINITIONS

“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

Unless otherwise specified in this circular, amounts denominated in Renminbi have been converted, for the purpose of illustration only and as disclosed in the Company’s announcement dated 28 December 2007, into Hong Kong dollars at the rate of HK\$1.07 = RMB1.00. This exchange rate is for the purpose of illustration only and does not constitute a representation that any amount has been, could have been or may be converted at the above rate or any other rates.

LETTER FROM THE BOARD



HARBOUR CENTRE DEVELOPMENT LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 51)

Directors:

Gonzaga W. J. Li (*Chairman*)

T. Y. Ng

H. M. V. de Lacy Staunton*

Michael T. P. Sze*

M. K. Tan*

Registered Office:

16th Floor, Ocean Centre

Harbour City,

Canton Road, Kowloon,

Hong Kong

(Independent Non-executive Directors)*

31 January 2008

To the Shareholders

Dear Sir or Madam,

MAJOR TRANSACTION

In relation to the acquisition of a piece of land in Changzhou

INTRODUCTION

On 28 December 2007, Cheer Sky succeeded in bidding the Changzhou Land at a price of RMB1,470 million (equal to about HK\$1,572.9 million). The Group will develop the Changzhou Land into residential and hotel properties.

DETAILS OF THE TENDER

Bidding Date : 28 December 2007

Parties : Changzhou Municipal Bureau of Land and Resources as the vendor
Cheer Sky as the purchaser

Purpose : residential and hotel development of the Changzhou Land with a site area of about 4,427,763 square feet and a total gross floor area of about 8,680,181 square feet in accordance with the conditions of the bidding rules and regulations

LETTER FROM THE BOARD

CONSIDERATION AND PAYMENT TERMS

The total consideration amount for acquiring the land use rights of the Changzhou Land is RMB1,470 million (equal to about HK\$1,572.9 million), which was paid, or will be payable by cash instalments, in manner as follows:

Date of payment	Amount paid/payable
24 December 2007	RMB380 million (equal to about HK\$406.6 million) (being deposit for the bidding by way of a bid bond)
On or before 20 January 2008	RMB320 million (equal to about HK\$342.4 million)
On or before 20 April 2008	RMB550 million (equal to about HK\$588.5 million)
On or before 20 January 2009	RMB220 million (equal to about HK\$235.4 million)

Such consideration amount was the outcome of a public bidding held by Changzhou Municipal Bureau of Land and Resources on 28 December 2007 which was conducted in accordance with the relevant PRC laws and regulations. It was determined on the basis of an accommodation value of about RMB169 per square foot. The consideration will be partly funded from the Group's internal resources and partly funded by bank borrowings by the Group.

According to the aforesaid payment schedule, the Changzhou Land cost of RMB700 million (equal to about HK\$749.0 million) has become overdue, of which RMB380 million (equal to about HK\$406.6 million) had already been settled by the Group. The outstanding amount of RMB320 million (equal to about HK\$342.4 million) was originally scheduled to be payable on or before 20 January 2008. Since the registration of Wharf Estates (Changzhou) Company Limited (a wholly-owned subsidiary of the Company and the Group's project company in the PRC for the Changzhou Land Acquisition Transaction) pursuant to the PRC laws in relation to property development company is still pending approval by the Beijing Ministry of Commerce (北京商務部), the Group could not inject foreign currency into Wharf Estates (Changzhou) Company Limited in exchange for RMB for payment of the outstanding amount on schedule. The Group has applied to the Changzhou Municipal Bureau of Land and Resources for deferral of payment and the Changzhou Municipal Bureau of Land and Resources has approved to defer payment without any interest or penalty after the Group is able to exchange relevant foreign currency into RMB.

EXPECTED COMMENCEMENT AND COMPLETION DATE OF THE CHANGZHOU LAND DEVELOPMENT

Under the relevant land grant contracts for the Changzhou Land, construction work should commence before 30 December 2008. It is the current intention of the Group that, subject to compliance with all relevant laws and regulations in the PRC and terms of the relevant land grant contracts, the tentative commencement date of the Changzhou Land development will be in around third quarter of 2008. Depending on the actual progress of the Changzhou Land development going forward, it is currently expected that the project will be completed in around 2012.

LETTER FROM THE BOARD

REASONS FOR AND BENEFITS OF THE CHANGZHOU LAND ACQUISITION TRANSACTION

The Directors believe that the Changzhou Land development is a viable investment, will broaden the asset and earnings base of, and will be beneficial to the Company and its Shareholders as a whole. The Directors also consider that the terms of the Changzhou Land Acquisition Transaction are in the interests of the Company and its Shareholders, on normal commercial terms, and are fair and reasonable.

GENERAL

The principal business activities of the Group are ownership of hotels and properties and investment.

As at the date of this circular, the Board comprises Mr. Gonzaga W. J. Li and Mr. T. Y. Ng, together with three independent non-executive Directors, namely, Mr. H. M. V. de Lacy Staunton, Mr. Michael T. P. Sze and Mr. M. K. Tan.

REGULATORY ASPECTS

On the basis that one or more of the applicable percentage ratios in respect of the financial commitment under the Changzhou Land Acquisition Transaction is/are greater than 25% while all such ratios are less than 100% for the purposes of Rule 14.07 of the Listing Rules, the Changzhou Land Acquisition Transaction constitutes a major transaction for the Company under the Listing Rules.

Under the Listing Rules, the Changzhou Land Acquisition Transaction is also required to be subject to approval of shareholders of the Company. Under Rule 14.44 of the Listing Rules, a wholly-owned subsidiary of Wharf, holding approximately 67% shareholding interest in the Company, has given its consent to entering into the Changzhou Land Acquisition Transaction. On the basis that (i) to the best of the Directors' knowledge, information and belief having made reasonable enquiries, no Shareholder is required to abstain from voting if the Company were to convene a general meeting for approval of the Changzhou Land Acquisition Transaction; and (ii) the Company has obtained the written consent of a wholly-owned subsidiary of Wharf, holding approximately 67% shareholding interest in the Company, for the Changzhou Land Acquisition Transaction, the written approval from that shareholder of the Company in lieu of holding a physical shareholders' meeting is acceptable for approval of the Changzhou Land Acquisition Transaction.

FINANCIAL IMPACT OF THE CHANGZHOU LAND ACQUISITION TRANSACTION

Set out in Appendix I to this circular is the financial information of the Group together with unaudited pro forma financial information which illustrates the financial impact of the Changzhou Land Acquisition Transaction.

LETTER FROM THE BOARD

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

As a result of the completion of the Changzhou Land Acquisition Transaction, the Group, in addition to its existing principal business activities of ownership of hotels and properties and investment principally in Hong Kong, will expand its business interest in the PRC, including development of residential and hotel properties. The Group had previously entered into the Chongqing and Suzhou Land Acquisition Transactions on 24 September 2007 and 9 October 2007, respectively for property development. The Group had also entered into a joint venture agreement with the Greentown Group for the Hangzhou Land Acquisition Transaction on 17 October 2007. The Group expects the acquisition of the Changzhou Land together with the acquisition of the Chongqing Land, the Suzhou Land and the Hangzhou Land will benefit the Group due to the robust development and increase in demand in the property markets in the PRC.

ADDITIONAL INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of
HARBOUR CENTRE DEVELOPMENT LIMITED
Gonzaga W. J. Li
Chairman

I. SUMMARY FINANCIAL INFORMATION

The financial information for the interim results of the Group for the six months ended 30 June 2006 and 2007 have been extracted from the interim report of the Group for the six months ended 30 June 2007, the financial information for the annual results of the Group for the years ended 31 December 2004, 31 December 2005 and 31 December 2006 have been extracted from the respective published audited financial statements of the Group. The auditors have expressed an unqualified opinion on those financial statements in their report for the years ended 31 December 2004, 31 December 2005 and 31 December 2006, respectively.

(i) Results

	Year ended			Six months ended	
	31 December 2004	31 December 2005	31 December 2006	30 June 2006	30 June 2007
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i> (unaudited)	<i>HK\$ Million</i> (unaudited)
Turnover	445.0	526.8	920.9	483.0	324.1
Direct costs and operating expenses	(207.1)	(217.8)	(508.5)	(283.9)	(117.5)
Selling and marketing expenses	(16.6)	(19.1)	(41.7)	(22.8)	(11.0)
Depreciation and amortisation	(15.9)	(25.2)	(25.3)	(10.4)	(11.6)
Administrative and corporate expenses	(4.7)	(5.4)	(4.6)	(2.6)	(3.0)
Operating profit	200.7	259.3	340.8	163.3	181.0
Increase in fair value of investment properties	148.7	271.1	94.3	98.1	26.6
Other net income	20.9	42.6	48.7	43.1	38.0
	370.3	573.0	483.8	304.5	245.6
Share of profits less losses of associates	56.4	24.4	6.2	2.8	3.9
Profit before taxation	426.7	597.4	490.0	307.3	249.5
Taxation	(55.0)	(80.3)	(67.3)	(37.6)	(26.2)
Profit attributable to shareholders	<u>371.7</u>	<u>517.1</u>	<u>422.7</u>	<u>269.7</u>	<u>223.3</u>
Dividends	<u>53.6</u>	<u>53.6</u>	<u>91.4</u>	<u>15.8</u>	<u>15.8</u>
Earnings per share	<u>HK\$1.18</u>	<u>HK\$1.64</u>	<u>HK\$1.34</u>	<u>HK\$0.86</u>	<u>HK\$0.71</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****(ii) Assets and liabilities**

	31 December 2004	31 December 2005	31 December 2006	30 June 2007
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million (unaudited)</i>
Non-current assets				
Fixed assets				
Investment properties	973.0	1,561.0	1,663.0	1,690.0
Leasehold land	15.3	15.3	15.2	15.2
Other properties, plant and equipment	103.8	61.0	63.4	70.7
Interest in associates	42.4	14.6	0.8	0.2
Available-for-sale investments	820.4	922.8	1,490.0	2,163.7
Long term receivables	—	—	3.1	2.9
Employee benefits	8.7	4.4	6.7	6.4
	<u>1,963.6</u>	<u>2,579.1</u>	<u>3,242.2</u>	<u>3,949.1</u>
Current assets				
Inventories	3.4	243.5	7.6	7.4
Trade and other receivables	51.4	105.8	78.8	49.3
Cash and cash equivalents	1,737.5	1,519.6	1,840.2	1,469.1
	<u>1,792.3</u>	<u>1,868.9</u>	<u>1,926.6</u>	<u>1,525.8</u>
Current liabilities				
Trade and other payables	67.6	134.0	140.5	143
Taxation payable	19.0	9.1	22.6	35.5
	<u>86.6</u>	<u>143.1</u>	<u>163.1</u>	<u>178.5</u>
Net current assets	<u>1,705.7</u>	<u>1,725.8</u>	<u>1,763.5</u>	<u>1,347.3</u>
Total assets less current liabilities	<u>3,669.3</u>	<u>4,304.9</u>	<u>5,005.7</u>	<u>5,296.4</u>
Non-current liabilities				
Deferred income	5.2	1.6	0.8	—
Deferred taxation	158.5	207.0	226.9	232.4
	<u>163.7</u>	<u>208.6</u>	<u>227.7</u>	<u>232.4</u>
NET ASSETS	<u>3,505.6</u>	<u>4,096.3</u>	<u>4,778.0</u>	<u>5,064.0</u>
Capital and reserves				
Share capital	157.5	157.5	157.5	157.5
Reserves	3,348.1	3,938.8	4,620.5	4,906.5
TOTAL EQUITY	<u>3,505.6</u>	<u>4,096.3</u>	<u>4,778.0</u>	<u>5,064.0</u>

II. AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 31 DECEMBER 2006

Set out below are the audited consolidated profit and loss account, consolidated balance sheet, consolidated statement of recognised income and expense and consolidated cash flow statement of the Group and the balance sheet of the Company and notes to the financial statements reproduced from the audited financial statements published in the Company's annual report for the year ended 31 December 2006.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2006

	<i>Note</i>	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Turnover	1	920.9	526.8
Direct costs and operating expenses		(508.5)	(217.8)
Selling and marketing expenses		(41.7)	(19.1)
Depreciation and amortisation		(25.3)	(25.2)
Administrative and corporate expenses		<u>(4.6)</u>	<u>(5.4)</u>
Operating profit	2	340.8	259.3
Increase in fair value of investment properties		94.3	271.1
Other net income	3	<u>48.7</u>	<u>42.6</u>
		483.8	573.0
Share of profits less losses of associates		<u>6.2</u>	<u>24.4</u>
Profit before taxation	1	490.0	597.4
Taxation	4(b)	<u>(67.3)</u>	<u>(80.3)</u>
Profit attributable to shareholders	5	<u>422.7</u>	<u>517.1</u>
Dividends attributable to the year	6		
Interim dividend declared during the year		15.8	15.8
Final dividend proposed after the balance sheet date		<u>75.6</u>	<u>37.8</u>
		<u>91.4</u>	<u>53.6</u>
Earnings per share	7	<u>HK\$1.34</u>	<u>HK\$1.64</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****CONSOLIDATED BALANCE SHEET**

