
IMPORTANT

If you are in any doubt about this Prospectus or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Harbour Centre Development Limited (the "Company"), you should at once hand this Prospectus and the accompanying provisional allotment letter and the form of application for excess Rights Shares, to the purchaser or bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

Dealings in the shares of the Company may be settled through the Central Clearing and Settlement System operated by Hong Kong Securities Clearing Company Limited ("HKSCC") and you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser for details of those settlement arrangements and how such arrangements may affect your rights and interests.

A copy of this Prospectus, together with copies of the provisional allotment letter and the form of application for excess Rights Shares and the written consent of KPMG (referred to herein) has been registered by the Registrar of Companies in Hong Kong as required by Section 38D of the Companies Ordinance of Hong Kong. The Registrar of Companies in Hong Kong and the Securities and Futures Commission of Hong Kong take no responsibility as to the contents of any of the documents referred to above.

The Stock Exchange of Hong Kong Limited and HKSCC takes no responsibility for the contents of this Prospectus, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this Prospectus.



HARBOUR CENTRE DEVELOPMENT LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 51)

RIGHTS ISSUE OF 157,500,000 RIGHTS SHARES AT HK\$12.80 EACH ON THE BASIS OF ONE RIGHTS SHARE FOR EVERY TWO EXISTING SHARES HELD ON THE RECORD DATE

Underwriter of the Rights Issue

THE WHARF (HOLDINGS) LIMITED

It should be noted that the Underwriting Agreement (as defined herein) contains provisions granting the Underwriter the right to terminate its obligations on the occurrence of certain force majeure events.

If at any time between the date of the Underwriting Agreement and 5:00 p.m. on the second Business Day following the Acceptance Date one or more of the following events or matters (whether or not forming part of a series of events) shall occur, arise, or exist, then Wharf (as defined herein) may, in addition to and without prejudice to any other remedies to which Wharf may be entitled, by notice in writing to the Company terminate the Underwriting Agreement forthwith: (i) Wharf shall become aware of the fact that, or shall have reasonable cause to believe that, any of the Warranties was, when originally given or when repeated as provided in the Underwriting Agreement, untrue, inaccurate, misleading or breached, and in each case the same is (in the reasonable opinion of Wharf) material in the context of the Rights Issue; or (ii) (a) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong or elsewhere; (b) any change in local, national or international financial, political, industrial or economic conditions; (c) any change of an exceptional nature in local, national or international equity securities or currency markets; (d) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict; (e) any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange; (f) any suspension in the trading of the Shares on the Stock Exchange for a continuous period of five (5) Business Days; (g) any change or development involving a prospective change in taxation or exchange controls in Hong Kong or elsewhere which will or may materially and adversely affect the Group or a material proportion of the Shareholders in their capacity as such, which event or events is or are in the reasonable opinion of Wharf: - (1) likely to have a material adverse effect on the business or financial or trading position or prospects of the Company or the Group; or (2) likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares taken up; or (3) so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Rights Issue.

Details of terms for the termination of the Underwriting Agreement are set out in the paragraphs headed "Termination of the Underwriting Agreement" on pages 14 to 15 of this Prospectus. If the Underwriting Agreement is terminated, the Rights Issue will not proceed.

Dealings in the Rights Shares in the nil-paid form will take place from 5 March 2008 to 12 March 2008 (both dates inclusive). If the conditions of the Rights Issue are not fulfilled or the Underwriting Agreement is terminated, the Rights Issue will not proceed. Any dealing in the Shares or nil-paid Rights Shares up to the date on which all the conditions of the Rights issue are fulfilled will accordingly bear the risk that the Rights issue may not become unconditional or may not proceed. Shareholders and potential investors should therefore exercise caution when dealing in the Shares or Rights Shares in their nil-paid form, and if they are in any doubt about their position, they are recommended to consult their professional adviser. The latest time for acceptance of and payment for the Rights Shares is 4:00 p.m. on 17 March 2008. The procedures for acceptance or transfer of the Rights Shares are set out on page 12 of this Prospectus.

3 March 2008

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China Projects of the Group

A. WEST CHINA:

- **Chongqing Jiangbei City Project**

Location	: Jiangbei City (江北城) of Jiangbei District (江北區), Chongqing's CBD
Site area	: 1M sq ft
Attributable Plot ratio GFA	: 2.52M sq ft
Project nature	: Residential
Ownership	: J/V project — 55%-owned by the Group/ 45%-owned by China Overseas Holdings group (中國海外發展集團)



B. EAST CHINA:

- **Suzhou Super Tower Project**

Location	: Lake East CBD (湖東中央商務區) of Suzhou Industrial Park (蘇州工業園區), Suzhou City (蘇州市)
Site area	: 0.23M sq ft
Attributable Plot ratio GFA	: 3.02M sq ft
Project nature	: Commercial
Ownership	: J/V project — 80%-owned by the Group/ 20%-owned by Zhong Xin Suzhou Industrial Park (中新蘇州工業園區置業有限公司)



- **Suzhou Baitong Residential Project**

Location : Baitong (白塘) of Suzhou Industrial Park
(蘇州工業園區), Suzhou City (蘇州市)

Site area : 5.43M sq ft

Attributable Plot ratio GFA : 7.81M sq ft

Project nature : Residential

Ownership : J/V project — 80%-owned by the Group/
20%-owned by Zhong Xin Suzhou Industrial Park
(中新蘇州工業園區置業有限公司)

- **Changzhou Xinbei District Project**

Location : Xinbei District (新北區) of Changzhou City (常州市)

Site area : 4.42M sq ft

Attributable Plot ratio GFA : 8.68M sq ft

Project nature : Residential and hotel

Ownership : 100%-owned by the Group

- **Hangzhou CBD Project**

Location : New Hangzhou CBD (錢江新城) of Shangcheng District
(上城區), Hangzhou

Site area : 0.9M sq ft

Attributable Plot ratio GFA : 1.28M sq ft

Project nature : Commercial and residential

Ownership : J/V project — 40%-owned by the Group/
60%-owned by Greentown China Holdings Limited
(綠城中國控股有限公司)

DEFINITIONS

In this Prospectus, unless the context otherwise requires, capitalised terms used shall have the following meanings :-

