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**恒基兆業地產有限公司**

**HENDERSON LAND DEVELOPMENT COMPANY LIMITED**

Incorporated in Hong Kong with limited liability

(Stock Code : 12)

## 2010 FINAL RESULTS ANNOUNCEMENT

### CHAIRMAN'S STATEMENT

Dear Shareholders

On behalf of your Board, I am pleased to present my report on the operations of the Group for the financial year ended 31 December 2010.

### Overview

Including the fair value change (net of non-controlling interests and deferred taxation) of investment properties, the Group profit attributable to equity Shareholders for the year ended 31 December 2010 was HK\$15,820 million. Compared with the Group profit attributable to equity Shareholders of HK\$15,465 million (as restated) for the 18-month period ended 31 December 2009, this represented an increase of HK\$355 million or 2%. Earnings per share were HK\$7.32 (HK\$7.20 (as restated) for the 18-month period ended 31 December 2009).

### Hong Kong property business

During the year, the Group made significant headway in the expansion of its land bank in Hong Kong. Going forward, the Group intends to intensify its efforts not only in expanding its land bank but also in expediting its programme of sales/pre-sales, as summarized below:

| Note          |                                                                    | Expected year of sales launch<br>(million sq.ft.) |             |             |                    | Total<br>(million sq.ft.) |
|---------------|--------------------------------------------------------------------|---------------------------------------------------|-------------|-------------|--------------------|---------------------------|
|               |                                                                    | 2011                                              | 2012        | 2013        | 2014 or<br>onwards |                           |
| 1             | Stocks and other projects pending sales                            | 1.69                                              | —           | —           | —                  | 1.69                      |
| 2             | Newly acquired urban redevelopment projects of old buildings       | 0.07                                              | 0.56        | 1.04        | 0.11               | 1.78                      |
| 3             | Existing urban redevelopment projects of old buildings             | —                                                 | —           | —           | 1.84               | 1.84                      |
| 4             | Wu Kai Sha development project converted from agricultural land    | —                                                 | 0.44        | 1.23        | —                  | 1.67                      |
| 5             | Tai Tong Road development project converted from agricultural land | —                                                 | 1.02        | —           | —                  | 1.02                      |
| 6             | Wo Shang Wai                                                       | —                                                 | —           | —           | 0.89               | 0.89                      |
| <b>Total:</b> |                                                                    | <b>1.76</b>                                       | <b>2.02</b> | <b>2.27</b> | <b>2.84</b>        | <b>8.89</b>               |

- Note 1: In 2011, the Group plans to embark on the sales launch of a number of residential developments including The Gloucester in Wanchai, 58-66 Boundary Street in Mongkok and La Verte in Fanling. Together with the completed stocks and other projects pending sales, a total of over 1.69 million square feet in attributable residential gross area will be available for sale
- Note 2: 23 urban redevelopment projects, including 6 projects with entire ownership and 17 projects with ownership of over 80%, have been successfully acquired with 80% or up to entire ownership. The total acquisition costs for these 23 projects are estimated at about HK\$7,000 million, or an average land cost of approximately HK\$3,900 per square foot of GFA based on the expected total attributable gross floor area (GFA) of 1.78 million square feet in future redevelopment upon completion of acquisition, whilst building plans for some of these projects have been approved. In addition, completion of a redevelopment is expected to occur, on average, in the second year after the year in which the redevelopment is to be launched for pre-sale
- Note 3: The Group has a total of 9 existing projects under redevelopment or conversion into other purposes, such as the site at 14-30 King Wah Road, North Point, and the large-scale residential joint-venture project at Yau Tong Bay, Kowloon which would provide about 1.84 million square feet in attributable gross floor area for commercial and residential use in the urban areas
- Note 4: 1.67 million square feet in attributable GFA of development land from conversion of Sha Tin Town Lot 502, Wu Kai Sha (with total land cost of HK\$3,509 per square foot of GFA) is being developed with its first phase of development of approximately 0.44 million square feet in attributable GFA, which is due for completion in the fourth quarter of 2012, expected to be launched for pre-sales in 2012. The remaining 1.23 million square feet in attributable GFA from its subsequent phases of development would be available for pre-sales from 2013 onwards
- Note 5: 930,000 square feet in attributable GFA of development land from conversion of Lot 5369, DD116 at Tai Tong Road, Yuen Long (with total land cost of HK\$2,291 per square foot of GFA) is being developed. The whole project, with the total attributable GFA enlarged to 1.02 million square feet upon successful land-use conversion of its adjacent land-lot, would be available for pre-sale in 2012 with the scheduled completion by the end of 2012
- Note 6: Terms (except the land premium) for the land-use conversion of the wetland restoration and residential project in Wo Shang Wai, Yuen Long with attributable GFA of 895,000 square feet have been agreed