As at 31 December 2006

	<i>Note</i>	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Non-current assets			
Fixed assets	8		
Investment properties		1,663.0	1,561.0
Leasehold land		15.2	15.3
Other properties, plant and equipment		63.4	61.0
Interest in associates	10	0.8	14.6
Available-for-sale investments	11	1,490.0	922.8
Long term receivables	12	3.1	—
Employee benefits	13	6.7	4.4
		<u>3,242.2</u>	<u>2,579.1</u>
Current assets			
Inventories	14	7.6	243.5
Trade and other receivables	15	78.8	105.8
Cash and cash equivalents		1,840.2	1,519.6
		<u>1,926.6</u>	<u>1,868.9</u>
Current liabilities			
Trade and other payables	16	140.5	134.0
Taxation payable	4(d)	22.6	9.1
		<u>163.1</u>	<u>143.1</u>
Net current assets		<u>1,763.5</u>	<u>1,725.8</u>
Total assets less current liabilities		<u>5,005.7</u>	<u>4,304.9</u>
Non-current liabilities			
Deferred income	17	0.8	1.6
Deferred taxation	18	226.9	207.0
		<u>227.7</u>	<u>208.6</u>
NET ASSETS		<u>4,778.0</u>	<u>4,096.3</u>
Capital and reserves			
Share capital	19	157.5	157.5
Reserves	20(a)	4,620.5	3,938.8
TOTAL EQUITY		<u>4,778.0</u>	<u>4,096.3</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE**

For the year ended 31 December 2006

	<i>Note</i>	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Surplus on revaluation of available-for-sale investments			
- by Company/subsidiaries	20	309.8	133.4
Revaluation reserve transferred to the consolidated profit and loss account upon disposal of available-for-sale investments			
- by Company/subsidiaries	20	1.7	—
- by associates	20	—	(1.5)
Actuarial gains on defined benefit pension schemes	20	<u>1.1</u>	<u>3.5</u>
Net income recognised directly in equity		312.6	135.4
Profit attributable to shareholders	5	<u>422.7</u>	<u>517.1</u>
Total recognised income and expense		<u><u>735.3</u></u>	<u><u>652.5</u></u>

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2006

	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Operating activities		
Operating profit	340.8	259.3
Depreciation and amortisation	25.3	25.2
Dividend income from listed investments	(30.0)	(20.5)
Interest income	(61.3)	(41.1)
Operating profit before changes in working capital	274.8	222.9
Increase in deferred income	—	0.3
Increase in employee benefits	(1.2)	(0.4)
Decrease in property held for sale	230.8	—
Decrease/(increase) in hotel consumables	0.6	(0.1)
Decrease/(increase) in trade and other receivables	18.4	(32.9)
Increase in trade and other payables	7.1	31.0
Increase/(decrease) in amounts due to fellow subsidiaries (net)	10.1	(7.7)
Cash generated from operations	540.6	213.1
Interest received	60.8	40.4
Dividends received from associates	20.0	12.1
Dividend income from listed investments	29.7	20.5
Hong Kong profits tax paid	(33.9)	(41.7)
Net cash from operating activities	<u>617.2</u>	<u>244.4</u>
Investing activities		
Purchase of fixed assets	(31.7)	(476.4)
Net repayment from associates	—	38.7
Increase in long term receivables	(3.5)	—
Purchase of available-for-sale investments	(1,207.8)	—
Proceeds from sale of available-for-sale investments	1,000.0	29.0
Net cash used in investing activities	<u>(243.0)</u>	<u>(408.7)</u>
Financing activities		
Dividends paid	(53.6)	(53.6)
Net cash used in financing activities	<u>(53.6)</u>	<u>(53.6)</u>
Net increase/(decrease) in cash and cash equivalents	320.6	(217.9)
Cash and cash equivalents at 1 January	<u>1,519.6</u>	<u>1,737.5</u>
Cash and cash equivalents at 31 December	<u>1,840.2</u>	<u>1,519.6</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****COMPANY BALANCE SHEET**

As at 31 December 2006

	<i>Note</i>	2006 <i>HK\$ Million</i>	2005 <i>HK\$ Million</i>
Current assets			
Amounts due from subsidiaries	9	—	330.4
Trade and other receivables	15	1.4	1.0
Taxation recoverable		0.4	0.4
Cash and cash equivalents		<u>1,833.9</u>	<u>1,446.3</u>
		<u>1,835.7</u>	<u>1,778.1</u>
Current liabilities			
Amounts due to subsidiaries	9	840.0	786.7
Trade and other payables	16	<u>0.4</u>	<u>0.6</u>
		<u>840.4</u>	<u>787.3</u>
Net current assets		<u>995.3</u>	<u>990.8</u>
Non-current liabilities			
Deferred income	17	<u>0.8</u>	<u>1.6</u>
NET ASSETS		<u>994.5</u>	<u>989.2</u>
Capital and reserves			
Share capital	19	157.5	157.5
Reserves	20(b)	<u>837.0</u>	<u>831.7</u>
TOTAL EQUITY		<u>994.5</u>	<u>989.2</u>

NOTES TO THE FINANCIAL STATEMENTS

1. SEGMENT REPORTING

(a) Business segments

(i) Revenue and results

	Segment revenue		Segment results	
	2006	2005	2006	2005
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Hotel and restaurants	431.1	370.9	153.2	117.0
Property investment	120.2	94.3	104.3	83.0
Property development	278.3	—	(6.0)	—
Investments	91.3	61.6	89.3	59.3
	<u>920.9</u>	<u>526.8</u>	<u>340.8</u>	<u>259.3</u>
Increase in fair value of investment properties			94.3	271.1
Other net income			48.7	42.6
Property development			—	40.7
Investments			48.7	1.9
			<u>483.8</u>	<u>573.0</u>
Associates			6.2	24.4
Property development			6.2	23.2
Investments			—	1.2
			<u>—</u>	<u>1.2</u>
Profit before taxation			<u>490.0</u>	<u>597.4</u>

(ii) Assets and liabilities

	Assets		Liabilities	
	2006	2005	2006	2005
	HK\$ Million	HK\$ Million	HK\$ Million	HK\$ Million
Hotel and restaurants	132.1	144.8	82.0	69.0
Property investment	1,695.6	1,595.4	22.0	20.8
Property development	9.2	264.3	36.6	44.9
Investments	1,491.7	923.9	0.7	0.9
	<u>3,328.6</u>	<u>2,928.4</u>	<u>141.3</u>	<u>135.6</u>
Unallocated	1,840.2	1,519.6	249.5	216.1
	<u>1,840.2</u>	<u>1,519.6</u>	<u>249.5</u>	<u>216.1</u>
Total assets/liabilities	<u>5,168.8</u>	<u>4,448.0</u>	<u>390.8</u>	<u>351.7</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP**

Included in the property development segment is the Group's attributable interest in property development projects undertaken by associates, which totals HK\$0.8 million (2005: HK\$14.6 million).

(iii) *Other information*

	Capital expenditure		Depreciation and amortisation	
	2006	2005	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Hotel and restaurants	23.9	34.8	25.3	25.2
Property investment	7.8	308.7	—	—
Property development	<u>—</u>	<u>132.9</u>	<u>—</u>	<u>—</u>
Total	<u>31.7</u>	<u>476.4</u>	<u>25.3</u>	<u>25.2</u>

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

(b) **Geographical segments**

	Segment revenue		Segment results	
	2006	2005	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Hong Kong	896.0	507.4	315.9	239.9
Singapore	<u>24.9</u>	<u>19.4</u>	<u>24.9</u>	<u>19.4</u>
	<u>920.9</u>	<u>526.8</u>	<u>340.8</u>	<u>259.3</u>

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

2. OPERATING PROFIT

(a) Operating profit is arrived:

	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
After charging:		
Cost of inventories sold	291.7	26.5
Depreciation and amortisation	25.3	25.2
Staff costs	105.1	92.9
Including:		
Contributions to defined contribution pension schemes (after deducting forfeiture of the Group's contribution of HK\$0.4 million (2005: HK\$0.6 million))	2.3	3.1
Increase in liability for defined benefit pension schemes	<u>0.3</u>	<u>1.2</u>
Total pension cost	2.6	4.3
Auditors' remuneration	0.6	0.5
and crediting:		
Gross rental income from investment properties	120.2	94.3
Less: direct outgoings	<u>(12.3)</u>	<u>(8.4)</u>
	107.9	85.9
Interest income on bank deposits	61.3	41.1
Dividend income from listed investments	<u>30.0</u>	<u>20.5</u>

(b) Directors' emoluments

	Fees <i>HK\$000</i>	Basic salaries, housing and other allowances and benefits in kind <i>HK\$000</i>	Discretionary bonuses and/or performance related bonuses <i>HK\$000</i>	Retirement scheme contributions <i>HK\$000</i>	2006 Total <i>HK\$000</i>	2005 Total <i>HK\$000</i>
Executive director						
G. W. J. Li	30	780	—	—	810	810
Non-executive director						
T. Y. Ng	40	—	—	—	40	36
Independent non-executive directors						
B. S. Forsgate	40	—	—	—	40	40
H. M. V. de Lacy Staunton	30	—	—	—	30	30
M. K. Tan	40	—	—	—	40	40
Past Directors						
C. C. Haung	—	—	—	—	—	14
P. Y. C. Tsui	—	—	—	—	—	3
	<u>180</u>	<u>780</u>	<u>—</u>	<u>—</u>	<u>960</u>	<u>973</u>
Total for 2005	<u>193</u>	<u>780</u>	<u>—</u>	<u>—</u>		<u>973</u>

For the year under review, total emoluments (including any reimbursement of expenses), being wholly in the form of Directors' fees, were paid/payable at the rate of HK\$30,000 (2005: HK\$30,000) per annum to each Independent Non-executive Director of the Company. Additional fees of HK\$10,000 (2005: HK\$10,000) per annum were paid to each audit committee member.

(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 2006 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:

	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Basic salaries, housing allowances, and other allowances and benefits in kind	4.6	4.4
Retirement scheme contributions	0.3	0.3
Discretionary bonuses and/or performance-related bonuses	0.5	0.5
Compensation for loss of office	—	—
Inducement for joining the Group	—	—
	<u>5.4</u>	<u>5.2</u>

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

	2006	2005
	<i>Number of individuals</i>	<i>Number of individuals</i>
Bands (in HK\$)		
Not more than \$1,000,000	1	2
\$1,000,001 - \$1,500,000	4	3
\$1,500,001 - \$2,000,000	—	—

3. OTHER NET INCOME

	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Release of deferred income	0.8	3.9
Profit/(loss) on disposal of available-for-sale investments (including HK\$1.7 million (2005: HK\$Nil) transferred from the investments revaluation reserve)	47.9	(2.0)
Write-back of provision for impairment in value of property held for redevelopment	—	40.7
	<u>48.7</u>	<u>42.6</u>

4. TAXATION

(a) The provision for Hong Kong profits tax is based on the profit for the year as adjusted for tax purposes at the rate of 17.5% (2005: 17.5%).

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

	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Current taxation		
Provision for Hong Kong profits tax for the year	47.6	31.8
Overprovision in respect of prior years	(0.2)	—
	<u>47.4</u>	<u>31.8</u>
Deferred taxation		
Origination and reversal of temporary differences	3.4	1.1
Change in fair value of investment properties	16.5	47.4
	<u>19.9</u>	<u>48.5</u>
Total tax charge	<u>67.3</u>	<u>80.3</u>

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

	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Profit before taxation	<u>490.0</u>	<u>597.4</u>
Notional tax on accounting profit calculated at applicable tax rates	85.8	104.5
Tax effect of non-deductible expenses	2.6	1.2
Tax effect of non-taxable revenue	(20.9)	(25.4)
Overprovision in respect of prior years	(0.2)	—
Actual total tax charge	<u>67.3</u>	<u>80.3</u>

(d) None of the taxation payable in the consolidated balance sheet is expected to be settled after more than one year.

5. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders for the year is dealt with in the financial statements of the Company to the extent of HK\$58.9 million (2005: HK\$174.2 million).

6. DIVIDENDS**(a) Dividends attributable to the year**

	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Interim dividend declared and paid of 5.0 cents (2005: 5.0 cents) per share	15.8	15.8
Final dividend of 24.0 cents proposed after the balance sheet date (2005: 12.0 cents) per share	<u>75.6</u>	<u>37.8</u>
	<u>91.4</u>	<u>53.6</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Final dividend in respect of the previous financial year, approved and paid during the year, of 12.0 cents per share (2005: 12.0 cents per share)	<u>37.8</u>	<u>37.8</u>

7. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the year of HK\$422.7 million (2005: HK\$517.1 million) and on 315.0 million (2005: 315.0 million) ordinary shares in issue throughout the year ended 31 December 2006. For the year under review and the preceding year, there is no difference between the basic and diluted earnings per share.