“Acceptance Date”	17 March 2008, being the last day for acceptance and payment of the Rights Shares, or such other date as the Company and Wharf may agree in writing
“Announcement”	the announcement of the Company dated 5 February 2008 in relation to the proposed Rights Issue
“Associates”	shall have the meaning as ascribed to it under the Listing Rules
“Board”	the board of Directors
“Business Day”	a day (excluding Saturdays) on which banks are generally open for business in Hong Kong
“Capital Increase”	the increase in the authorised share capital of the Company as approved by the Shareholders at the Extraordinary General Meeting, details of which are set out in the circular to the Shareholders dated 14 February 2008
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Company”	Harbour Centre Development Limited (stock code: 51), a company incorporated under the laws of Hong Kong and the shares of which are listed on the Main Board. It is a 67%-owned subsidiary of Wharf
“Companies Ordinance”	Companies Ordinance (Chapter 32 of the Laws of Hong Kong), as amended or supplemented from time to time
“Concert Parties”	has the same meaning as ascribed to it under the Takeover Code
“Directors”	directors of the Company
“EAF(s)”	application form(s) for excess Rights Shares

DEFINITIONS

“Excluded Shareholder(s)”	Overseas Shareholder(s) to whom the Directors, after making enquiry pursuant to Rule 13.36(2) of the Listing Rules and based on legal opinions provided by legal advisers, consider it necessary or expedient not to offer the Rights Shares on account either of legal restrictions under the laws of the relevant place or the requirements of the relevant regulatory body or stock exchange in that place, details of which are disclosed under the paragraphs headed “Rights of Excluded Shareholders” in this Prospectus
“Extraordinary General Meeting”	the extraordinary general meeting of the Company held on 3 March 2008 in relation to the Capital Increase
“Group”	the Company and its subsidiaries
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Latest Practicable Date”	25 February 2008, being the latest practicable date prior to the printing of this Prospectus for the purpose of ascertaining certain information in this Prospectus
“Listing Committee”	has the meaning ascribed thereto in the Listing Rules
“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
“Overseas Shareholders”	Shareholder(s) whose names appear on the register of members of the Company as at the close of business on the Record Date and whose address(es) as shown on such register is/are outside Hong Kong
“PAL(s)”	provisional allotment letter(s) for the Rights Shares
“Posting Date”	3 March 2008 or such other date as Wharf may agree in writing with the Company for the despatch of the Rights Issue Documents
“Prospectus”	this prospectus to be issued by the Company in relation to the Rights Issue

DEFINITIONS

“Qualifying Shareholder(s)”	Shareholder(s) whose name(s) appear on the register of members of the Company as at the close of business on the Record Date, other than the Excluded Shareholders
“Record Date”	26 February 2008, the record date to determine entitlements to the Rights Issue
“Registrar”	Tricor Tengis Limited, the share registrar of the Company
“Rights Issue”	the issue of 157,500,000 Rights Shares at the Subscription Price on the basis of one Rights Share for every two existing Shares held on the Record Date payable in full on acceptance
“Rights Issue Documents”	the Prospectus, PAL and EAF to be issued by the Company in relation to the Rights Issue
“Rights Share(s)”	new Share(s) to be allotted and issued in respect of the Rights Issue
“PRC”	the People’s Republic of China
“SFC”	the Securities and Futures Commission of Hong Kong
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended or supplemental from time to time
“Share(s)”	ordinary share(s) of HK\$0.5 each in the share capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Subscription Price”	the subscription price of HK\$12.80 per Rights Share
“Takeovers Code”	the Hong Kong Codes on Takeovers and Mergers
“Undertaking Letter”	the irrevocable undertaking letter dated 5 February 2008 given by Upfront International Limited in favour of the Company and the Underwriter
“Underwriter”	Wharf
“Underwriting Agreement”	the underwriting agreement entered into between the Company and Wharf dated 5 February 2008 in relation to the Rights Issue

DEFINITIONS

“Underwritten Shares”	52,310,250 Rights Shares fully underwritten by Wharf on and subject to terms and conditions as set out in the Underwriting Agreement
“Warranties”	the representations, warranties and undertakings contained in the Underwriting Agreement
“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
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“%”	per cent.

EXPECTED TIMETABLE

Set out below is an indicative timetable for the implementation of the Rights Issue. **The timetable below is indicative only and is subject to change as agreed by the Company and the Underwriter pursuant to the Underwriting Agreement. The Company will notify Shareholders of any change to the expected timetable as and when appropriate.**

Event	Date
Register of members re-opens	27 February 2008
Despatch of the Rights Issue Documents	3 March 2008
First day of dealings in nil-paid Rights Shares	5 March 2008
Latest time for splitting nil-paid Rights Shares	4:30 p.m. on 7 March 2008
Last day of dealings in nil-paid Rights Shares	12 March 2008
Latest time for acceptance of, and payment for, the Rights Shares and application for excess Rights Shares	4:00 p.m. on 17 March 2008
Underwriting Agreement becomes unconditional	5:00 p.m. on 19 March 2008
Announcement of results of the Rights Issue to be published in the respective websites of the Stock Exchange and the Company on or before	25 March 2008
Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares expected to be posted on or before	25 March 2008
Certificates for the Rights Shares expected to be despatched on or before	25 March 2008
Dealings in fully-paid Rights Shares commence	27 March 2008

Notes:

- 1. Dealings in the fully paid Rights Shares will commence as soon as the relevant Shareholders receive the share certificates for the Rights Shares.*
- 2. The latest time for acceptance of and payment for Rights Shares will not take place at 4:00 p.m. on Monday, 17 March 2008 if there is a tropical cyclone warning signal number 8 or above, or a “black” rainstorm warning in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on Monday, 17 March 2008. Instead the latest time for acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following Business Day which does not have either of those warnings in force at any time between 12:00 noon and 4:00 p.m..*
- 3. If the latest time for acceptance of and payment for the Rights Shares does not take place on Monday, 17 March 2008, the dates mentioned in this expected timetable may be affected. The Company will notify Shareholders by way of announcements on any change to the expected timetable as and when appropriate.*
- 4. All times and dates in this Prospectus refer to Hong Kong local time and dates.*

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

Clement K. H. Wong

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)*

3 March 2008

*To the Qualifying Shareholders and, for information only,
the Excluded Shareholders and Shareholders holding less
than two existing Shares on the Record Date*

Dear Sir or Madam,

**RIGHTS ISSUE OF 157,500,000 RIGHTS SHARES
AT HK\$12.80 EACH
ON THE BASIS OF ONE RIGHTS SHARE FOR
EVERY TWO EXISTING SHARES HELD ON THE RECORD DATE**

INTRODUCTION

In the Announcement, the Company proposed to raise not less than approximately HK\$2,016 million before expenses by way of the Rights Issue pursuant to which 157,500,000 Rights Shares will be issued to the Qualifying Shareholders at the Subscription Price of HK\$12.80 per Rights Share. The Company has provisionally allotted one nil-paid Rights Share for every two existing Shares held by the Qualifying Shareholders on the Record Date. The Rights Issue will not be available to Excluded Shareholders.