In addition to the above projects, the acquisition of another 45 urban redevelopment projects of old buildings, as well as building plan applications for most of them, are in progress and are expected to provide total attributable GFA of approximately 5.5 million square feet upon completion of their acquisition. Together with the 23 urban redevelopment projects of old buildings as mentioned in the above Note 2, a total attributable GFA of about 7.3 million square feet will be added to the Group's development land bank upon successful completion of the acquisition of all the 68 projects.

The Group's agricultural land reserve increased to 40.6 million square feet in site area at 31 December 2010. Included in such agricultural land reserve are sites situated in Wu Nga Lok Yeung, Ping Che and Kwu Tung North of the "North East New Territories New Development Areas", as well as "Hung Shui Kiu New Development Area" with preliminary estimated attributable GFA totaling 17 million square feet against a total land area of 9.1 million square feet.

## *Mainland property business*

In addition to having an enlarged completed investment property portfolio of 6.5 million square feet, the Group also held a land bank with enormous development potential, with the total attributable gross floor area increased to 150.4 million square feet at 31 December 2010, spread across the prime cities and the second tier cities in mainland China.

The austerity policies for the mainland property market will remain intact in 2011. The measures unveiled at the beginning of this year reaffirmed that credit tightening, particularly on purchases for investment and speculation, would persist, whilst greater flexibility would be applied in different cities in the execution of housing and credit policies with due regard to actual situations. The consecutive increases in reserve requirement ratio by the People's Bank of China, as well as interest rate hike, clearly demonstrated a strong determination to curb inflation. The gradual introduction of these policy initiatives is expected to cause some intermittent and short-term impact to the property market but in the long run, they are conducive to stabilizing the economy and development of the property sector.

The Group's residential developments are concentrated in the second and third-tier cities and their sales volume, despite the probable ripples as a result of mainland austerity policy shift, is backed by strong demand from local home-buyers who are eager to purchase their first flats for own use. It is believed that such huge purchasing power that has accumulated would be released to the market once flexibility is allowed in the execution of the policies. The second and third-tier cities are still on the track of rapid development and the extensive development of inter-city high-speed rails and intra-city railway networks would sustain stronger economic growth for the surrounding regions, in particular second and third-tier cities. On the back of their unique environment, those cities can focus on the development of certain priority industries and create a wide variety of employment opportunities. The increasing urbanization, as a result, will also bring about an uplift to the growth potential of their property markets.

On the property investment front in mainland China, the scheduled completion of the project at Lot 147, Tianmu Road West in Shanghai by the end of 2011 will expand the Group's mainland rental portfolio by 410,000 square feet to 6.9 million square feet in gross floor area. Together with the increasing contributions from the newly-completed properties such as World Financial Centre in Beijing, as well as the Centro and Henderson Metropolitan in Shanghai, rental income in mainland China will increase substantially.

Following the expansion of our headquarters in Shenzhen, the Group will push ahead in earnest with the localization policy, the cross-fertilization of ideas between Hong Kong and mainland China, and the strengthening of inter-departmental communications. This will ensure the Group's products can keep abreast of the requirements of local home buyers and are well received in the market. After the successful launch of the first phase of a development, the construction of its subsequent phases can be expedited as a result of standardization in design layout, whilst economies of scale and product quality can also be significantly improved. With the standardization of material sourcing and landscape design, construction progress and cost can be better controlled, raising the Group's competitiveness even further.