8. FIXED ASSETS

	Group					Total HK\$ Million
	Property held		Hotel property HK\$ Million	Other fixed assets HK\$ Million	Leasehold land HK\$ Million	
	Investment properties HK\$ Million	for redev- lopment HK\$ Million				
(a) Cost or valuation						
Balance at 1 January 2005	973.0	57.9	67.2	155.9	15.9	1,269.9
Additions	316.9	141.4	16.3	24.0	—	498.6
Disposals	—	—	—	(21.8)	—	(21.8)
Provision for impairment written back	—	40.7	—	—	—	40.7
Reclassification	—	(240.0)	—	—	—	(240.0)
Revaluation surplus	271.1	—	—	—	—	271.1
Balance at 31 December 2005 and at 1 January 2006	1,561.0	—	83.5	158.1	15.9	1,818.5
Additions	7.7	—	2.1	25.5	—	35.3
Disposals	—	—	—	(22.3)	—	(22.3)
Revaluation surplus	94.3	—	—	—	—	94.3
Balance at 31 December 2006	<u>1,663.0</u>	<u>—</u>	<u>85.6</u>	<u>161.3</u>	<u>15.9</u>	<u>1,925.8</u>
Accumulated depreciation and amortisation						
Balance at 1 January 2005	—	—	55.5	121.7	0.6	177.8
Charge for the year	—	—	5.8	19.4	—	25.2
Written back on disposals	—	—	—	(21.8)	—	(21.8)
Balance at 31 December 2005 and at 1 January 2006	—	—	61.3	119.3	0.6	181.2
Charge for the year	—	—	6.2	19.0	0.1	25.3
Written back on disposals	—	—	—	(22.3)	—	(22.3)
Balance at 31 December 2006	<u>—</u>	<u>—</u>	<u>67.5</u>	<u>116.0</u>	<u>0.7</u>	<u>184.2</u>
Net book value						
At 31 December 2006	<u>1,663.0</u>	<u>—</u>	<u>18.1</u>	<u>45.3</u>	<u>15.2</u>	<u>1,741.6</u>
At 31 December 2005	<u>1,561.0</u>	<u>—</u>	<u>22.2</u>	<u>38.8</u>	<u>15.3</u>	<u>1,637.3</u>

8. FIXED ASSETS (CONTINUED)

	Group						Total HK\$ Million	
	Investment properties HK\$ Million	Property held for redeve- lopment HK\$ Million	Hotel property HK\$ Million	Other fixed assets HK\$ Million	Leasehold land HK\$ Million			
(b) The analysis of cost or valuation of the above assets is as follows:								
2006 valuation	1,663.0	—	—	—	—		1,663.0	
Cost less provisions	<u>—</u>	<u>—</u>	<u>85.6</u>	<u>161.3</u>	<u>15.9</u>		<u>262.8</u>	
	<u>1,663.0</u>	<u>—</u>	<u>85.6</u>	<u>161.3</u>	<u>15.9</u>		<u>1,925.8</u>	
2005 valuation	1,561.0	—	—	—	—		1,561.0	
Cost less provisions	<u>—</u>	<u>—</u>	<u>83.5</u>	<u>158.1</u>	<u>15.9</u>		<u>257.5</u>	
	<u>1,561.0</u>	<u>—</u>	<u>83.5</u>	<u>158.1</u>	<u>15.9</u>		<u>1,818.5</u>	
(c) Tenure of title to properties at cost or valuation:								
Long term lease held in Hong Kong								
Over 50 years	<u>1,663.0</u>	<u>—</u>	<u>85.6</u>	<u>—</u>	<u>15.9</u>		<u>1,764.5</u>	

(d) **Properties valuation**

The Group's investment properties in Hong Kong have been revalued as at 31 December, 2006 by Knight Frank Petty Limited, an independent firm of professional surveyors, on an open market value basis. The surplus or deficit arising on revaluation is recognised directly in the consolidated profit and loss account.

(e) **Properties schedule at 31 December 2006**

Address	Lot number	Year of completion	Stage of completion	Lease expiry	Approximate gross floor areas		Usage	Attributable interest
					Site area (sq.ft.)	(sq.ft.)		
Investment properties								
The Marco Polo Hongkong Hotel (Commercial Section) Harbour City	KML 91 S.A. & KML 10	1969	Completed	2863	*	34,000	Office	100%
Tsimshatsui	S.B.					136,700	Retail	100%
Various units at Star House Tsimshatsui	KML 10 S.A.	1966	Completed	2863	N/A	50,780	Retail	100%
Hotel property								
The Marco Polo Hongkong Hotel Harbour City Tsimshatsui	KML 91 S.A. & KML 10 S.B.	1969	Completed	2863	58,814	664 rooms	Hotel	100%

* This investment property forms part of The Marco Polo Hongkong Hotel.

8. FIXED ASSETS (CONTINUED)

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

Contingent rental income earned by the Group for the year amounted to HK\$27.4 million (2005: HK\$21.6 million).

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

	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Within 1 year	68.6	80.2
After 1 year but within 5 years	<u>65.9</u>	<u>126.1</u>
	<u><u>134.5</u></u>	<u><u>206.3</u></u>

9. AMOUNTS DUE FROM/TO SUBSIDIARIES

The amounts due from/to subsidiaries are unsecured, recoverable/repayable on demand and interest free.

Details of subsidiaries at 31 December 2006 are shown on page I-40.

10. INTEREST IN ASSOCIATES

	Group	
	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Share of net tangible assets	<u>0.8</u>	<u>14.6</u>
	<u><u>0.8</u></u>	<u><u>14.6</u></u>

10. INTEREST IN ASSOCIATES (CONTINUED)

Details of associates at 31 December 2006 are shown on page I-40.

(a) Summary financial information on associates:

	2006		2005	
	Total	Attributable	Total	Attributable
	HK\$ Million	interest	HK\$ Million	interest
		HK\$ Million		HK\$ Million
Assets	273.8	54.8	388.1	77.6
Liabilities	<u>(270.0)</u>	<u>(54.0)</u>	<u>(315.1)</u>	<u>(63.0)</u>
Equity	<u>3.8</u>	<u>0.8</u>	<u>73.0</u>	<u>14.6</u>
Revenues	<u>49.3</u>	<u>9.9</u>	<u>215.2</u>	<u>43.0</u>
Profit before taxation	35.8	7.2	140.8	28.9
Taxation	<u>(5.0)</u>	<u>(1.0)</u>	<u>(22.3)</u>	<u>(4.5)</u>
Profit after taxation	<u>30.8</u>	<u>6.2</u>	<u>118.5</u>	<u>24.4</u>

11. AVAILABLE-FOR-SALE INVESTMENTS

	Group	
	2006	2005
	HK\$ Million	HK\$ Million
Listed investments in Hong Kong	276.7	23.5
Listed investments outside Hong Kong	1,172.3	870.0
Unlisted investments	<u>41.0</u>	<u>29.3</u>
	<u>1,490.0</u>	<u>922.8</u>
Market value of listed investments	<u>1,449.0</u>	<u>893.5</u>

11. AVAILABLE-FOR-SALE INVESTMENTS (CONTINUED)

Included in the above equity securities are investments in a listed company, the carrying value of which constituted more than 10% of the Group's total assets at 31 December 2006. Details of this listed company are shown as follows:

Name of company	Place of incorporation	Percentage of total issued ordinary shares held
Hongkong Land Holdings Limited	Bermuda	1.55 %

12. LONG TERM RECEIVABLES

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

13. EMPLOYEE BENEFITS**(a) Defined benefit pension schemes**

	Group	
	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Defined benefit pension schemes	<u>6.7</u>	<u>4.4</u>

The Group makes contributions to defined benefit pension schemes that provide pension benefits for certain employees upon retirement. The assets of the schemes are held separately by independently administered funds. The schemes are funded by contribution from both employers and employees, which are in accordance with recommendations made by actuaries based on their valuation. The latest valuations of the schemes as at 31 December, 2006 were performed either internally or by Watson Wyatt Hong Kong Limited, using the projected unit credit method with funding ratios 110.1% and 108.3% respectively.

(i) The amount recognised in the consolidated balance sheet is as follows:

	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Present value of funded obligations	(76.9)	(60.2)
Fair value of scheme assets	<u>83.6</u>	<u>64.6</u>
	<u>6.7</u>	<u>4.4</u>

13. EMPLOYEE BENEFITS (CONTINUED)

(ii) Scheme assets consist of the following:

	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Equity securities	61.0	35.9
Debt securities	18.4	26.3
Deposits and cash	<u>4.2</u>	<u>2.4</u>
	<u>83.6</u>	<u>64.6</u>

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

	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
At 1 January	60.2	68.3
Net benefits paid and transferred	5.1	(11.2)
Employee contributions	0.6	0.6
Current service cost	2.3	3.1
Interest cost	2.5	2.6
Actuarial losses/(gains)	<u>6.2</u>	<u>(3.2)</u>
At 31 December	<u>76.9</u>	<u>60.2</u>

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

	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
At 1 January	64.6	68.8
Contributions paid	1.5	1.6
Net benefits paid and transferred	5.1	(11.2)
Employee contributions	0.6	0.6
Expected return on scheme assets	4.5	4.7
Actuarial gains	<u>7.3</u>	<u>0.1</u>
At 31 December	<u>83.6</u>	<u>64.6</u>

13. EMPLOYEE BENEFITS (CONTINUED)

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

	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Current service cost	2.3	3.1
Interest cost	2.5	2.6
Expected return on scheme assets	(4.5)	(4.7)
Net actuarial losses recognised	<u>—</u>	<u>0.2</u>
	<u>0.3</u>	<u>1.2</u>

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

	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Direct costs and operating expenses	0.2	1.0
Selling and marketing expenses	<u>0.1</u>	<u>0.2</u>
	<u>0.3</u>	<u>1.2</u>
Actual return on scheme assets	<u>11.8</u>	<u>4.9</u>

(vi) The principal actuarial assumptions used as at 31 December 2006 (expressed as a range) are as follows:

	2006	2005
Discount rate at 31 December	3.75-5%	4.25-5%
Expected rate of return on scheme assets	5-8%	5-8%
Future salary increases	2006 2007 onwards	N/A 2-4% 2-4%

13. EMPLOYEE BENEFITS (CONTINUED)

(vii) Historical information:

	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Present value of the defined benefit obligations	(76.9)	(60.2)
Fair value of scheme assets	<u>83.6</u>	<u>64.6</u>
Surplus in the schemes	<u>6.7</u>	<u>4.4</u>
Experience adjustments arising on scheme liabilities	<u>3.5</u>	<u>(2.0)</u>
Experience adjustments arising on scheme assets	<u>7.3</u>	<u>0.1</u>

(viii) The Group recognised actuarial gains amounted to HK\$1.1 million (2005: HK\$3.5 million) for the year ended 31 December 2006 directly in the consolidated statement of recognised income and expense. The cumulative amount of actuarial losses recognised amounted to HK\$3.6 million (2005: HK\$4.7 million) as at 31 December 2006.

(b) **Defined contribution pension schemes**

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

14. INVENTORIES

	Group	
	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Property held for sale/under development for sale	4.7	240.0
Hotel consumables	<u>2.9</u>	<u>3.5</u>
	<u>7.6</u>	<u>243.5</u>

(a) Property under development for sale is stated at the lower of cost and net realisable value. The total carrying value of property stated at net realisable value at 31 December 2006 was HK\$4.7 million (2005: HK\$240.0 million).

(b) At 31 December 2006, the carrying value of long term leasehold land situated in Hong Kong included in property held for sale was HK\$2.8 million (2005: property under development for sale, HK\$158.5 million).

15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	2006	2005	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Trade debtors				
Due within 30 days	48.4	39.3	—	—
Due after 30 days but within 60 days	6.6	2.5	—	—
Due after 60 days but within 90 days	0.9	0.1	—	—
Over 90 days	—	0.1	—	—
	<u>55.9</u>	<u>42.0</u>	<u>—</u>	<u>—</u>
Other receivables	12.2	49.5	1.4	1.0
Amounts due from fellow subsidiaries	<u>10.7</u>	<u>14.3</u>	<u>—</u>	<u>—</u>
	<u>78.8</u>	<u>105.8</u>	<u>1.4</u>	<u>1.0</u>

The Group has defined credit policies for each of its core business. The general credit terms allowed range from 0 to 60 days. The amounts due from fellow subsidiaries are unsecured, interest free and recoverable on demand. The above includes deposits paid amounting to HK\$0.7 million (2005: HK\$0.9 million) which are expected to be recovered after one year.

16. TRADE AND OTHER PAYABLES

	Group		Company	
	2006	2005	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Trade creditors				
Due within 30 days	14.0	11.2	—	—
Due after 30 days but within 60 days	5.6	3.9	—	—
Due after 60 days but within 90 days	—	0.4	—	—
Over 90 days	—	—	—	—
	<u>19.6</u>	<u>15.5</u>	<u>—</u>	<u>—</u>
Other payables and provisions	81.8	88.5	0.4	0.6
Amounts due to fellow subsidiaries	11.3	4.8	—	—
Amounts due to associate	<u>27.8</u>	<u>25.2</u>	<u>—</u>	<u>—</u>
	<u>140.5</u>	<u>134.0</u>	<u>0.4</u>	<u>0.6</u>

The amounts due to fellow subsidiaries and an associate are unsecured, interest free and repayable on demand. The above includes deposits received amounting to HK\$16.5 million (2005: HK\$18.6 million) which are expected to be settled after one year.