The Rights Issue is subject to, among other things, the Underwriting Agreement becoming unconditional and not being terminated on the occurrence of certain events including force majeure.

The purpose of this Prospectus is to provide you with further information regarding the Rights Issue, including information on dealings, transfer and application, and financial information and other information of the Group.

LETTER FROM THE BOARD

RIGHTS ISSUE

Issue statistics

Basis of the Rights Issue:	one Rights Share for every two existing Shares held on the Record Date
Number of existing Shares in issue:	315,000,000 Shares as at the date of this Prospectus
Number of Rights Shares:	157,500,000 Rights Shares
Underwriter:	Wharf

Pursuant to the Rights Issue, 157,500,000 nil-paid Rights Shares have been provisionally allotted, representing approximately 50% of the existing issued share capital of the Company and approximately 33.3% of the issued share capital of the Company as enlarged by the issue of 157,500,000 Rights Shares.

As at the Latest Practicable Date, the Group had no outstanding convertible securities, options (whether agreed conditionally or unconditionally) or warrants in issue which would otherwise confer any right to subscribe for, convert or exchange into the existing Shares.

Qualifying Shareholders

The Company has provisionally allotted the Rights Shares and this Prospectus which contains details of the Rights Issue is being despatched to the Qualifying Shareholders and, for information only, to the Excluded Shareholders and Shareholders holding less than two Shares on the Record Date. The PALs and the EAFs are being sent to the Qualifying Shareholders holding not less than two Shares on the Record Date only.

To qualify for the Rights Issue, a Qualifying Shareholder must have been registered as a member of the Company as at the close of business on the Record Date. In order to have become registered as members of the Company on the Record Date, all transfers of the Shares must have been lodged (together with the relevant share certificate(s)) with the Company's share registrar by 4:30 p.m. (Hong Kong time) on 21 February 2008.

The share registrar of the Company is:

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

LETTER FROM THE BOARD

Rights of Excluded Shareholders

The Rights Issue Documents will not be registered or filed under the applicable securities or equivalent legislation of any jurisdictions other than Hong Kong.

Based on the register of members of the Company, there were a total of 12 Overseas Shareholders with registered addresses in 7 jurisdictions outside Hong Kong as at the Latest Practicable Date. Pursuant to Rule 13.36(2)(a) of the Listing Rules, the Board has made enquiries regarding the legal restrictions under the applicable securities legislation of the relevant jurisdictions and the requirements of the relevant regulatory body or stock exchange with respect to the offer of the Rights Shares to such Overseas Shareholders.

The Company has obtained advices from legal advisers in Macau, Malaysia and Singapore that no local legal or regulatory compliance is required to be made in these jurisdictions. Accordingly, the Rights Issue will be extended to the Overseas Shareholders with addresses in these jurisdictions.

The Company has also obtained advices from legal advisers in Australia, Canada, Spain and the United States that local legal and regulatory requirements may have to be complied with if the Rights Issue is to be extended to the Overseas Shareholders in these jurisdictions. In this connection, the Company considers that it would be necessary or expedient to exclude the Shareholders in these jurisdictions from the Rights Issue due to the time and costs involved in complying with the relevant local legal or regulatory requirements. The Company has therefore arranged for this Prospectus, and not the PALs or the EAFs, to be sent to the Excluded Shareholders and Shareholders holding less than two Shares on the Record Date for information only.

Arrangements will be made for the Rights Shares (excluding fractional entitlements) which would otherwise have been provisionally allotted to the Excluded Shareholders to be sold on the Stock Exchange in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence but before the latest time of such dealings. The Company will distribute to the Excluded Shareholders the net proceeds of such sale of the Rights Shares (pro rata to their entitlement to Rights Shares had they been Qualifying Shareholders) except that a sum due to any Excluded Shareholder of less than HK\$100 will not be distributed but will be retained, along with the proceeds of the sale of fractional entitlements, by the Company for its own use and benefit. In the event that such Rights Shares are not sold on the Stock Exchange, they will become part of the excess Rights Shares available for application by the Qualifying Shareholders.

It is the responsibility of any person (including but not limited to nominee, agent and trustee) outside Hong Kong wishing to make an application for the Rights Shares to satisfy himself/herself/itself as to the full observance of the laws and regulations of the relevant territory or jurisdiction, including the obtaining of any governmental or other consents and to pay any taxes, duties and other amounts required to be paid in such territory or jurisdiction in connection therewith. Any acceptance by any person will be deemed to constitute a representation and warranty from such person to the Company that these local laws and requirements have been complied with. Shareholders should consult their professional advisers if in doubt.

LETTER FROM THE BOARD

Fractional entitlements to the Rights Shares

The Company has not provisionally allotted any fraction of the Rights Shares in nil-paid form nor will it accept any application for any fraction of the Rights Shares. The Company may sell any nil-paid Rights Shares created by adding fractions of the Rights Shares, if any, on the Stock Exchange, and if it does so, it will keep the net proceeds for its own benefit.