## *Environmental protection and energy efficiency*

The Group maintained its commitment to social responsibility by building environmentally-friendly properties for our community. As a constituent of the Hang Seng Corporate Sustainability Index and the Hang Seng (Mainland and Hong Kong) Corporate Sustainability Index, the Group's emphasis on quality and sustainable development has continued to be recognized. From the Group's Two ifc which was completed in 2003 with the 'Excellent' rating (being the highest) in the Hong Kong Building Environmental Assessment Method (HK-BEAM), many of the Group's residential buildings, for example, Grand Promenade and 39 Conduit Road, and commercial complexes in town, for example, One ifc have obtained top honours in the assessments under HK-BEAM. Building on such remarkable success in promoting sustainable development in Hong Kong, the Group again led its peers with the World Financial Centre, an international Grade A office complex, receiving the Certificate of Merit at the "Quality Building Award 2010" and becoming the first project in Beijing to achieve the highest possible rating of "Platinum" under the globally-recognized Leadership in Energy and Environmental Design (LEED) of the United States. Currently, World Financial Centre is the largest LEED certified Platinum building in the world. In order to create these sustainable buildings, a wide array of eco-friendly measures have been adopted in each stage of development; these green efforts are elaborated in the respective sections of the Business Review below.

Being committed to investing in and building top quality property developments, the Group has accomplished numerous iconic commercial and residential projects in both Hong Kong and mainland China and established a sound reputation for its brand over the years. Honoured by a panel of leading media such as China Network Television and CCTV-2 (financial channel) with the award of "CCTV Annual Famous Brand in China 2010", the Group will continue to strive for excellence and offer quality products by creating uniquely-designed buildings in line with the ever-changing market needs. The ideas of quality excellence, eco-friendliness and healthy living are embraced in the design of our residential projects, leading to the development of communities with advanced green features and healthy living condition and providing a harmonious balance between living space and natural environment.

## **Profit and Net Assets Attributable to Shareholders**

The Group underlying profit attributable to equity shareholders (before the fair value change of investment properties) for the year ended 31 December 2010 amounted to HK\$5,042 million, representing a decrease of HK\$985 million or 16% from HK\$6,027 million (as restated) for the 18-month period ended 31 December 2009. Based on the underlying profit, the earnings per share were HK\$2.33 (HK\$2.81 (as restated) for the 18-month period ended 31 December 2009). Such decrease was mainly due to (i) an accounting period of 12 months currently being reported on when compared with an extended accounting period of the 18-month period ended 31 December 2009; and (ii) the Group's attributable share of loss on cancellation of property sales during the year in the amount of HK\$864 million as detailed in the Financial Review section.

Including the fair value change (net of non-controlling interests and deferred taxation) of investment properties, the Group profit attributable to equity shareholders for the year ended 31 December 2010 was HK\$15,820 million. Compared with the Group profit attributable to equity shareholders of HK\$15,465 million (as restated) for the 18-month period ended 31 December 2009, this represented an increase of HK\$355 million or 2%. Earnings per share were HK\$7.32 (HK\$7.20 (as restated) for the 18-month period ended 31 December 2009). Such increase in profit attributable to equity shareholders was mainly due to the increase in the Group's attributable share of fair value change of the investment properties held by the Group's subsidiaries, associates and jointly controlled entities in the amount of HK\$1,340 million for the year ended 31 December 2010 when compared with the 18-month period ended 31 December 2009.

For the reason that the last financial period of the Group being reported on relates to an accounting period of 18 months ended 31 December 2009, it would be meaningful to evaluate the Group's financial performance for the year ended 31 December 2010 against that for the corresponding period of 12 months ended 31 December 2009. Where relevant and appropriate, such evaluation is referred to in the following paragraphs. It should be noted that the figures for the corresponding period of 12 months ended 31 December 2009 referred to in the following paragraphs have not been audited or previously published.

The Group underlying profit attributable to equity shareholders (before the fair value change of investment properties) for the year ended 31 December 2010 of HK\$5,042 million represented an increase of HK\$417 million, or 9%, over and above HK\$4,625 million for the corresponding period of 12 months ended 31 December 2009. Based on the underlying profit, the Group earnings per share of HK\$2.33 for the year ended 31 December 2010 represented an increase of HK\$0.18, or 8%, over and above HK\$2.15 for the corresponding period of 12 months ended 31 December 2009. Such increase was mainly due to a net gain of HK\$1,007 million during the year arising from the Group's disposal of the entire issued share capital of Sin Cheng Holdings Pte Ltd, an indirect wholly-owned subsidiary which owns 50% equity interest in Beijing Youyi Shopping City Co., Ltd. Beijing Lufthansa Centre (details of which are referred to in the paragraph headed "Hotel and Retailing Operations" below); and the gain on disposal of HK\$275 million arising from the Group's disposal of self-use properties, which were partially offset by the increase in the Group's share of loss on cancelled property sales attributable to equity shareholders of HK\$759 million during the year.