17. DEFERRED INCOME

The movements of deferred income of the Group and Company are as follows:

	Group and Company	
	2006	2005
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
Balance at 1 January	1.6	5.2
Additions	—	0.3
Credited to the consolidated profit and loss account	<u>(0.8)</u>	<u>(3.9)</u>
Balance at 31 December	<u><u>0.8</u></u>	<u><u>1.6</u></u>

18. DEFERRED TAXATION

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

	Group			Total
	Depreciation allowances in excess of the related depreciation	Revaluation of investment properties	Retirement scheme assets	
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	
	<i>Million</i>	<i>Million</i>	<i>Million</i>	
Balance at 1 January 2005	12.9	144.1	1.5	158.5
Charged to the consolidated profit and loss account	<u>1.1</u>	<u>47.4</u>	<u>—</u>	<u>48.5</u>
Balance at 31 December 2005 and at 1 January 2006	14.0	191.5	1.5	207.0
Charged/(credited) to the consolidated profit and loss account	<u>3.7</u>	<u>16.5</u>	<u>(0.3)</u>	<u>19.9</u>
Balance at 31 December 2006	<u><u>17.7</u></u>	<u><u>208.0</u></u>	<u><u>1.2</u></u>	<u><u>226.9</u></u>

(b) No deferred tax assets and liabilities have been recognised by the Company as there were no material temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding tax bases at 31 December 2006 and 2005.

APPENDIX I
FINANCIAL INFORMATION OF THE GROUP
19. SHARE CAPITAL

	2006		2005	
	<i>No. of shares Million</i>	<i>HK\$ Million</i>	<i>No. of shares Million</i>	<i>HK\$ Million</i>
Authorised				
Ordinary shares of HK\$0.50 each	<u>380.0</u>	<u>190.0</u>	<u>380.0</u>	<u>190.0</u>
Issued and fully paid				
Ordinary shares of HK\$0.50 each	<u>315.0</u>	<u>157.5</u>	<u>315.0</u>	<u>157.5</u>

20. RESERVES

	Share premium	Investments revaluation reserve	Revenue reserve	Total
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
(a) The Group				
Balance at 1 January 2005	542.0	272.5	2,525.4	3,339.9
Net income recognised directly in equity				
Surplus on revaluation of available-for-sale investments	—	133.4	—	133.4
Transferred to the consolidated profit and loss account on disposal of available-for-sale investments				
- Associate	—	(1.5)	—	(1.5)
Actuarial gains on defined benefit pension schemes	<u>—</u>	<u>—</u>	<u>3.5</u>	<u>3.5</u>
	—	131.9	3.5	135.4
Profit for the year	<u>—</u>	<u>—</u>	<u>517.1</u>	<u>517.1</u>
Total recognised income and expense	—	131.9	520.6	652.5
Dividend approved in respect of the previous year	—	—	(37.8)	(37.8)
Dividend declared in respect of the current year	<u>—</u>	<u>—</u>	<u>(15.8)</u>	<u>(15.8)</u>
Balance at 31 December 2005	<u>542.0</u>	<u>404.4</u>	<u>2,992.4</u>	<u>3,938.8</u>
Balance at 1 January 2006	542.0	404.4	2,992.4	3,938.8
Net income recognised directly in equity				
Surplus on revaluation of available-for-sale investments	—	309.8	—	309.8
Transferred to the consolidated profit and loss account on disposal of available-for-sale investments	—	1.7	—	1.7
Actuarial gains on defined benefit pension schemes	<u>—</u>	<u>—</u>	<u>1.1</u>	<u>1.1</u>

20. RESERVES (CONTINUED)

	Share premium <i>HK\$ Million</i>	Investments revaluation reserve <i>HK\$ Million</i>	Revenue reserve <i>HK\$ Million</i>	Total <i>HK\$ Million</i>
Profit for the year	—	311.5	1.1	312.6
	<u>—</u>	<u>—</u>	<u>422.7</u>	<u>422.7</u>
Total recognised income and expense	—	311.5	423.8	735.3
Dividend approved in respect of the previous year	—	—	(37.8)	(37.8)
Dividend declared in respect of the current year	<u>—</u>	<u>—</u>	<u>(15.8)</u>	<u>(15.8)</u>
Balance at 31 December 2006	<u>542.0</u>	<u>715.9</u>	<u>3,362.6</u>	<u>4,620.5</u>
(b) The Company				
Balance at 1 January 2005	542.0	—	169.1	711.1
Profit for the year	—	—	174.2	174.2
Dividend approved in respect of the previous year	—	—	(37.8)	(37.8)
Dividend declared in respect of the current year	<u>—</u>	<u>—</u>	<u>(15.8)</u>	<u>(15.8)</u>
Balance at 31 December 2005 and at 1 January 2006	542.0	—	289.7	831.7
Profit for the year	—	—	58.9	58.9
Dividend approved in respect of the previous year	—	—	(37.8)	(37.8)
Dividend declared in respect of the current year	<u>—</u>	<u>—</u>	<u>(15.8)</u>	<u>(15.8)</u>
Balance at 31 December 2006	<u>542.0</u>	<u>—</u>	<u>295.0</u>	<u>837.0</u>

(i) The application of the share premium account is governed by Section 48B of the Hong Kong Companies Ordinance. The investments revaluation reserve has been set up and will be dealt with in accordance with the accounting policies adopted by the Group for the revaluation of available-for-sale investments.

(ii) Reserves of the Company available for distribution to shareholders at 31 December 2006 amounted to HK\$295.0 million (2005: HK\$289.7 million).

21. MATERIAL RELATED PARTY TRANSACTIONS

- (a) During the financial year, there was in existence a management agreement with a subsidiary of the ultimate holding company for the management of the Group's hotel operations. Fees payable under this arrangement during the current year amounted to HK\$34.2 million (2005: HK\$28.1 million) which included management fees of HK\$28.4 million (2005: HK\$23.2 million) and marketing fees of HK\$5.8 million (2005: HK\$4.9 million). The management fees included a basic fee and an incentive fee which are calculated based on the relevant percentage of gross revenue and gross operating profit respectively. The marketing fee is calculated based on a percentage of gross revenue. The management agreement, entered into on 2 January 2004, and the relevant transactions thereunder constitute connected transactions as defined under the Listing Rules but are exempted under the provisions of the Listing Rules which were in force prior to 31 March 2004 from the requirements relating to connected transactions.
- (b) The Group has a tenancy agreement with Lane Crawford (Hong Kong) Limited, which is indirectly wholly owned by a trust of which the chairman of the Company's ultimate holding company is the settlor, in respect of the lease of shops situated on G/F, 1/F & 2/F of The Marco Polo Hongkong Hotel. The duration of tenancy is from 11 April 2003 to 10 April 2009. The rental income earned by the Group from the above agreement during the current year, including contingent rental income, amounted to HK\$73.8 million (2005: HK\$61.7 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

22. CONTINGENT LIABILITIES

As at 31 December 2006, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to bank overdrafts and credit facilities up to HK\$3.1 million (2005: HK\$41.5 million). At 31 December 2005, HK\$38.4 million of such facilities was secured by a deposit with bank of HK\$38.4 million.

23. COMMITMENTS

Capital commitments outstanding at 31 December 2006 not provided for in the financial statements were as follows:

	Group	
	2006	2005
	<i>HK\$</i>	<i>HK\$</i>
	<i>Million</i>	<i>Million</i>
Contracted but not provided for	78.9	27.4
Authorised but not contracted for	<u>4.6</u>	<u>6.2</u>
	<u><u>83.5</u></u>	<u><u>33.6</u></u>

24. POST BALANCE SHEET EVENTS

After the balance sheet date the directors proposed a final dividend. Further details are disclosed in Note 6(a).

25. FINANCIAL INSTRUMENTS

Exposure to credit, liquidity and foreign currency risks arises in the normal course of the Group's business.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place in each of its core business and the exposures to these credit risks are monitored on an ongoing basis. The Group does not have a significant concentration of credit risk.

(b) Liquidity risk

The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(c) Foreign currency risk

The Group has no significant exposure to foreign currency risk as substantially all of the Group's transactions are denominated in Hong Kong dollars.

(d) Fair value

The fair values of debtors, bank balances and other liquid funds, creditors and accruals and current provisions approximate their carrying amounts due to the short-term maturities of these assets and liabilities.

26. ACCOUNTING ESTIMATES AND JUDGEMENTS**(a) Key sources of estimation uncertainty**

Note 13 contains information about the assumptions and their risk factors relating to defined benefit pension scheme obligations. Other key sources of estimation uncertainty are as follows:

— *Valuation of investment properties*

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

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

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

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

26. ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

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

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

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

27. FUTURE CHANGES IN ACCOUNTING POLICIES

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations that may impact the Group's financial statements. These new statements have not been adopted since they are only effective after 31 December 2006.

	Effective for accounting periods beginning on or after
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendments to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

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

28. PARENT AND ULTIMATE HOLDING COMPANY

The parent and ultimate holding company is The Wharf (Holdings) Limited, a company incorporated and listed in Hong Kong.

29. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Directors on 7 March 2007.

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"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the principal accounting policies adopted by the Group is set out below.

(B) *Basis of preparation of the financial statement*

The consolidated financial statements for the year ended 31 December 2006 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates.

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

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment are discussed in Note 26.

(C) *Basis of consolidation***(i) *Subsidiaries and controlled companies***

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

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

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

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

(ii) *Associates*

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

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

(C) *Basis of consolidation (Continued)*

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate. If there is evidence of impairment in value of the assets transferred, the unrealised losses will be recognised immediately in the consolidated profit and loss account.

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

(iii) *Goodwill*

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

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

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

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

(D) *Fixed assets*

(i) *Investment properties*

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

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

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

(ii) *Hotel property*

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

(D) **Fixed assets (Continued)**

(iii) *Other fixed assets*

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

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

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

(E) **Depreciation of fixed assets**

(i) *Investment properties*

No depreciation is provided on investment properties.

(ii) *Hotel property*

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

(iii) *Other fixed assets*

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

(F) **Impairment of assets**

(i) *Impairment of financial assets*

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

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

(F) Impairment of assets(Continued)

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

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

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

(G) Leased assets**(i) Classification of leased assets**

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

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

(ii) Assets held for use in operating leases

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

(G) *Leased assets (Continued)*

(iii) *Operating lease charges*

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

(H) *Available-for-sale investments*

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

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

(I) *Inventories*

(i) *Property held for sale*

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

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

(ii) *Hotel consumables*

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

(I) Inventories (Continued)

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) Trade and other receivables

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

(K) Trade and other payables

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

(L) Cash and cash equivalents

The Group defines cash and cash equivalents as cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, which were within three months of maturity at acquisition.

(M) 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 are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange differences arising from the above are dealt with in the consolidated profit and loss account.

(N) Recognition of revenue

- (i) Income from hotel operations is recognised at the time when the services are rendered.
- (ii) Rental income under operating leases is recognised in the consolidated profit and loss account in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased assets. Lease incentives granted are recognised in the consolidated profit and loss account as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.
- (iii) Interest income from bank deposits is recognised as it accrues using the effective interest method.
- (iv) Interest on a loan advanced to an associate involved in a property development project is deferred and is recognised when the associate starts to generate profit from the property development project based on the percentage of total area sold to the total area available for sale.
- (v) Dividend income from investments is recognised when the shareholder's right to receive the payment is established.

(N) **Recognition of revenue (Continued)**

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

(O) **Borrowing costs**

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

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

(P) **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 profit and loss account except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.
- (ii) Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.
- (iii) Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

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

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

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

(P) *Income tax (Continued)*

- (iv) Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities if, and only if, the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:
- in the case of current tax assets and liabilities, the Group intends either to settle on a net basis, or to realise the assets and settle the liabilities simultaneously; or
 - in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(Q) *Employee benefits*

(i) *Defined contribution pension scheme*

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

(ii) *Defined benefit pension schemes*

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

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

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

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

(Q) *Employee benefits (Continued)*

(iii) *Mandatory Provident Fund*

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

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

(R) *Segment reporting*

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

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

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

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

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

(S) *Related parties*

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

- (i) the party has the ability, directly or indirectly through one or more intermediates, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Company's parent or a close family member of such an individual or is an entity under the control, joint control or significant influence of such individuals;

(S) *Related parties (Continued)*

- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

(T) *Provisions and contingent liabilities*

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

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

SUBSIDIARIES AND ASSOCIATES AS AT 31 DECEMBER 2006

Subsidiaries	Place of incorporation/ operation	Issued share capital (all being ordinary shares and fully paid up except otherwise stated)	Percentage of equity attributable to the Group	Principal activities
#Harbour Centre (Hong Kong) Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
#Ocean New Investments Limited	British Virgin Islands	500 US\$1 shares	100	Holding company
Algebra Assets Limited	British Virgin Islands	500 US\$1 shares	100	Investment
Insight Ever International Limited	British Virgin Islands	500 US\$1 shares	100	Investment
Mandelson Investments Limited	British Virgin Islands	500 US\$1 shares	100	Investment
Manniworth Company Limited	Hong Kong	10,000 HK\$1 shares	100	Property investment
The Hongkong Hotel Limited	Hong Kong	100,000 HK\$1 shares	100	Hotel and property
Associates	Place of incorporation/ operation	Class of shares	Percentage of equity attributable to the Group	Principal activities
Kowloon Properties Company Limited	Hong Kong	Ordinary	20	Property development

All the subsidiaries listed above were, as at 31 December 2006, indirectly held by the Company except where marked #, which are held directly by the Company.