Subscription Price

The Subscription Price of HK\$12.80 per Rights Share is payable in full by a Qualifying Shareholder upon acceptance of the provisional allotment of the Rights Shares under the Rights Issue or application for excess Rights Shares or when a renounee of any provisional allotment of the Rights Shares or a transferee of nil-paid Rights Shares applies for the Rights Shares. The Subscription Price represents:

- (i) a discount of approximately 21% to the closing price of HK\$16.30 per Share as quoted on the Stock Exchange on 4 February 2008, being the last trading day of the Shares on the Stock Exchange prior to the Announcement;
- (ii) a discount of approximately 21% to the average closing price of approximately HK\$16.20 per Share as quoted on the Stock Exchange for the 5 consecutive trading days up to and including 4 February 2008, being the last trading day of the Shares on the Stock Exchange prior to the Announcement;
- (iii) a discount of approximately 20% to the average closing price of approximately HK\$15.93 per Share as quoted on the Stock Exchange for the 10 consecutive trading days up to and including 4 February 2008, being the last trading day of the Shares on the Stock Exchange prior to the Announcement;
- (iv) a discount of approximately 26% to the average closing price of approximately HK\$17.28 per Share as quoted on the Stock Exchange for the 30 consecutive trading days up to and including 4 February 2008, being the last trading day of the Shares on the Stock Exchange prior to the Announcement;
- (v) a discount of approximately 15% to the theoretical ex-right price of approximately HK\$15.13 based on the closing price of HK\$16.30 per Share as quoted on the Stock Exchange on 4 February 2008, being the last trading day of the Shares on the Stock Exchange prior to the Announcement; and
- (vi) a discount of approximately 2% to the closing price of HK\$13.00 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiation between the Company and Wharf with reference to the market price of the Shares under the prevailing market conditions. The Directors consider the terms of the Rights Issue to be in the best interests of the Group and the Shareholders as a whole.

LETTER FROM THE BOARD

Basis of Provisional Allotments

One Rights Share (in nil-paid form) for every two existing Shares held by Qualifying Shareholders as at the close of business on the Record Date.

Status of the Rights Shares

The Rights Shares (when allotted, issued and fully paid) will rank pari passu with the then existing Shares in issue in all respects. Holders of fully paid Rights Shares will be entitled to receive all future dividends and distributions which may be declared, made or paid after the date of allotment and issue of the Rights Shares.

Certificates for the Rights Shares

Subject to the fulfillment by the Company of the conditions precedent to the Rights Issue as contained in the Underwriting Agreement, certificates for all fully-paid Rights Shares are expected to be posted by 25 March 2008 to those Qualifying Shareholders who have paid for and have accepted the Rights Shares by ordinary mail, at their own risk.

Application for excess Rights Shares

Qualifying Shareholders may apply for any unsold entitlements of Excluded Shareholders and any Rights Shares provisionally allotted but not accepted by Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares. Application can be made by completing the EAF and lodging the same with a separate remittance for the excess Rights Shares with the Company's share registrar, Tricor Tengis Limited at 26/F Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by 4:00 p.m. on Monday 17 March, 2008. The Board will allocate the excess Rights Shares based on a sliding scale with reference to the number of the excess Rights Shares applied by them in pre-determined categories (i.e. Qualifying Shareholders belonging to pre-determined categories consisting of applications for smaller number of Rights Shares are allocated with a higher percentage of successful application but will receive less number of Rights Shares; whereas Qualifying Shareholders belonging to pre-determined categories consisting of applications for larger number of Rights Shares are allocated with a smaller percentage of successful application but will receive higher number of Rights Shares) and with the possibility of involving balloting which means some Qualifying Shareholders belonging to certain pre-determined categories may be allotted with more excess Rights Shares than others and those Qualifying Shareholders who are unsuccessful in the ballot may not receive any excess Rights Shares. Based on these, the Board considers the allocation basis in respect of the excess Rights Shares to be fair and reasonable. **All remittances must be made in Hong Kong dollars. Cheques must be drawn on an account with, and cashier's orders must be issued by, a bank in Hong Kong and made payable to "Harbour Centre Development Limited — Excess Application Account" and crossed "Account Payee Only".**

LETTER FROM THE BOARD

Shareholders with the Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, the Shareholders should note that the aforesaid arrangement in relation to the allocation of the excess Rights Shares will not be extended to beneficial owners individually. Shareholders with their Shares held by a nominee company are advised to consider whether they would like to arrange registration of the relevant Shares in the name of the beneficial owner(s) prior to the Record Date.

All cheques and cashier's orders will be presented for payment immediately following receipt and all interest earned on such monies will be retained for the benefit of the Company. Completion and lodgment of an EAF together with a cheque or cashier's order in payment for the excess Rights Shares applied for will constitute a warranty by the applicant that the cheque or cashier's order will be honoured on first presentation. Any EAF in respect of which the accompanying cheque or cashier's order is dishonoured on first presentation is liable to be rejected.

If no excess Rights Shares are allotted to you, the amount tendered on application by you is expected to be refunded in full without interest by means of cheque(s) despatched by ordinary post to your registered address at your own risk on or before Tuesday, 25 March 2008. If the number of excess Rights Shares allotted to you is less than the number applied for, the surplus application monies are also expected to be returned to you without interest by means of cheque(s) despatched by ordinary post to your registered address at your own risk on or before Tuesday, 25 March 2008.

If the Underwriter exercises its right to terminate the Underwriting Agreement in accordance with the terms thereof and/or if any of the conditions mentioned in the paragraphs headed "Conditions of the Rights Issue" in this letter from the Board are not fulfilled on or before the time and date as specified in the Underwriting Agreement (or such later date as Wharf and the Company may agree), the monies received in respect of the application for excess Rights Shares will be returned to the applicants without interest by means of cheque(s) despatched by ordinary post at the risk of such applicants on or before Tuesday, 25 March 2008.

Application for listing

The Company will apply to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms. Nil-paid Rights Shares are expected to be traded in board lots of 1,000 (as the Shares are currently traded on the Stock Exchange in board lots of 1,000).

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange, and compliance with the stock admission requirements of HKSCC, the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by the HKSCC. Settlement of transactions between the participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

LETTER FROM THE BOARD

No part of the share capital of the Company is listed or dealt in or on which listing or permissions to deal is being or is proposed to be sought on any other stock exchange. Dealing in the Rights Shares (in both nil-paid and fully-paid forms) will be subject to the payment of stamp duty, Stock Exchange trading fee and SFC transaction levy, or any other applicable fees and charges in Hong Kong.