The fair value change (net of non-controlling interests and deferred taxation) of investment properties for the year ended 31 December 2010 amounted to HK\$10,778 million, which represented an increase of HK\$1,124 million, or 12%, when compared with the fair value change (net of non-controlling interests and deferred taxation) of investment properties of HK\$9,654 million for the corresponding period of 12 months ended 31 December 2009. Including the fair value change (net of non-controlling interests and deferred taxation) of investment properties, the Group profit attributable to equity shareholders of HK\$15,820 million for the year ended 31 December 2010 represented an increase of HK\$1,541 million, or 11%, over and above HK\$14,279 million for the corresponding period of 12 months ended 31 December 2009. On such basis, the Group earnings per share of HK\$7.32 for the year ended 31 December 2010 represented an increase of HK\$0.67, or 10%, over and above HK\$6.65 for the corresponding period of 12 months ended 31 December 2009.

At 31 December 2010, the net asset value attributable to equity shareholders amounted to HK\$159,038 million (or HK\$73.09 per share), 12% higher than the amount of HK\$142,228 million (or HK\$66.24 per share) (as restated) at 31 December 2009. Net debt (which includes the amount of HK\$12,976 million due to a wholly owned subsidiary of Henderson Development Limited which is controlled by the private family trusts of Dr. Lee Shau Kee) amounted to HK\$44,818 million (2009: HK\$27,710 million (as restated)) with the gearing ratio at 28.2% (2009: 19.5% (as restated)).

## **Dividends**

Your Board recommends the payment of a final dividend of HK\$0.70 per share to Shareholders whose names appear on the Register of Members of the Company on Friday, 29 April 2011, and such final dividend will not be subject to any withholding tax in Hong Kong. Including the interim dividend of HK\$0.30 per share already paid, the total dividend for the year ended 31 December 2010 will amount to HK\$1.00 per share (18-month period ended 31 December 2009: HK\$1.30 per share).

The proposed final dividend will be payable in cash, with an option to receive new and fully paid shares in lieu of cash under the scrip dividend scheme (“Scrip Dividend Scheme”). The new shares will, on issue, not be entitled to the proposed final dividend, but will rank *pari passu* in all other respects with the existing shares. The circular containing details of the Scrip Dividend Scheme and the relevant election form will be sent to Shareholders.

The Scrip Dividend Scheme is conditional upon the passing of the resolution relating to the payment of final dividend at the forthcoming annual general meeting of the Company and the Listing Committee of The Stock Exchange of Hong Kong Limited granting the listing of and permission to deal in the new shares to be issued under the Scrip Dividend Scheme.

Final dividend will be distributed, and the share certificates issued under the Scrip Dividend Scheme will be sent to Shareholders on Friday, 10 June 2011.

## **Business Review - Hong Kong**

### ***Property Sales***

Driven by ample global liquidity as a result of the second round of quantitative easing by the United States, as well as relaxed monetary policies adopted by a number of European countries, the year under review began with the local property market continuing to ride on the cyclical upturn, whilst the positive land auction results repeatedly achieved during the year had further fuelled market sentiments. In order to curb excessive property speculation and enhance risk management of mortgage lending by local banks, the Hong Kong SAR Government announced a series of cooling measures such as lowering the mortgage loan-to-value ratio and increasing stamp duty, as well as “nine rules and twelve regulations” which governed the transparency and fairness in pre-sales and show flats. New measures further introduced in mid-November 2010, including the levy of Special Stamp Duty of up to 15% on residential properties resold within two years from purchase and the temporary suspension of real estate from the permissible investment asset classes under the Capital Investment Entrant Scheme, were effective in combating short-term speculation. However, with strong fundamentals such as the prevailing low mortgage interest rates and the tight near-term housing supply outlook, the confidence of both end-users and investors is still intact with the transaction volume having picked up gradually. Property prices, as a result, have remained buoyant.