III. UNAUDITED CONDENSED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2007

Set out below is the condensed consolidated profit and loss account, condensed balance sheet, condensed statement of recognised income and expense and the condensed consolidated cash flow statement of the Group and notes on such financial statement reproduced from the financial statement published in the Company's interim report for the six months ended 30 June 2007.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the six months ended 30 June 2007

	<i>Note</i>	Six months ended 30 June	
		2007	2006
		<i>HK\$ Million</i>	<i>HK\$ Million</i>
		(unaudited)	(unaudited)
Turnover	2	324.1	483.0
Direct costs and operating expenses		(117.5)	(283.9)
Selling and marketing expenses		(11.0)	(22.8)
Depreciation and amortisation		(11.6)	(10.4)
Administrative and corporate expenses		<u>(3.0)</u>	<u>(2.6)</u>
Operating profit	3	181.0	163.3
Increase in fair value of investment properties		26.6	98.1
Other net income	4	<u>38.0</u>	<u>43.1</u>
		245.6	304.5
Share of profits less losses of associates		<u>3.9</u>	<u>2.8</u>
Profit before taxation		249.5	307.3
Taxation	5(b)	<u>(26.2)</u>	<u>(37.6)</u>
Profit attributable to shareholders		<u>223.3</u>	<u>269.7</u>
Proposed interim dividends	6(a)	<u>15.8</u>	<u>15.8</u>
Earnings per share	7	<u>HK\$0.71</u>	<u>HK\$0.86</u>
Proposed interim dividends per share		<u>HK\$0.05</u>	<u>HK\$0.05</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****CONSOLIDATED BALANCE SHEET**

As at 30 June 2007

		30 June 2007	31 December 2006
	Note	<i>HK\$ Million (unaudited)</i>	<i>HK\$ Million (audited)</i>
Non-current assets			
Fixed assets			
Investment properties		1,690.0	1,663.0
Leasehold land		15.2	15.2
Other properties, plant and equipment		70.7	63.4
Interest in associates		0.2	0.8
Available-for-sale investments		2,163.7	1,490.0
Long term receivables		2.9	3.1
Employee benefits		6.4	6.7
		<u>3,949.1</u>	<u>3,242.2</u>
Current assets			
Inventories		7.4	7.6
Trade and other receivables	8	49.3	78.8
Cash and cash equivalents		<u>1,469.1</u>	<u>1,840.2</u>
		<u>1,525.8</u>	<u>1,926.6</u>
Current liabilities			
Trade and other payables	9	143.0	140.5
Taxation payable	5(c)	<u>35.5</u>	<u>22.6</u>
		<u>178.5</u>	<u>163.1</u>
Net current assets		<u>1,347.3</u>	<u>1,763.5</u>
Total assets less current liabilities		<u>5,296.4</u>	<u>5,005.7</u>
Non-current liabilities			
Deferred income	10	—	0.8
Deferred taxation		<u>232.4</u>	<u>226.9</u>
		<u>232.4</u>	<u>227.7</u>
NET ASSETS		<u>5,064.0</u>	<u>4,778.0</u>
Capital and reserves			
Share capital	11	157.5	157.5
Reserves	12	<u>4,906.5</u>	<u>4,620.5</u>
TOTAL EQUITY		<u>5,064.0</u>	<u>4,778.0</u>

CONSOLIDATED STATEMENT OF RECOGNISED INCOME AND EXPENSE

For the six months ended 30 June 2007

		30 June 2007	30 June 2006
		<i>HK\$ Million</i>	<i>HK\$ Million</i>
	<i>Note</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Surplus on revaluation of available-for-sale investments	12	178.7	178.9
Revaluation reserve transferred to the consolidated profit and loss account upon disposal of available-for-sale investments			
- by Company/subsidiaries	12	<u>(40.4)</u>	<u>1.7</u>
Net income recognised directly in equity		138.3	180.6
Profit attributable to shareholders		<u>223.3</u>	<u>269.7</u>
Total recognised income and expense		<u>361.6</u>	<u>450.3</u>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2007

	30 June 2007	30 June 2006
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Net cash generated from operating activities	205.4	304.4
Net cash used in investing activities	(500.9)	(200.9)
Net cash used in financing activities	<u>(75.6)</u>	<u>(37.8)</u>
Net (decrease)/increase in cash and cash equivalents	(371.1)	65.7
Cash and cash equivalents at 1 January	<u>1,840.2</u>	<u>1,519.6</u>
Cash and cash equivalents at 30 June	<u>1,469.1</u>	<u>1,585.3</u>

NOTES TO THE FINANCIAL STATEMENTS**1. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS**

The unaudited interim consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” (“HKAS 34”) issued by the Hong Kong Institute of Certified Public Accountants and applicable disclosure provision of Appendix 16 of Listing Rules of The Stock Exchange of Hong Kong Limited.

The preparation of the interim financial statements in conformity with HKAS 34 requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The accounting policies and methods of computation used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2006.

In 2007, the Group adopted the new standard, amendment and interpretations below, which are relevant to its operations.

HKAS 1 (Amendment)	Presentation of Financial Statements: Capital Disclosures
HK (IFRIC) — Int 10	Interim Reporting and Impairment
HKFRS 7	Financial Instruments: Disclosure

The Group has assessed the impact of the adoption of these new standard, amendment and interpretations and considered that there was no significant impact on the Group’s results and financial position nor any substantial changes in the Group’s accounting policies, whereas the adoption of HKAS 1 (Amendment) and HKFRS 7 requires additional disclosures to be made in the annual report.

2. SEGMENT INFORMATION

(a) Business segments

	Segment revenue		Segment results	
	Six months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Hotel and restaurants	201.3	202.4	68.0	69.7
Property investment	60.5	56.8	52.0	49.1
Property development	—	176.5	(0.2)	(1.4)
Investments	<u>62.3</u>	<u>47.3</u>	<u>61.2</u>	<u>45.9</u>
	<u>324.1</u>	<u>483.0</u>	181.0	163.3
Increase in fair value of investment properties			26.6	98.1
Other net income				
Investments			<u>38.0</u>	<u>43.1</u>
			245.6	304.5
Associates				
Property development			<u>3.9</u>	<u>2.8</u>
			249.5	307.3
Profit before taxation			<u>249.5</u>	<u>307.3</u>

(b) Geographical segments

	Segment revenue		Segment results	
	Six months ended 30 June		Six months ended 30 June	
	2007	2006	2007	2006
	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>	<i>HK\$ Million</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>	<i>(unaudited)</i>
Hong Kong	304.7	466.4	161.6	146.7
Singapore	<u>19.4</u>	<u>16.6</u>	<u>19.4</u>	<u>16.6</u>
	<u>324.1</u>	<u>483.0</u>	<u>181.0</u>	<u>163.3</u>

No inter-segment revenue has been recorded during the periods.

3. OPERATING PROFIT

	Six months ended	
	30 June 2007	30 June 2006
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Operating profit is arrived at:		
After charging:		
Cost of inventories sold	11.3	178.8
Depreciation and amortisation	11.6	10.4
Staff costs including retirement scheme costs HK\$1.8 million (2006: HK\$2.8 million)	53.5	52.7
Auditors' remuneration	0.3	0.3
Share of associates' taxation	0.8	0.4
and crediting:		
Gross rental income from investment properties	51.4	47.9
Less: direct outgoings	<u>(6.6)</u>	<u>(5.7)</u>
	44.8	42.2
Interest income on bank deposits	40.0	25.2
Dividend income from listed investments	<u>22.3</u>	<u>20.6</u>

4. OTHER NET INCOME

	Six months ended	
	30 June 2007	30 June 2006
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Release of deferred income	0.8	0.6
Profit on disposal of available-for-sale investments	<u>37.2</u>	<u>42.5</u>
	<u>38.0</u>	<u>43.1</u>

5. TAXATION

(a) The provision for Hong Kong profits tax is based on the profit for the period as adjusted for tax purposes at the rate of 17.5% (2006: 17.5%).

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

	Six months ended	
	30 June 2007	30 June 2006
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Current taxation		
Provision for Hong Kong profits tax for the period	20.9	19.8
Overprovision in respect of prior years	(0.2)	—
	<u>20.7</u>	<u>19.8</u>
Deferred taxation		
Origination and reversal of temporary differences	0.8	0.6
Change in fair value of investment properties	4.7	17.2
	<u>5.5</u>	<u>17.8</u>
Total tax charge	<u>26.2</u>	<u>37.6</u>

(c) None of the taxation payable in the consolidated balance sheet is expected to be settled after more than one year.

6. DIVIDENDS

(a) Dividends attributable to the period

	Six months ended	
	30 June 2007	30 June 2006
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Proposed interim dividends after the balance sheet date: 5.0 cents (2006: 5.0 cents)	<u>15.8</u>	<u>15.8</u>

The interim dividends proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the period

	30 June 2007	30 June 2006
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
	<i>(unaudited)</i>	<i>(unaudited)</i>
Final dividend in respect of the previous financial year, approved and paid during the period, of 24.0 cents per share (2006: 12.0 cents per share)	<u>75.6</u>	<u>37.8</u>

7. EARNINGS PER SHARE

The calculation of earnings per share is based on the profit for the period of HK\$223.3 million (2006: HK\$269.7 million) and on 315.0 million (2006: 315.0 million) ordinary shares in issue throughout the period ended 30 June 2007. For the period under review and the preceding comparative period, there is no difference between the basic and diluted earnings per share.

8. TRADE AND OTHER RECEIVABLES

	30 June 2007	31 December 2006
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Trade debtors		
Due within 30 days	15.0	48.4
Due after 30 days but within 60 days	3.4	6.6
Due after 60 days but within 90 days	0.2	0.9
Over 90 days	<u>0.2</u>	<u>—</u>
	18.8	55.9
Other receivables	24.9	12.2
Amounts due from fellow subsidiaries	<u>5.6</u>	<u>10.7</u>
	<u>49.3</u>	<u>78.8</u>

The Group has defined credit policies for each of its core businesses. The general credit terms allowed range from 0 to 60 days.

9. TRADE AND OTHER PAYABLES

	30 June 2007	31 December 2006
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Trade creditors		
Due within 30 days	8.1	14.0
Due after 30 days but within 60 days	4.1	5.6
Due after 60 days but within 90 days	0.4	—
Over 90 days	<u>0.1</u>	<u>—</u>
	12.7	19.6
Other payables and provisions	92.2	81.8
Amounts due to fellow subsidiaries	5.6	11.3
Amounts due to associate	<u>32.5</u>	<u>27.8</u>
	<u>143.0</u>	<u>140.5</u>

APPENDIX I**FINANCIAL INFORMATION OF THE GROUP****10. DEFERRED INCOME**

The movements of deferred income of the Group are as follows:

	2007 <i>HK\$ Million</i> <i>(unaudited)</i>	2006 <i>HK\$ Million</i> <i>(audited)</i>
Balance at 1 January	0.8	1.6
Credited to the consolidated profit and loss account	<u>(0.8)</u>	<u>(0.8)</u>
Balance at 30 June/31 December	<u><u>—</u></u>	<u><u>0.8</u></u>

11. SHARE CAPITAL

There were no movements in the share capital of the Company during the period under review.

12. RESERVES

	Share premium <i>HK\$ Million</i> <i>(unaudited)</i>	Investments revaluation reserve <i>HK\$ Million</i> <i>(unaudited)</i>	Revenue reserve <i>HK\$ Million</i> <i>(unaudited)</i>	Total <i>HK\$ Million</i> <i>(unaudited)</i>
Balance at 1 January 2007	542.0	715.9	3,362.6	4,620.5
Net income recognised directly in equity				
Surplus on revaluation of available-for-sale investments	—	178.7	—	178.7
Transferred to the consolidated profit and loss account on disposal of available-for-sale investments	<u>—</u>	<u>(40.4)</u>	<u>—</u>	<u>(40.4)</u>
Profit for the period	<u>—</u>	<u>138.3</u>	<u>223.3</u>	<u>223.3</u>
Total recognised income and expense	—	138.3	223.3	361.6
Dividend approved in respect of the previous year	<u>—</u>	<u>—</u>	<u>(75.6)</u>	<u>(75.6)</u>
Balance at 30 June 2007	<u><u>542.0</u></u>	<u><u>854.2</u></u>	<u><u>3,510.3</u></u>	<u><u>4,906.5</u></u>

13. MATERIAL RELATED PARTY TRANSACTIONS

- (a) During the period, there was in existence a management agreement with a subsidiary of the ultimate holding company for the management of the Group's hotel operations. Fees payable under this arrangement during the current period amounted to HK\$15.3 million (2006: HK\$15.7 million) which included management fees of HK\$12.6 million (2006: HK\$13.0 million) and marketing fees of HK\$2.7 million (2006: HK\$2.7 million). The management fees included a basic fee and an incentive fee which are calculated based on the relevant percentage of gross revenue and gross operating profit respectively. The marketing fee is calculated based on a percentage of gross revenue. Such a management agreement, entered into on 2 April 2007, and the relevant transactions thereunder constitute connected transactions as defined under the Listing Rules.
- (b) The Group has a tenancy agreement with Lane Crawford (Hong Kong) Limited, which is indirectly wholly owned by a trust of which the chairman of the Company's ultimate holding company is the settlor, in respect of the lease of shops situated on G/F, 1/F & 2/F of The Marco Polo Hongkong Hotel. The duration of tenancy is from 11 April 2003 to 10 April 2009. The rental income earned by the Group from the above agreement during the current period, including contingent rental income, amounted to HK\$38.7 million (2006: HK\$33.8 million). Such a transaction does not constitute a connected transaction under the Listing Rules.