Procedures for application and transfer

A PAL is enclosed with this Prospectus which entitles the Qualifying Shareholders to whom it is addressed to subscribe for the number of Rights Shares shown therein. If a Qualifying Shareholder wishes to accept all Rights Shares provisionally allotted to him/her/it as specified in the PAL, he/she/it must lodge the PAL in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Registrar, Tricor Tengis Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong by no later than 4:00 p.m. on 17 March 2008. All remittances must be made in Hong Kong dollars and cheques must be drawn on a bank account with, or cashier orders must be issued by, a licensed bank in Hong Kong and made payable to **"Harbour Centre Development Limited — Rights Issue Account"** and crossed **"Account Payee Only"**.

It should be noted that unless the PAL, together with the appropriate remittance, has been lodged with the Registrar by 4:00 p.m. on 17 March 2008, whether by the original allottee or any person in whose favour the rights have been validly transferred, that provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If a Qualifying Shareholder wishes to accept only part of his/her/its provisional allotment or transfer a part of his/her/its rights to subscribe for the Rights Shares provisionally allotted to him/her/it under the PAL or to transfer all or part of his/her/its rights to more than one person, the original PAL must be surrendered and lodged for cancellation by no later than 4:30 p.m. on 7 March 2008 with the Registrar, who will cancel the original PAL and issue new PALs in the denominations required which will be available for collection at the Registrar after 9:00 a.m. on the second Business Day after the surrender of the original PAL.

All cheques or cashier orders will be presented for payment immediately upon receipt and all interest earned on such monies will be retained for the benefit of the Company. Any PAL in respect of which the cheque or cashier order is dishonoured on first presentation is liable to be rejected, and in that event the provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If the Underwriter exercises the right to terminate or rescind the Underwriting Agreement or if any of the conditions of the Rights Issue is not fulfilled, the monies received in respect of acceptances of the Rights Shares will be refunded to the Qualifying Shareholders or such other persons to whom the Rights Shares in their nil-paid form have been validly transferred without interest, by means of cheques despatched by ordinary post at the risk of such Qualifying Shareholders to the registered addresses or such other persons on or before 25 March 2008.

LETTER FROM THE BOARD

UNDERWRITING ARRANGEMENT

Underwriting Agreement

Date :	5 February 2008
Underwriter :	Wharf (<i>Note</i>)
Number of the Rights Shares :	157,500,000 Rights Shares
Number of Underwritten Shares :	52,310,250 Underwritten Shares
Commission :	1.25% of the Subscription Price of the Underwritten Shares

Note: Underwriting does not fall within the ordinary course of business of Wharf

Undertaking of Wharf

As at the Latest Practicable Date, Wharf is, through its wholly-owned subsidiary, interested in 210,379,500 Shares, representing approximately 67% of the issued share capital of the Company. Pursuant to the Underwriting Agreement, Wharf has undertaken to the Company that, subject to the Rights Issue not being terminated, it will not, without the prior written consent of the Company, transfer or otherwise dispose of (including without limitation the creation of any option, charge or other encumbrances or rights over or in respect of) or acquire (except by taking up the Rights Shares) any Share or any interest therein at any time between the date of the Underwriting Agreement up to and including 4:00 p.m. on the first Business Day after the Acceptance Date. In addition, Wharf has also undertaken that it would place such number of Underwritten Shares to independent third parties to comply with the public float requirements under the Listing Rules in the event that the percentage of public float resulting from completion of the Rights Issue falls below the required minimum percentage under the Listing Rules in respect of the Company. Wharf will take appropriate steps/measures to ensure sufficient public float of the Shares upon completion of the Rights Issue.

Conditions of the Rights Issue

The obligations of the Underwriter under the Underwriting Agreement are conditional on the following, none of which can be waived, whether in whole or in part:

- (i) completion of the Capital Increase;
- (ii) all necessary approvals, permits, waivers, consents and authorisations (including, without limitation, approval from the Shareholders in relation to the proposed Capital Increase for the Rights Issue) having been obtained for the provisional allotment and allotment of the Rights Shares as well as for the Rights Issue generally;

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- (iii) the Listing Committee of the Stock Exchange having granted (subject only to provisional allotment and/or allotment of the Rights Shares, the posting of the Rights Issue Documents and despatch of certificates in respect of the Rights Shares and any other matters which are agreed between the Company and the Underwriter) the listing of and permission to deal in the Rights Shares (both in nil paid and fully paid form), and such listing and permission to deal not being subsequently revoked;
- (iv) the registration of the Rights Issue Documents (with all the documents required to be attached thereto by Section 38D of the Companies Ordinance) (all having been duly authorised for registration by the Stock Exchange and signed by or on behalf of all Directors) by the Registrar of Companies in Hong Kong in compliance with the Companies Ordinance by no later than the Posting Date; and
- (v) the posting of the Rights Issue Documents to the Qualifying Shareholders on or before the Posting Date.

As at the date of this Prospectus, the conditions set out (i), (ii) (in respect of the Shareholders' approval for the Capital Increase), (iv) and (v) have been fulfilled.

If the remaining conditions of the Rights Shares set out in (ii) and (iii) above are not satisfied on or before the time and dates specified in the Underwriting Agreement (or in each case such later date as Wharf and the Company may agree), all liabilities of the parties to the Underwriting Agreement shall cease and determine and none of the parties shall have any claim against the other save that the Company shall reimburse on demand Wharf such costs, charges and expenses of or incidental to the Rights Issue and the offer and issue of the Rights Shares and the matters contemplated by the Underwriting Agreement as agreed between the Company and Wharf in the Underwriting Agreement.