The reported transacted prices of some of the **other developers'** luxury apartments and houses, as recently achieved in the primary or secondary market amid the heated market sentiment, are listed below:

| Properties of <b>Other Developers</b>  | Date of Sale | Area (Approx.) (sq.ft.) | Transacted price (Approx.) (HK\$ Million) | Average price per square foot (Approx.) (HK\$) |
|----------------------------------------|--------------|-------------------------|-------------------------------------------|------------------------------------------------|
| 37B Island Road                        | 25/01/2011   | 7,000                   | 440                                       | 62,883                                         |
| 37C Island Road                        | 16/12/2010   | 7,000                   | 435                                       | 62,143                                         |
| House 8, Severn 8                      | 14/03/2010   | 4,650                   | 280                                       | 60,215                                         |
| House 5, 36 Repulse Bay Road           | 08/10/2010   | 4,260                   | 250                                       | 58,685                                         |
| House 2, 74 Mount Kellett Road         | 16/08/2010   | 4,200                   | 230                                       | 56,310                                         |
| Penthouse A, Belgravia, South Bay Road | 21/10/2010   | 3,675                   | 182                                       | 49,741                                         |
| 36/F, The Albany                       | 22/02/2010   | 6,830                   | 338                                       | 49,488                                         |
| 51/F, Branksome Crest                  | 22/03/2010   | 4,620                   | 203                                       | 43,939                                         |

Some other cities in the Asia Pacific region, such as Singapore and Macau, have similarly experienced an influx of foreign capital and keen buying response from local buyers and they have separately rolled out cooling measures during the year so as to rein in the soaring property prices.

The Group was active during the year in promoting the sale of a number of residential developments including the project at Headland Road in Island South, Legende Royale - The Beverly Hills (Phase 3) in Tai Po, Hill Paramount in Shatin, Green Lodge in Yuen Long and Jade Suites in Jordan with satisfactory response from buyers. Some popular residential projects such as 39 Conduit Road, The Beverly Hills (Phase 1), 8 Royal Green, The Sparkle, Cité 33, Grand Waterfront and Grand Promenade were also re-launched for sale. Altogether, a total of 572,507 square feet in attributable gross floor area of residential properties were sold. Together with the disposal of approximately 96,410 square feet of industrial/office space, the Group sold an attributable HK\$5,423 million worth of properties in Hong Kong for the year ended 31 December 2010 (before taking into account the effect of cancelled sales, including those of the 20 units at 39 Conduit Road, as referred to below).

For the 18-month period ended 31 December 2009, the turnover and profit after taxation in respect of the sale of 25 units at 39 Conduit Road, a luxury property development in which the Group has a 60% interest, were recognized in accordance with accounting policies of the Group consistently applied and which are in line with accounting principles generally accepted in Hong Kong. Among these units, completion of the sale and purchase of four units took place in mid-June 2010 and the Group received in full the amounts of purchase price receivable, together with about HK\$11 million as interest for delayed completion. There was no reduction in purchase price, nor the provision of finance for those four units. Written requests were received from the respective purchasers for the cancellation of the sale and purchase agreements for the other 20 units. In accordance with the terms of the standard form of sale and purchase agreement under the Consent Scheme administered by the Government relating to pre-sale of residential units in uncompleted developments, the Group agreed to cancel the sale and purchase in respect of these 20 units and forfeited the deposit of 5% of the purchase price with the rest of the payments refunded to the purchasers. A loss of approximately HK\$734 million attributable to the Group was recorded as a result of the cancellation of the sale of these 20 units. The Group agreed to cancel the sale and purchase of these units so as to avoid protracted and costly legal proceedings to claim against the original purchasers and enable the Group to offer them for sale again immediately if it so wished.

It has to be pointed out that property prices depend mainly on the supply and demand at a particular point in time, in much the same way as the price for a commodity is fixed. In the case of properties, additional considerations, such as the location of the property, the quality of the design, material and finish, and the facilities provided, would have a great impact on their pricing. Other factors that have a bearing are the low interest rate environment and inflation expectations which would prompt investors to acquire properties for investment or as a hedge against inflation. The sale of the 24 units in 39 Conduit Road was normal bona fide transactions legally conducted with unrelated parties at arm's length. It is regrettable, however, that such sale became the subject of unjustified and incorrect criticisms which could have been prompted by high property prices.

As evidence of the quality of 39 Conduit Road, a semi-duplex apartment (unit B on Level 61) was sold during the year at the price of HK\$60,000 per square foot, a record price for luxury apartments. Further evidence of the quality of the Group's developments can be found at 11 and 12A Headland Road, where two houses with gross floor area of 13,033 square feet and 10,093 square feet respectively were sold during the year at a price of HK\$50,641 and HK\$47,360 respectively per square foot. As mentioned above, high prices were also repeatedly achieved by other luxury developments.