14. CONTINGENT LIABILITIES

As at 30 June 2007, there were contingent liabilities in respect of guarantees given by the Company on behalf of subsidiaries relating to bank overdrafts and credit facilities up to HK\$3.1 million (31 December 2006: HK\$3.1 million).

15. COMMITMENTS

Capital commitments outstanding at 30 June 2007 not provided for in the financial statements were as follows:

	30 June 2007	31 December 2006
	<i>HK\$ Million</i>	<i>HK\$ Million</i>
	<i>(unaudited)</i>	<i>(audited)</i>
Contracted but not provided for	66.6	78.9
Authorised but not contracted for	<u>6.4</u>	<u>4.6</u>
	<u>73.0</u>	<u>83.5</u>

16. REVIEW OF UNAUDITED INTERIM FINANCIAL STATEMENTS

The unaudited interim financial statements for the six months ended 30 June 2007 have been reviewed with no disagreement by the Audit Committee of the Company.

IV. MANAGEMENT DISCUSSION AND ANALYSIS OF THE GROUP

Set out below is the management discussion and analysis of the group reproduced from the Company's interim report for the six months ended 30 June 2007.

Segment Review

Total revenue and operating profit of the Hotel Segment during the first half of 2007 slightly declined by 0.5% and 2.4% to HK\$201.3 million and HK\$68.0 million respectively versus the same period last year. The decrease was mainly attributed to lower occupancy at The Marco Polo Hongkong Hotel ("MPHK") and a drop in Food & Beverage revenue arising from the closure of Grippes in November 2006. Average occupancy during the period dropped to 84% from 88% recorded a year earlier. In spite of a drop in occupancy, average room rate grew by 8.0% on the back of high demand for hotel rooms during trade fairs and the Chinese New Year holidays.

Property Investment revenue and operating profit grew by 6.5% and 5.9% to HK\$60.5 million and HK\$52.0 million respectively. The increase was principally contributed by favourable rental growth amidst the strong retail market. The retail space of MPHK was virtually fully let during the first half of 2007, while the Star House retail units were 75.5% leased during the period.

The Group's investment properties, comprising the office and retail areas in MPHK and the Star House units, were revalued by an independent valuer at 30 June 2007. Net revaluation surplus after deferred tax was HK\$21.9 million during the period (2006: HK\$80.9 million).

Financial Review**(I) Review of 2007 Interim Results***Turnover*

The Group's turnover in the first half 2007 decreased by 32.9% to HK\$324.1 million (2006: HK\$483.0 million) since no property sale was recorded during the period under review.

Hotel Segment maintained its revenue at HK\$201.3 million (2006: HK\$202.4 million). No growth was reported mainly due to the impact of the closure of a restaurant in MPHK for renovation since November 2006. Room revenue managed to report a 2.8% year-on-year growth as higher room rates were achieved during the period under review.

Property investment revenue was up by 6.5% to HK\$60.5 million (2006: HK\$56.8 million) as retail rental income generated from MPHK's retail areas continued to grow steadily, but the increase was mitigated by the decrease in rental income from Star House units on the moving out of a major tenant.

Property Development Segment recorded no property sales during the period under review (2006: HK\$176.5 million).

Investment Segment's interest and dividend income generated from the Group's surplus cash and investment increased by 31.7% to HK\$62.3 million (2006: HK\$47.3 million).

Operating Profit

The Group's operating profit rose by 10.8% or HK\$17.7 million to HK\$181.0 million (2006: HK\$163.3 million). The improvement was mainly attributable to the Property Investment Segment and the Investment Segment with operating profit growth of 5.9% and 33.3% respectively, following their corresponding increase in revenue as mentioned above.

Other Items

Included in the Group's profit is other net income of HK\$38.0 million (2006: HK\$43.1 million), which mainly included profit of HK\$37.2 million on disposal of certain listed investments.

Share of Profit of an Associate

Share of profit of an associate in the first half of 2007 was HK\$3.9 million, increased from HK\$2.8 million in the same period last year. This was due primarily to the increase in attributable profit from the sales of the remaining car parks at Sorrento during the period.

Taxation

The taxation charge for the period reduced by 30.3% to HK\$26.2 million (2006: HK\$37.6 million) as a result of the decrease in deferred tax on the corresponding decrease in property revaluation surplus of investment properties during the period.

Profit Attributable to Shareholders

The unaudited Group's profit attributable to shareholders for the first half of 2007 amounted to HK\$223.3 million (2006: HK\$269.7 million), representing a decrease of HK\$46.4 million or 17.2%. Earnings per share were HK\$0.71 (2006: HK\$0.86).

The Group's investment properties were revalued as at 30 June 2007, resulting in a net surplus after deferred tax of HK\$21.9 million (2006: HK\$80.9 million) recorded in the profit and loss account.

Excluding this net surplus, the profit for the period was HK\$201.4 million, representing an increase of 6.7% over 2006. The favourable results were mainly due to the increase in dividend and interest income, but offset in part by the decrease in profit on disposal of investments.

(II) Liquidity and Financial Resources

As at 30 June 2007, the Group's shareholders' equity was HK\$5,064.0 million, equivalent to HK\$16.1 per share.

As at 30 June 2007, the Group had a net cash of HK\$1,469.1 million, decreased by 20.2% from HK\$1,840.2 million as at 31 December 2006. The decrease was mainly due to the cash outflow for the net purchase of listed investments, which amounted to HK\$478.4 million. The cash surplus was mostly placed as bank deposits. As at 30 June 2007, the Group also maintained a portfolio of investments primarily consisting of blue chip securities, with an aggregate market value of HK\$2,163.7 million (2006: HK\$1,490.0 million). The favourable performance of the portfolio was in line with the stock markets.

At 30 June 2007, the Group had no significant exposure to foreign exchange rate fluctuations.

(III) Human Resources

The Group has approximately 452 employees working at the Group's hotel. Employees are remunerated according to the nature of the job and market trends, with a built-in merit component incorporated in the annual increment to reward and motivate individual performance. Total staff costs for period ended 30 June 2007 amounted to HK\$53.5 million (2006: HK\$52.7 million).

V. UNAUDITED PRO FORMA FINANCIAL INFORMATION ON THE GROUP

The following unaudited pro forma statement of assets and liabilities of the Group (referred to as the “Unaudited Pro Forma Financial Information”) has been prepared on the basis of the notes set out below for the purpose of illustrating the effect of the Changzhou Land Acquisition Transaction, as if it had taken place on 30 June 2007. This Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its hypothetical nature, it may not give a true picture of the financial position of the Group had the Changzhou Land Acquisition Transaction been completed on 30 June 2007 or any future date.

The pro forma financial information in respect of the Chongqing and Suzhou Land Acquisition Transactions and Hangzhou Land Acquisition Transaction as at 30 June 2007 was disclosed in the Company’s Circular dated 30 October 2007 and 30 November 2007, respectively.

Unaudited Pro Forma Statement of Assets and Liabilities of the Group

The unaudited pro forma statement of assets and liabilities of the Group is prepared based on the unaudited consolidated balance sheet extracted from the interim report of the Group as at 30 June 2007, after making pro forma adjustments relating to the Changzhou Land Acquisition Transaction (“the Transaction”) that are directly attributable to the Transaction as if the Transaction had been completed on 30 June 2007. A narrative description of the unaudited pro forma adjustments of the Transaction that are (i) directly attributable to the Transaction and not relating to future events or decisions; (ii) expected to have a continuing impact on the Group; and (iii) factually supportable, are summarised in the accompanying notes.

The Unaudited Pro Forma Financial Information of the Group should be read in conjunction with the latest published audited consolidated financial information of the Group as set out in Appendix I to this circular and other financial information included elsewhere in this circular.

	The Group as at 30 June 2007 HK\$ million	Unaudited proforma adjustment for the Changzhou Land Acquisition HK\$ million <i>(Notes (i) & (ii))</i>	Proforma Group total HK\$ million
Non-current assets			
Fixed assets			
Investment properties	1,690.0	—	1,690.0
Property under development	—	51.9	51.9
Leasehold land	15.2	—	15.2
Other properties, plant and equipment	70.7	—	70.7
Interest in associates	0.2	—	0.2
Available-for-sale investments	2,163.7	(471.9)	1,691.8
Long term receivables	2.9	—	2.9
Employee benefits	6.4	—	6.4
	<u>3,949.1</u>	<u>(420.0)</u>	<u>3,529.1</u>
Current assets			
Inventories	7.4	—	7.4
Properties under development for sale	—	1,521.0	1,521.0
Trade and other receivables	49.3	—	49.3
Cash and cash equivalents	1,469.1	(157.3)	1,311.8
	<u>1,525.8</u>	<u>1,363.7</u>	<u>2,889.5</u>
Current liabilities			
Trade and other payables	143.0	—	143.0
Bank loans	—	943.7	943.7
Taxation payable	35.5	—	35.5
	<u>178.5</u>	<u>943.7</u>	<u>1,122.2</u>
Net current assets	<u>1,347.3</u>	<u>420.0</u>	<u>1,767.3</u>
Total assets less current liabilities	5,296.4	—	5,296.4
Non-current liabilities			
Deferred taxation	232.4	—	232.4
NET ASSETS	<u>5,064.0</u>	<u>—</u>	<u>5,064.0</u>

	The Group as at 30 June 2007 HK\$ million	Unaudited proforma adjustment for the Changzhou Land Acquisition HK\$ million <i>(Notes (i) & (ii))</i>	Proforma Group total HK\$ million
Capital and reserves			
Share capital	157.5	—	157.5
Reserves	<u>4,906.5</u>	<u>—</u>	<u>4,906.5</u>
TOTAL EQUITY	<u><u>5,064.0</u></u>	<u><u>—</u></u>	<u><u>5,064.0</u></u>

Notes:

The adjustments represent

- (i) the Group's acquisition of the Changzhou Land upon full payment of the total consideration of RMB1,470.0 million (HK\$1,572.9 million).

The Group intends to develop the Changzhou Land into (a) hotel properties and (b) properties held for sale based on the proposed development area in the ratio of approximately 3%/97% respectively. Accordingly, the total payments of HK\$1,572.9 million have been divided into two portions:

	HK\$ million
Property under development (included in non-current assets) (3% of the area)	51.9
Properties under development for sale (included in current assets) (97% of the area)	<u>1,521.0</u>
	<u><u>1,572.9</u></u>

- (ii) the Group's acquisition of the Changzhou Land to be funded as to approximately HK\$471.9 million by the proceeds from the disposal of available-for-sale investments, as to approximately HK\$943.7 million by bank borrowings and HK\$157.3 million by internal resources of the Group.

VI. ACCOUNTANT'S REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION TO THE DIRECTORS OF HARBOUR CENTRE DEVELOPMENT LIMITED

The following is the text of a report, prepared for the sole purpose of incorporation in this circular, received from the independent reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong. As described under "Documents available for inspection" in Appendix III, a copy of the following report is available for inspection.



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

The Board of Directors
Harbour Centre Development Limited

31 January 2008

Dear Sirs

Harbour Centre Development Limited (the "Company")

We report on the unaudited pro forma financial information (the "Unaudited Pro Forma Financial Information") of Harbour Centre Development Limited (the "Company") and its subsidiaries (the "Group") set out on pages I-54 to I-56 in Appendix I of the Company's circular dated 31 January 2008 (the "Circular") in connection with the acquisition of the Changzhou Land in the People's Republic of China (the "Acquisition"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the Acquisition might have affected the financial information presented. The basis of preparation of the Unaudited Pro Forma Financial Information is set out in the introduction and notes to the Unaudited Pro Forma Financial Information of the Group as set out in Appendix I of the Circular.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements (“HKSIR”) 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the management of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2007 or any future date.

Opinion

In our opinion:

- a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- b) such basis is consistent with the accounting policies of the Group; and
- c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

VII. INDEBTEDNESS**Borrowings**

At the close of the business on 30 November 2007, being the practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total bank loans of HK\$1,300.0 million, of which HK\$500.0 million was unsecured and HK\$800.0 million was secured. HK\$900.0 million of the bank loans is repayable within one year and HK\$400.0 million is repayable after one year but within two years.