Termination of the Underwriting Agreement

If at any time between the date of the Underwriting Agreement and 5:00 p.m. on the second Business Day following the Acceptance Date one or more of the following events or matters (whether or not forming part of a series of events) shall occur, arise, or exist

- (i) Wharf shall become aware of the fact that, or shall have reasonable cause to believe that, any of the Warranties was, when originally given or when repeated as provided in the Underwriting Agreement, untrue, inaccurate misleading or breached, and in each case the same is (in the reasonable opinion of Wharf) material in the context of the Rights Issue; or
- (ii) (a) any new law or regulation is enacted, or there is any change in existing laws or regulations or any change in the interpretation or application thereof by any court or other competent authority, whether in Hong Kong or elsewhere;
- (b) any change in local, national or international financial, political, industrial or economic conditions;

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- (c) any change of an exceptional nature in local, national or international equity securities or currency markets;
- (d) any local, national or international outbreak or escalation of hostilities, insurrection or armed conflict;
- (e) any moratorium, suspension or material restriction on trading in securities generally on the Stock Exchange;
- (f) any suspension in the trading of the Shares on the Stock Exchange for a continuous period of five (5) Business Days;
- (g) any change or development involving a prospective change in taxation or exchange controls in Hong Kong or elsewhere which will or may materially and adversely affect the Group or a material proportion of the Shareholders in their capacity as such,

which event or events is or are in the reasonable opinion of Wharf: - (1) likely to have a material adverse effect on the business or financial or trading position or prospects of the Company or the Group; or (2) likely to have a material adverse effect on the success of the Rights Issue or the level of Rights Shares taken up; or (3) so material as to make it inappropriate, inadvisable or inexpedient to proceed further with the Rights Issue,

then Wharf may, in addition to and without prejudice to any other remedies to which Wharf may be entitled, by notice in writing to the Company terminate the Underwriting Agreement forthwith.

WARNING OF THE RISKS OF DEALING IN THE SHARES AND THE NIL-PAID RIGHTS SHARES

Existing Shares have been dealt with on an ex-rights basis from 20 February 2008. The Rights Shares will be dealt with in their nil-paid form from 5 March 2008 to 12 March 2008 (both dates inclusive). If prior to 5:00 p.m. on the second Business Day following the Acceptance Date, Wharf terminates the Underwriting Agreement (see sub-section headed “Termination of the Underwriting Agreement” above) or the conditions of the Rights Issue (see sub-section headed “Conditions of the Rights Issue” above) cannot be fulfilled, the Rights Issue will not proceed.

Any dealings in the Shares up to the date on which all the conditions of the Rights Issue are fulfilled, and any dealings in the Rights Shares in their nil-paid form between 5 March 2008 and 12 March 2008, both dates inclusive, are accordingly subject to the risk that the Rights Issue may not become unconditional or may not proceed. Shareholders and potential investors should therefore exercise caution when dealing in the Shares or Rights Shares in their nil-paid form, and if they are in any doubt about their position, they are recommended to consult their professional adviser.

Shareholders with the Shares held by a nominee company should note that the Board will regard the nominee company as a single Shareholder according to the register of members of the Company.

LETTER FROM THE BOARD

SHAREHOLDING STRUCTURE

The changes in the shareholding structure of the Company arising from the Rights Issue are as follows:

	As at the Latest Practicable Date		Shareholding upon completion of the Rights Issue			
	<i>No. of Shares</i>	%	0% acceptance by the Shareholders other than Wharf		100% acceptance by all Shareholders	
	<i>No. of Shares</i>	%	<i>No. of Shares</i>	%	<i>No. of Shares</i>	%
Wharf ^(Note 1)	<u>210,379,500</u>	<u>66.79</u>	<u>367,879,500</u>	<u>77.86</u>	<u>315,569,250</u>	<u>66.79</u>
<i>Public shareholders:</i>						
Harson Investment Limited ^(Note 3)	25,357,500	8.05	25,357,500	5.37	38,036,250	8.05
Other public Shareholders	<u>79,263,000</u>	<u>25.16</u>	<u>79,263,000</u>	<u>16.77</u>	<u>118,894,500</u>	<u>25.16</u>
Sub-total	104,620,500	33.21	104,620,500	22.14	156,930,750	33.21
				<i>(Note 2)</i>		
Total	<u><u>315,000,000</u></u>	<u><u>100.00</u></u>	<u><u>472,500,000</u></u>	<u><u>100.00</u></u>	<u><u>472,500,000</u></u>	<u><u>100.00</u></u>

Note:

1. Wharf is, through its wholly-owned subsidiary, namely Upfront International Limited, interested in 66.79% shareholding interest in the Company. Wharf is a non wholly-owned subsidiary of Wheelock and Company Limited holding (whether directly or indirectly) approximately 50.02% shareholding interest in Wharf after completion of the rights issue exercise in January 2008.
2. Wharf has undertaken to comply with the public float requirement under the Listing Rules. For details, please refer to the section headed "Restoration of Public Float" below.
3. Harson Investment Limited, who is not associated and has no connection with Wharf or its Associates, is an independent third party.

RESTORATION OF PUBLIC FLOAT

As shown under the section headed "Shareholding Structure" above, immediately upon the completion of the Rights Issue, assuming no Rights Issue Shares being taken up by the Shareholders other than Wharf, the public float of the Company will decrease to approximately 22.14%. In this regard, Wharf has undertaken that it would place such number of Underwritten Shares to independent third parties to comply with the public float requirements under the Listing Rules in the event that the percentage of public float resulting from completion of the Rights Issue falls below the required minimum percentage under the Listing Rules in respect of the Company. Wharf will take appropriate steps/measures to ensure sufficient public float of the Shares upon completion of the Rights Issue.

LETTER FROM THE BOARD

IRREVOCABLE UNDERTAKINGS

Pursuant to the Undertaking Letter, Upfront International Limited has irrevocably undertaken to subscribe for all the Rights Shares provisionally allotted to it, under the Rights Issue.

REASONS FOR THE RIGHTS ISSUE AND USE OF PROCEEDS

The Group has since 2007 embarked on a substantial business initiative in expanding its property investment in China and has, solely or through joint ventures, succeeded in acquiring several sites in four different cities in China mainland since September 2007. The Group's land bank in China is currently over 23 million square feet and the Group continues to seek investment opportunities in China in the near future. The Group's initiative to expand into properties in the mainland is a strategic undertaking and a long-term commitment. These new investments will open a new and exciting frontier to the Group and its shareholders in future. It is prudent business practice that expansion is suitably anchored by financial solidarity. Hence a rights issue is proposed.

The estimated net proceeds of the Rights Issue of approximately HK\$2,000 million will be applied by the Group to meet its capital requirements arising from this initiative.

FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group's business of ownership of properties and investments have performed well and contributed to strong recurrent operational cash flows. The Group's initiative to expand into properties in the PRC market is a long term undertaking. Upon the receipt of the proceeds of the Rights Issue, the financial position of the Group will be further strengthened to facilitate the Group's expansion into properties in the PRC market. The Group expects to benefit from the robust development and increase in demand in the property markets in the PRC.