Contingent liabilities

As at 30 November 2007, there was no guarantee given by the Group in respect of banking facilities available to associates of the Group.

Facilities

As at 30 November 2007, the Group had total banking facilities of HK\$1,600.0 million. Certain banking facilities of the Group were secured mainly by mortgages over certain available-for-sale investments with an aggregate carrying value of HK\$2,361.7 million.

Subsequent to 30 November 2007, the Group has obtained additional banking facilities of HK\$1,600.0 million.

Disclaimers

Save as aforesaid and apart from intra-group liabilities and normal trade payables, the Group did not have any loan capital issued or agreed to be issued, bank overdrafts, loans, debt securities issued and outstanding, and authorised or otherwise created but unissued and term loans or other borrowings, indebtedness in the nature of borrowings, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, finance lease or hire purchase commitments, which are either guaranteed, unguaranteed, secured or unsecured, guarantees or other material contingent liabilities outstanding at the close of business of 30 November 2007.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 30 November 2007, up to and including the Latest Practicable Date.

VIII. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the financial resources available to the Group, including its internally generated funds and the available banking facilities, the Group has sufficient working capital to satisfy its requirements for at least the next twelve months from the date of this circular.

IX. MATERIAL ADVERSE CHANGE

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2006, the date to which the latest published audited financial statements of the Group were made up.

The following is the text of the letter and the valuation report received from Knight Frank Petty Limited, an independent property valuer, prepared for the purpose of incorporation in this circular, in connection with the valuation of the property acquired by the Company and its subsidiaries as at 31 December 2007.



4/F, Shui On Centre
6-8 Harbour Road
Wanchai
Hong Kong

31 January 2008

The Directors
Harbour Centre Development Limited
16th Floor Ocean Centre
Harbour City
Canton Road
Kowloon
Hong Kong

Dear Sirs

In accordance with your instructions for us to value the property acquired by Harbour Centre Development Limited (the "Company") and its subsidiaries (hereinafter together referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of market value of the property as at 31 December 2007.

BASIS OF VALUATION

Our valuation is our opinion of the market value which we would define as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

The market value is the best price reasonably obtainable in the market by the seller and the most advantageous price reasonably obtainable in the market by the buyer. This estimate specifically excludes an estimated price inflated or deflated by special terms or circumstances such as atypical

financing, sale and leaseback arrangements, deferred term contracts, joint ventures, management agreements, special considerations or concessions granted by anyone associated with the sale, or any element of special value. The market value of a property is also estimated without regard to costs of sale and purchase, and without offset for any associated taxes.

VALUATION METHODOLOGY

We have adopted the direct comparison approach by reference to sales evidence as available on the market to value the property, assuming that it will be delivered on sale with the benefit of vacant possession.

TITLE DOCUMENTS AND ENCUMBRANCES

We have been provided with copies of extracts of title documents relating to the property. However, we have not inspected the original documents to verify ownership or to verify any amendments, which may not appear on the copies handed to us. We have relied on the information given by the Group and its legal adviser, Jingtian & Gongcheng, on the PRC laws regarding the title and other legal matters relating to the property. We have no reason to doubt the truth and accuracy of the information provided to us by the Group and/ or its PRC legal adviser which is material to the valuation.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on any property nor for any expenses, which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature, which could affect its value.

SOURCE OF INFORMATION

We have accepted advice given by the Group on such matters as planning approvals or statutory notices, easements, tenure, ownership, particulars of occupancy, tenancy details, floor and site areas and all other relevant matters. Dimensions, measurements and areas included in the valuation report are based on information contained in the documents provided to us and are therefore only approximations. We have not been able to carry out on-site measurements to verify the correctness of the site and floor areas of the property and we have assumed that the site and the floor areas shown on the documents handed to us are correct. We were also advised by the Group that no material facts have been omitted from the information provided.

INSPECTION AND STRUCTURAL CONDITION

We have inspected the property. However, we have not carried out investigations on site to determine the suitability of the ground conditions and the services etc for any future developments. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period for the future developments. We have not been able to carry out a land survey to verify the site boundary and the correctness of the site area of the property. We have assumed that the site area shown on the documents handed to us are correct.

REMARKS

In the course of our valuation, we have complied with the requirements contained within the relevant provisions of Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Valuation Standards (First Edition 2005) on Valuation of Properties published by The Hong Kong Institute of Surveyors.

CURRENCY

Unless otherwise stated, all money amounts stated are in Renminbi.

We enclose herewith our valuation report.

Yours faithfully
For and on behalf of
Knight Frank Petty Limited
Clement W M Leung
MRICS MHKIS RPS(GP)
Executive Director

Note: Clement W M Leung, M.R.I.C.S., M.H.K.I.S., R.P.S. (G.P.), has been a qualified valuer with Knight Frank Petty Limited since August 1999 and has 14 years' experience in the valuation of properties in Hong Kong and has 12 years' experience in the valuation of properties in the People's Republic of China.

VALUATION REPORT

Property held for development

Property	Description and tenure	Particulars of occupancy	Market Value in existing state as at 31 December 2007
A parcel of land located at the southern side of China Dinosaur Park Xinbei District Changzhou Jiangsu Province the PRC	<p>The Land, with a total site area of approximately 411,353 sq m (4,427,804 sq ft), is a parcel of land comprising three land lots (namely 01, 02 and 03) located at the east of Wushan Road, the south of China Dinosaur Park, the west of planned Zhuluoji Road and the north of Hehai East Road in Xinbei District, Changzhou.</p> <p>Land Lot 01, with site area of approximately 216,906 sq m (2,334,776 sq ft), is located at the western portion of the Land and is planned for residential and commercial uses.</p> <p>Land Lot 02, with site area of approximately 78,273 sq m (842,531 sq ft), is located at the central portion of the Land and is planned for commercial (hotel) use.</p> <p>Land Lot 03, with site area of approximately 116,174 sq m (1,250,497 sq ft), is located at the eastern portion of the Land and is planned for residential, commercial and office uses.</p> <p>The Land is held under land use right terms of 40 years for commercial (including hotel) and office uses, 70 years for residential uses.</p>	<p>National Food Warehouse is currently standing on Land Lot 01.</p> <p>Currently erecting on the Land Lots 02 and 03 include several rural village-type houses pending for demolition.</p>	<p>RMB 1,429,600,000 (100% interest)</p> <p>(100% interest attributable to the Group: RMB 1,429,600,000) (See Note 8)</p>

Notes:

1. Pursuant to the Contract for Grant of State-owned Land Use Right No. Chang Guo Zi Xin Chu Zi [2007] Di 112 Hao (常國資新出字[2007]第112號), entered into between Changzhou Municipal Bureau of Land and Resources (Party A) and Wharf Estates (Changzhou) Company Limited (Party B), a wholly-owned subsidiary of the Company, dated 29 December 2007, Party A agreed to grant Party B the land use right of portion of the Land ("portion of Land Lot 01") with a total site area of 72,716 sq m at a consideration of RMB259,856,000. The land use right terms are 40 years for commercial use and 70 years for residential use both commencing from the date of handover of the land from Party A to Party B. The salient terms of the contract include, inter alia, the following:
 - (i) Land Use : Commercial and Residential.
 - (ii) Type of Buildings : Commercial and residential uses with ancillary facilities.
 - (iii) Date of Handover and Handover Status of the land : Party A agreed to handover the land to Party B on 30 September 2009 on a cleared site status.
 - (iv) Plot Ratio : 2.2 to 2.5

- | | | |
|--------|--------------------------------|--|
| (v) | Site Coverage : | Equivalent to or not more than 25% |
| (vi) | Height Restriction : | Higher than 100m subject to relevant regulations and controls of neighbouring view. |
| (vii) | Green Area Ratio : | Equivalent to or not less than 30% |
| (viii) | Building Covenant : | Party B agreed to commence building works before 30 June 2010 and complete building works before 30 December 2012. |
| (ix) | Other development parameters : | Subject to Detailed Master Plan of China Dinosaur Park dated 18 December 2007. |
2. Pursuant to the Contract for Grant of State-owned Land Use Right No. Chang Guo Zi Xin Chu Zi [2007] Di 90 Hao (常國資新出字[2007]第90號), entered into between Changzhou Municipal Bureau of Land and Resources (Party A) and Wharf Estates (Changzhou) Company Limited (Party B) dated 29 December 2007, Party A agreed to grant Party B the land use right of portion of the Land ("portion of Land Lot 01") with a total site area of 144,190 sq m at a consideration of RMB515,273,500. The land use right terms are 40 years for commercial use and 70 years for residential use both commencing from the date of handover of the land from Party A to Party B. The salient terms of the contract include, inter alia, the following:
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|--------|--|---|
| (i) | Land Use : | Commercial and Residential. |
| (ii) | Type of Buildings : | Commercial and residential uses with ancillary facilities. |
| (iii) | Date of Handover and Handover Status of the land : | Party A agreed to handover the land to Party B on 30 December 2007 on a cleared site status. |
| (iv) | Plot Ratio : | 2.2 to 2.5 |
| (v) | Site Coverage : | Equivalent to or not more than 25% |
| (vi) | Height Restriction : | Higher than 100m subject to relevant regulations and controls of neighbouring view. |
| (vii) | Green Area Ratio : | Equivalent to or not less than 30% |
| (viii) | Building Covenant : | Party B agreed to commence building works before 30 December 2008 and complete building works before 30 December 2012. |
| (ix) | Additional Fee : | Party B should pay for the land a public utilities and ancillary fee of RMB38,000,000 before 30 June 2008 according to the Notice of Land Grant under Listing of a Parcel of Land at the South of China Dinosaur Park (see Note 3 below). |
| (x) | Other development parameters : | Subject to Detailed Master Plan of China Dinosaur Park dated 18 December 2007. |

3. Pursuant to a Letter issued by the People's Government of Xinbei District of Changzhou to the Group dated 27 December 2007, portion of the aforesaid public utilities and ancillary fee, RMB10,000,000, can be relieved if the Group can obtain the Land under the relevant procedures.

4. Pursuant to the Contract for Grant of State-owned Land Use Right No. Chang Guo Zi Xin Chu Zi [2007] Di 110 Hao (常國資新出字[2007]第110號), entered into between Changzhou Municipal Bureau of Land and Resources (Party A) and Wharf Estates (Changzhou) Company Limited (Party B) dated 29 December 2007, Party A agreed to grant Party B the land use right of portion of the Land ("Land Lot 02") with a total site area of 78,273 sq m at a consideration of RMB279,714,200. The land use right term is 40 years for commercial (hotel) use commencing from the date of handover of the land from Party A to Party B. The salient terms of the contract include, inter alia, the following:

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|--------|--|--|
| (i) | Land Use : | Commercial (Hotel). |
| (ii) | Type of Buildings : | 5-star Hotel and State Guest House with ancillary facilities. |
| (iii) | Date of Handover and Handover Status of the land : | Party A agreed to handover the land to Party B on 30 April 2008 on a cleared site status. |
| (iv) | Plot Ratio : | 0.5 to 1.0 |
| (v) | Site Coverage: | Equivalent to or not more than 20% |
| (vi) | Height Restriction : | Equivalent to or not higher than 50m. |
| (vii) | Green Area Ratio: | Equivalent to or not less than 35% |
| (viii) | Building Covenant : | Party B agreed to commence building works before 30 December 2008 and complete building works before 30 December 2010. |
| (ix) | Other development parameters : | Subject to Detailed Master Plan of China Dinosaur Park dated 18 December 2007. |

5. Pursuant to the Contract for Grant of State-owned Land Use Right No. Chang Guo Zi Xin Chu Zi [2007] Di 111 Hao (常國資新出字[2007]第111號), entered into between Changzhou Municipal Bureau of Land and Resources (Party A) and Wharf Estates (Changzhou) Company Limited (Party B) dated 29 December 2007, Party A agreed to grant Party B the land use right of portion of the Land ("Land Lot 03") with a total site area of 116,174 sq m at a consideration of RMB415,156,300. The land use right terms are 40 years for commercial and office uses and 70 years for residential use both commencing from the date of handover of the land from Party A to Party B. The salient terms of the contract include, inter alia, the following:

- | | | |
|-------|--|---|
| (i) | Land Use : | Commercial, Office and Residential. |
| (ii) | Type of Buildings : | Commercial, office and residential uses with ancillary facilities. |
| (iii) | Date of Handover and Handover Status of the land : | Party A agreed to handover the land to Party B on 30 April 2008 on a cleared site status. |
| (iv) | Plot Ratio : | Equivalent to or not more than 1.6 |
| (v) | Site Coverage: | Equivalent to or not more than 35% |
| (vi) | Height Restriction : | Equivalent to or not higher than 80m |
| (vii) | Green Area Ratio: | Equivalent to or not less than 35% |