TAXATION

Qualifying Shareholders are recommended to consult their professional advisers if they are in any doubt as to the taxation implications of holding or disposal of, or dealing in the Rights Shares and as regards the Excluded Shareholders, their receipt of the net proceeds of sale of the Rights Shares otherwise falling to be issued to them under the Rights Issue. It is emphasised that none of the Company, its Directors or any other parties involved in the Rights Issue accept responsibility for any tax effects or liability of holders of the Rights Shares resulting from the purchase, holding or disposal of, or dealing in the Rights Shares.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

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

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

	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	—	—	85.6	161.3	15.9		262.8
	<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	—	—	83.5	158.1	15.9		257.5
	<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

- (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

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

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

(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><u>83.6</u></u>	<u><u>64.6</u></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><u>76.9</u></u>	<u><u>60.2</u></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><u>83.6</u></u>	<u><u>64.6</u></u>

13. EMPLOYEE BENEFITS

(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

(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.

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	380.0	190.0	380.0	190.0
Issued and fully paid				
Ordinary shares of HK\$0.50 each	315.0	157.5	315.0	157.5

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	—	—	3.5	3.5
	—	131.9	3.5	135.4
Profit for the year	—	—	517.1	517.1
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	—	—	(15.8)	(15.8)
Balance at 31 December 2005	542.0	404.4	2,992.4	3,938.8
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	—	—	1.1	1.1

20. RESERVES

	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

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*

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**

(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*

- 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***(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

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*

- (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*

- (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**(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*

- (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
	<i>Note</i>	<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).

INDEBTEDNESS**Borrowings**

At the close of business on 31 December 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this Prospectus, the Group had total borrowings of HK\$1,858.9 million. Details of the total borrowings are summarised below:

	The Group <i>HK\$ million</i>
Secured	
Bank loans	980.0
Unsecured	
Bank loans	<u>878.9</u>
Total borrowings	<u><u>1,858.9</u></u>
Analysis of total borrowings:	
Repayable within 1 year	1,278.9
Repayable after 1 year, but within 2 years	—
Repayable after 2 years, but within 5 years	580.0
Repayable after 5 years	<u>—</u>
Total borrowings	<u><u>1,858.9</u></u>

Facilities

As at 31 December 2007, the Group had total banking facilities of approximately HK\$2,500 million. Certain banking facilities of the Group were secured by certain available-for-sale investments with an aggregate carrying value of approximately HK\$2,003.6 million.

Subsequent to 31 December 2007, the Group has entered into an agreement to obtain a bank loan of RMB200 million and has obtained additional committed banking facilities amounting to HK\$1,200 million secured by the Group's properties, whilst HK\$500 million of the unsecured credit lines as at 31 December 2007 has now expired.

Contingent liabilities

As at 31 December 2007, there were no guarantees given by the Group in respect of banking facilities available to associates of the Group.

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 on 31 December 2007.

Save as disclosed above, the Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 December 2007, up to and including the Latest Practicable Date.

WORKING CAPITAL

The Directors are of the opinion that, following completion of the Rights Issue, after taking into account the financial resources available to the Group, including internally generated funds and the available banking facilities, the Group has sufficient working capital for its present requirements for at least the next 12 months from the date of this prospectus, in the absence of unforeseeable circumstances.

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.

For illustrative purpose only, set out below is the unaudited pro forma statement of adjusted consolidated net tangible assets of the Group after completion of the Rights Issue. Although reasonable care has been exercised in preparing the unaudited pro forma financial information, Shareholders who read the information should bear in mind that these figures are inherently subject to adjustments and may not give a complete picture of the Group's financial results and positions for the financial periods concerned.

(A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

Introduction

The unaudited Pro forma Statement of Adjusted Consolidated Net Tangible Assets of the Group has been prepared by the directors of the Company in accordance with Paragraph 4.29 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited to illustrate the effect of the proposed Rights Issue on the unaudited consolidated net tangible assets of the Group as if the Rights Issue had taken place on 30 June 2007.

The unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets of the Group is prepared based on the unaudited consolidated net assets of the Group as at 30 June 2007, as extracted from the published interim report of the Group for the six months ended 30 June 2007 set out in Appendix I to this Prospectus, after incorporating the unaudited pro forma adjustments described in the accompanying notes.

The 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 consolidated net tangible assets of the Group following the Rights Issue.

	Unaudited consolidated net assets of the Group attributable to the Company's equity shareholders as at 30 June 2007 <i>HK\$ million</i> <i>(Note 1)</i>	Estimated net proceeds from the Rights Issue <i>HK\$ million</i> <i>(Note 2)</i>	Unaudited pro forma adjusted consolidated net tangible assets of the Group attributable to the Company's equity shareholders after the completion of the Rights Issue <i>HK\$ million</i>
Based on 157,500,000 Rights shares to be issued at subscription price of HK\$12.80 per Rights Share	<u>5,064.0</u>	<u>2,000</u>	<u>7,064.0</u>
Unaudited consolidated net tangible assets per share attributable to the Company's equity shareholders, prior to the completion of the Rights Issue <i>(Note 3)</i>			<u>HK\$16.08</u>
Unaudited pro forma adjusted consolidated net tangible assets per share attributable to the Company's equity shareholders after the completion of the Right Issue <i>(Note 4)</i>			<u>HK\$14.95</u>

Notes:

- (1) The unaudited consolidated net assets of the Group as at 30 June 2007 is extracted from the published interim report of the Company for the six months ended 30 June 2007 as set out in Appendix I to this Prospectus. The unaudited consolidated net tangible assets of the Group attributable to the Company's equity Shareholders as at 30 June 2007 is based on the unaudited consolidated net assets of the Group attributable to the equity shareholders as at 30 June 2007 of HK\$5,064.0 million.
- (2) The estimated net proceeds from the Rights Issue of approximately HK\$2,000 million are based on 157,500,000 Rights Shares to be issued (in the proportion of one Rights Share for every two existing shares held as at the Record Date which is 315,000,000 shares) at the subscription price of HK\$12.80 per Rights Share and after deduction of estimated related expenses of approximately HK\$16 million.
- (3) The calculation of unaudited consolidated net tangible assets per share is based on 315,000,000 shares in issue as at 30 June 2007.
- (4) The calculation of unaudited pro forma adjusted consolidated net tangible assets per share is based on 472,500,000 shares which comprise 315,000,000 shares in issue as at 30 June 2007 and 157,500,000 Rights Shares to be issued.
- (5) No adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2007, including the acquisition of certain land lots by the Group (details of which are set out in the Company's circulars dated 30 October 2007, 30 November 2007 and 31 January 2008 respectively).

The following is the text of a comfort letter, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed “Documents available for inspection” in Appendix III, a copy of the following comfort letter is available for inspection.

(B) REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

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

The Board of Directors
Harbour Centre Development Limited
16th Floor, Ocean Centre
Harbour City
Canton Road, Kowloon
HONG KONG

3 March 2008

Dear Sirs

We report on the unaudited pro forma statement of adjusted consolidated net tangible assets (the “Unaudited Pro Forma Financial Information”) of Harbour Centre Development Limited (the “Company”) and its subsidiaries (the “Group”) set out in Section A of Appendix II to the prospectus of the Company dated 3 March 2008 (the “Prospectus”), which has been prepared by the directors of the Company solely for illustrative purposes to provide information about how the proposed rights issue, might have affected the financial information presented therein. 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 as set out in Section A of this Appendix.

Responsibilities

It is solely the responsibility 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 (“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 their dates of issues.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 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 the 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

RESPONSIBILITY STATEMENT

This Prospectus 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 Prospectus 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.

SHARE CAPITAL

The authorised and issued share capital of the Company as at the Latest Practicable Date and following completion of the Rights Issue were and are expected to be as follows:-

<i>Authorised:</i>	<i>HK\$</i>
<u>1,200,000,000</u> Shares ^(Note)	<u>600,000,000</u>
<i>Issued and fully paid or credited as fully paid:</i>	<i>HK\$</i>
<u>315,000,000</u> Shares as at the Latest Practicable Date	<u>157,500,000</u>
<u>157,500,000</u> Rights Shares to be issued	<u>78,750,000</u>
<i>Issued share capital upon completion of the Rights Issue:</i>	<i>HK\$</i>
<u>472,500,000</u> Shares	<u>236,250,000</u>

Note: At the Extraordinary General Meeting, an ordinary resolution has been passed to increase the Company's authorised share capital from HK\$190,000,000 to HK\$600,000,000 by the creation of an additional 820,000,000 shares of HK\$0.50 each in the capital of the Company.

All of the Shares in issue and to be issued rank and will rank pari passu in all respects with each other, including, in particular, as to dividends, voting rights and return of capital. The Shares and the Rights Shares in issue and to be issued are or will be listed on the Stock Exchange.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY

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(s) (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 ordinary 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 at the Latest Practicable Date, none of the Directors or chief executive (if any) of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company and its associated corporation(s) (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 pursuant to Section 352 of the SFO, to be entered into the register referred to therein, or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

Given below are the names of all parties, other than person(s) who is/are Director(s) of the Company, 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 and 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 to be 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 Prospectus, 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 Gateway and The 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 Gateway and The 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

As at the Latest Practicable Date, 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 Prospectus and which is significant in relation to the business of the Group.

DIRECTORS' INTERESTS IN ASSETS

None of the Director has any interest, either directly or indirectly, in any assets which has since 31 December 2006, (being the date to which the latest published audited financial statements 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, except for the Underwriting Agreement, 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 Prospectus 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 is the qualification of the expert who has made statement in this Prospectus:

Name	Qualification
KPMG	Certified Public Accountants

KPMG has given and has not withdrawn its written consent to the issue of this Prospectus 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,

- (a) KPMG did not have any direct or indirect interest in any asset which had since 31 December 2006, being the date to which the latest published audited financial statements 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) KPMG was not 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.

PARTIES INVOLVED IN THE RIGHTS ISSUE

Underwriter	The Wharf (Holdings) Limited 16th Floor, Ocean Centre, Harbour City, Canton Road, Kowloon, Hong Kong
Legal adviser to the Company	Deacons 5th Floor, Alexandra House 18 Chater Road Central, Hong Kong
Reporting Accountant	KPMG 8th Floor Prince's Building 10 Chater Road Central, Hong Kong
Share registrar	Tricor Tengis Limited 26th Floor, Tesbury Centre 28 Queen's Road East, Wanchai, Hong Kong

EXPENSES

The expenses in connection with the Rights Issue, including underwriting commission, printing, registration, translation, legal and accounting charges are estimated to be approximately HK\$16 million and will be payable by the Company.

MISCELLANEOUS

- (a) The registered office of the Company is 16th Floor, Ocean Centre, Harbour City, Canton Road, Kowloon, Hong Kong.
- (b) 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.
- (c) 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.
- (d) The transfer office of the Company is that of the Company's share registrar, namely, Tricor Tengis Limited, and is situate at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.
- (e) The authorised representatives are Mr. T. Y. Ng and Mr. Wilson W. S. Chan.

- (f) The principal banker is The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong.

DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

A copy of this Prospectus, together with copies of PAL and EAF and the written consent referred to in the paragraph headed "Qualification and consent of expert" in this appendix have been delivered to the Registrar of Companies in Hong Kong for registration as required by Section 38D of the Companies Ordinance.

LEGAL EFFECT

The Rights Issue Documents and all acceptance of any offer or application contained in such documents are governed by and shall be construed in accordance with the Laws of Hong Kong. Where an application is made in pursuance of any such documents, the relevant document(s) shall have the effect of rendering all person concerned bound by the provisions, other than the penal provisions, of Sections 44A and 44B of the Companies Ordinance.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours from the date of this Prospectus up to and including 17 March 2008 at the registered office in Hong Kong of the Company :

- (a) the letter from the Board, the text of which is set out on pages 6 to 18 of this Prospectus;
- (b) the report on unaudited pro forma statement of consolidated net tangible assets of the Group as set out in Appendix II to this Prospectus;
- (c) the written consent referred to in paragraph headed "Experts' Qualifications and Consents" in this appendix;
- (d) the Underwriting Agreement referred to in paragraph headed "Material Contract" in this appendix;
- (e) the memorandum and articles of association of the Company;
- (f) the annual reports of the Company for the years ended 31 December 2005 and 31 December 2006; and
- (g) 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).