- (viii) Building Covenant : Party B agreed to commence building works before 30 December 2008 and complete building works before 30 December 2012.
- (ix) Other development parameters : Subject to Detailed Master Plan of China Dinosaur Park dated 18 December 2007.
6. Pursuant to the Detailed Master Plan of China Dinosaur Park issued by Changzhou Municipal Bureau of Planning dated 18 December 2007, the development of the Land is further subject to the following salient development parameters:
- (i) For Lot 01, a kindergarten with site area not less than 8,000 sq m and scale not less than 18 classes and 30 public car parking spaces should be built on this portion of the Land. Commercial facilities should not be built along Hehai East Road.
- (ii) For Lot 02, the gross floor area of the core portion of State Guest House should not be less than 5,000 sq m with building height of 2 to 3 stories (not higher than 3 stories). The distance between the core portion of State Guest House and the 5-star Hotel at southern side should be more than 80m. Development of strata-titled serviced apartment is prohibited. The building height above ground of the 5-star Hotel should not be over 50 m with rooms more than 300. If the plot ratio to be utilized on Lot 02 is lower than 1.0, the difference of the gross floor area derived from such plot ratio and that derived from plot ratio of 1.0 can be transferred to the development of Lots 01 and 03.
- (iii) For Lot 03, the building height of buildings at the south-east corner of this portion of the Land should not be lower than 70m and development of detached villa should be prohibited. Commercial facilities should not be built along Hehai East Road.
7. We have been provided with a legal opinion on the title to the Land issued by the Group's legal advisor, which contains, inter alia, the following information:
- (i) Wharf Estates (Changzhou) Company Limited is a legal entity.
- (ii) Pursuant to the Contract for Grant of State-owned Land Use Right No. Chang Guo Zi Xin Chu Zi [2007] Di 112 Hao (常國資新出字[2007]第112號), entered into between Changzhou Municipal Bureau of Land and Resources (Party A) and Wharf Estates (Changzhou) Company Limited (Party B) dated 29 December 2007, Party A agreed to grant Party B the land use right of portion of the Land ("portion of Land Lot 01") with a total site area of 72,716 sq m at a consideration of RMB259,856,000 with the land use right terms of 40 years for commercial use and 70 years for residential use;
- (iii) Pursuant to the Contract for Grant of State-owned Land Use Right No. Chang Guo Zi Xin Chu Zi [2007] Di 90 Hao (常國資新出字[2007]第90號), entered into between Changzhou Municipal Bureau of Land and Resources (Party A) and Wharf Estates (Changzhou) Company Limited (Party B) dated 29 December 2007, Party A agreed to grant Party B the land use right of portion of the Land ("portion of Land Lot 01") with a total site area of 144,190 sq m at a consideration of RMB515,273,500 with the land use right terms of 40 years for commercial use and 70 years for residential use;
- (iv) Pursuant to the Contract for Grant of State-owned Land Use Right No. Chang Guo Zi Xin Chu Zi [2007] Di 110 Hao (常國資新出字[2007]第110號), entered into between Changzhou Municipal Bureau of Land and Resources (Party A) and Wharf Estates (Changzhou) Company Limited (Party B) dated 29 December 2007, Party A agreed to grant Party B the land use right of portion of the Land ("Land Lot 02") with a total site area of 78,273 sq m at a consideration of RMB279,714,200 with the land use right term of 40 years for commercial (hotel) use;

- (v) Pursuant to the Contract for Grant of State-owned Land Use Right No. Chang Guo Zi Xin Chu Zi [2007] Di 111 Hao (常國資新出字[2007]第111號), entered into between Changzhou Municipal Bureau of Land and Resources (Party A) and Wharf Estates (Changzhou) Company Limited (Party B) dated 29 December 2007, Party A agreed to grant Party B the land use right of portion of the Land (“Land Lot 03”) with a total site area of 116,174 sq m at a consideration of RMB415,156,300 with the land use right terms of 40 years for commercial and office uses and 70 years for residential use;
 - (vi) After Wharf Estates (Changzhou) Company Limited has performed the legal obligations as stated in all the aforesaid contracts and settled all the land grant price as scheduled, there will be no material legal impediment for Wharf Estates (Changzhou) Company Limited to obtain the relevant land use rights;
 - (vii) Upon obtaining the relevant land use right of Land Lots 01 and 03 and being the only legal user according to the Contracts for Grant of State-owned Land Use Right Nos. Chang Guo Zi Xin Chu Zi [2007] Di 90 Hao, Chang Guo Zi Xin Chu Zi [2007] Di 111 Hao and Chang Guo Zi Xin Chu Zi [2007] Di 112 Hao, Wharf Estates (Changzhou) Company Limited can transfer, lease or mortgage Land Lots 01 and 03 to a third party in accordance with the China Laws and regulations; and
 - (viii) According to the Contract for Grant of State-owned Land Use Right No. Chang Guo Zi Xin Chu Zi [2007] Di 110 Hao, while Wharf Estates (Changzhou) Company Limited has legally obtained the land use right of Land Lot 02 and has proceeded the corresponding construction, all the buildings to be constructed on that land cannot be sold.
8. Based on the above-mentioned legal opinion in Note 7 (viii), we have assigned no commercial value to Land Lot 02. The market value of Land Lot 02, assuming it has a proper legal title and can be freely transferable in the market as at the date of valuation, would be approximately RMB80,400,000.

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

DIRECTORS' INTERESTS

As at the Latest Practicable Date, the interests (all being long positions) of the Directors and chief executive (if any) of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered into the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange, were as follows:

Names of Directors	Number of shares <i>(percentage of issued capital)</i>	Nature of Interest
The Company		
Mr. Michael T. P. Sze	25,000 (0.0079%)	Family Interest
Wheelock and Company Limited		
Mr. Gonzaga W. J. Li	1,486,491 (0.0732%)	Personal Interest
Mr. T. Y. Ng	70,000 (0.0034%)	Personal Interest
Wharf		
Mr. Gonzaga W. J. Li	772,367 (0.0280%)	Personal Interest
Mr. T. Y. Ng	200,268 (0.0073%)	Personal Interest
Mr. Michael T. P. Sze	50,099 (0.0018%)	Family Interest
i-CABLE Communications Limited		
Mr. Gonzaga W. J. Li	68,655 (0.0034%)	Personal Interest
Mr. T. Y. Ng	17,801 (0.0009%)	Personal Interest
Wheelock Properties Limited		
Mr. Gonzaga W. J. Li	2,900 (0.0001%)	Personal Interest

Except as disclosed above, as recorded in the register kept by the Company under section 352 of the SFO in respect of information required to be notified to the Company and the Stock Exchange 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 the Latest Practicable Date 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).

SUBSTANTIAL SHAREHOLDERS' INTERESTS

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

Names	Number of Ordinary Shares	Percentage of Holdings
(a) Upfront International Limited	210,379,500	66.79%
(b) Wharf Estates Limited	210,379,500	66.79%
(c) The Wharf (Holdings) Limited	210,379,500	66.79%
(d) WF Investment Partners Limited	210,379,500	66.79%
(e) Wheelock and Company Limited	210,379,500	66.79%
(f) HSBC Trustee (Guernsey) Limited	210,379,500	66.79%
(g) Harson Investment Limited	25,357,500	8.05%

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

Save as disclosed in this circular, as at the Latest Practicable Date and so far as is known to the Directors or chief executive (if any) of the Company, no other person had, or was deemed or taken to have, any interests or short positions in shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Save as disclosed below, as at the Latest Practicable Date, none of the Directors and their respective associates had any interests in a business, which competes or may compete with the business of the Group.

Two Directors, namely, Mr. Gonzaga W. J. Li and Mr. T. Y. Ng, being also directors of the Company's immediate parent company, namely, Wharf, and/or certain subsidiaries of Wharf as at the Latest Practicable Date are considered as having an interest in Wharf under Rule 8.10 of the Listing Rules.

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

The commercial premises at Harbour City, being in the vicinity of The Marco Polo Hongkong Hotel, owned by the Wharf group for rental purposes are considered as competing with the commercial premises in The Marco Polo Hongkong Hotel owned by the Group. In view of the Wharf group's extensive experience and expertise in property letting and management, the Group has appointed a subsidiary of Wharf as the agent for a term up to 31 May 2008 for the letting, reletting, management, licensing and re-licensing of the commercial premises in The Marco Polo Hongkong Hotel.

Two hotels, namely, The Marco Polo Gateway and The Marco Polo Prince, owned by the Wharf group are also considered as competing businesses of The Marco Polo Hongkong Hotel owned by the Group. In view of the Wharf group's expertise and very good track record in the management and operation of hotels throughout the Asia Pacific region, the Group has entered into an operation agreement dated 2 April 2007 with Marco Polo Hotels Management Limited, a wholly-owned subsidiary of Wharf, for the appointment of Marco Polo Hotels Management Limited as manager of The Marco Polo Hongkong Hotel for a term of 3 years commencing from 1 January 2007 to operate, direct, manage and supervise The Marco Polo Hongkong Hotel.

Marco Polo Hotels Management Limited is also responsible for the operation of two hotels in Hong Kong, namely, The Marco Polo Gateway and The Marco Polo Prince, and some other hotels in the Asia Pacific region.

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

DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, there existed no service contract, nor there had been proposed any service contract to be, entered into between any Director with the Company or any of its subsidiaries which will not expire or is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS IN CONTRACT OF SIGNIFICANCE

None of the Directors is materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the date of this circular and which is significant in relation to the business of the Group.

DIRECTORS' INTERESTS IN ASSETS

None of the Directors has any interest, direct or indirect, in any assets which has since 31 December 2006, being the date to which the latest published audited accounts of the Group were made up, up to the Latest Practicable Date, been acquired or disposed of by, or leased to, any member of the Group or are proposed to be acquired or disposed of by, or leased to, any member of the Group.

MATERIAL CONTRACTS

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries had entered into any contract (not being contracts entered into in the ordinary course of business) within two years preceding the date of this circular which are or may be material.

LITIGATIONS

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and, so far as the Directors are aware, no litigation or claims of material importance is pending or threatened against the Company or any of its subsidiaries.

EXPERTS' QUALIFICATIONS AND CONSENTS

The following are the qualification of the experts who have given opinion or advice which are made on 20 January 2008 and 31 January 2008 respectively and contained in this circular:

Name	Qualification
KPMG	Certified public accountants
Knight Frank Petty Limited	Independent professional valuer
Jingtian & Gongcheng	PRC legal advisers

Each of KPMG, Knight Frank Petty Limited and Jingtian & Gongcheng has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter/opinion and references to its name in the form and context in which they are included.

EXPERTS' INTERESTS

As at the Latest Practicable Date, none of the KPMG, Knight Frank Petty Limited and Jingtian & Gongcheng:

- (a) had direct or indirect interest in any asset which had since 31 December 2006, being the date to which the latest published audited accounts of the Company were made up, been acquired or disposed of by, or leased to, any member of the Group, or was proposed to be acquired or disposed of by, or leased to, any member of the Group; and

- (b) was beneficially interested in the share capital of any member of the Group nor did they have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

PROCEDURES FOR DEMANDING A POLL

Pursuant to the Company's articles of association, subject to the Companies Ordinance (Cap. 32 of the Laws of Hong Kong), a poll may be demanded in relation to any resolution put to the vote at any general meeting before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll:

- (a) by the chairman of the meeting; or
- (b) by at least five Shareholders present in person or by proxy for the time being entitled to vote at the meeting; or
- (c) by any Shareholder or Shareholders present in person or by proxy and representing not less than one-tenth of the total voting rights of all the Shareholders having the right to attend and vote at the meeting; or
- (d) by a Shareholder or Shareholders present in person or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

MISCELLANEOUS

- (a) The secretary of the Company appointed pursuant to Rule 3.24 of the Listing Rules is Mr. Wilson W. S. Chan, who is a fellow member of The Institute of Chartered Secretaries and Administrators.
- (b) The qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules is Ms. Daphne C.K. Wong, who is a fellow member of The Association of Chartered Certified Accountants and an associate member of The Hong Kong Institute of Certified Public Accountants.
- (c) The transfer office of the Company is that of the Company's share registrars, namely, Tricor Tengis Limited, and is situate at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (d) In the event of any inconsistency, the English text of this circular shall prevail over the Chinese text.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the registered office in Hong Kong of the Company or any weekday (except public holidays) up to including 14 February 2008:

- (a) the letter from the Board, the text of which is set out on pages 4 to 7 of this circular;
- (b) the accountants' report from KPMG on unaudited pro forma financial information of the Group, the text of which is set out in Appendix I;
- (c) the land valuation report on the Changzhou Land, the text of which is set out in Appendix II;
- (d) the written consents as referred to in the section headed "Experts' Qualifications and Consents" in this appendix;
- (e) the letter of advice prepared by Jingtian & Gongcheng opining on matters relating to the Changzhou Land;
- (f) the memorandum and articles of association of the Company;
- (g) the annual reports of the Company for the years ended 31 December 2005 and 31 December 2006;
- (h) the interim report of the Company for the six months ended 30 June 2007; and
- (i) a copy of each circular of the Company pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules since 31 December 2006 (being the date to which the latest published audited consolidated financial statements of the Group were made up).