The following development projects were completed during the financial year:

|               | <b>Project name and location</b>            | <b>Site<br/>area<br/>(sq.ft.)</b> | <b>Gross<br/>floor area<br/>(sq.ft.)</b> | <b>Land-use<br/>purpose</b> | <b>Group's<br/>interest<br/>(%)</b> | <b>Attributable<br/>gross floor<br/>area (sq.ft.)</b> |
|---------------|---------------------------------------------|-----------------------------------|------------------------------------------|-----------------------------|-------------------------------------|-------------------------------------------------------|
| 1.            | Jade Suites<br>600 Canton Road<br>Jordan    | 3,644                             | 32,795                                   | Commercial/<br>Residential  | 100.00                              | 32,795                                                |
| 2.            | La Verte<br>283 Jockey Club Road<br>Fanling | 42,884                            | 34,308                                   | Residential                 | 100.00                              | 34,308                                                |
| <b>Total:</b> |                                             |                                   |                                          |                             |                                     | <b>67,103</b>                                         |

At 31 December 2010, the Group had over 760 residential units available for sale mainly from the following major property development projects:

(1) Major development projects offered for sale:

| Project name and location             |                                                                                 | Site area<br>(sq.ft.) | Gross floor area<br>(sq.ft.) | Land-use purpose           | Group's interest (%) | No. of residential units unsold & pending sale at 31 December 2010 | Gross area of remaining unsold residential units (sq.ft.) |
|---------------------------------------|---------------------------------------------------------------------------------|-----------------------|------------------------------|----------------------------|----------------------|--------------------------------------------------------------------|-----------------------------------------------------------|
| 1.                                    | Casa Marina I<br>28 Lo Fai Road, Tai Po                                         | 283,200               | 226,561                      | Residential                | 100.00               | 28                                                                 | 90,165                                                    |
| 2.                                    | Casa Marina II<br>1 Lo Ping Road, Tai Po                                        | 228,154               | 182,545                      | Residential                | 100.00               | 46                                                                 | 137,952                                                   |
| 3.                                    | The Beverly Hills – Phase 1<br>23 Sam Mun Tsai Road<br>Tai Po                   | 982,376<br>(Note 1)   | 1,165,240<br>(Note 1)        | Residential                | 90.10                | 94<br>(Note 2)                                                     | 306,167<br>(Note 2)                                       |
| 4.                                    | The Sparkle<br>500 Tung Chau Street<br>Cheung Sha Wan                           | 35,629                | 320,659                      | Commercial/<br>Residential | 100.00               | 11                                                                 | 15,518                                                    |
| 5.                                    | 8 Royal Green<br>8 Ching Hiu Road<br>Sheung Shui                                | 45,779                | 228,860                      | Residential                | 100.00               | 7                                                                  | 8,786                                                     |
| 6.                                    | 39 Conduit Road<br>Mid-Levels                                                   | 56,748                | 229,255                      | Residential                | 60.00                | 43<br>(Note 3)                                                     | 145,321<br>(Note 3)                                       |
| 7.                                    | Hill Paramount<br>18 Hin Tai Street<br>Shatin                                   | 95,175                | 358,048                      | Residential                | 100.00               | 147                                                                | 340,219                                                   |
| 8.                                    | Green Lodge<br>Tong Yan San Tsuen<br>Yuen Long                                  | 78,781                | 78,781                       | Residential                | 100.00               | 27                                                                 | 51,414                                                    |
| 9.                                    | Legende Royale<br>The Beverly Hills – Phase 3<br>23 Sam Mun Tsai Road<br>Tai Po | 982,376<br>(Note 1)   | 1,165,240<br>(Note 1)        | Residential                | 90.10                | 108                                                                | 502,407                                                   |
| 10.                                   | 11,12,12A,12B Headland Road<br>Island South                                     | 43,492                | 32,619                       | Residential                | 44.42                | 2                                                                  | 20,142                                                    |
| 11.                                   | Jade Suites<br>600 Canton Road<br>Jordan                                        | 3,644                 | 32,795                       | Commercial/<br>Residential | 100.00               | 17                                                                 | 10,722                                                    |
| Sub-total:                            |                                                                                 |                       |                              |                            |                      | <u>530</u>                                                         | <u>1,628,813</u>                                          |
| Gross area attributable to the Group: |                                                                                 |                       |                              |                            |                      |                                                                    | <u><u>1,479,442</u></u>                                   |

(2) Projects pending sale or pre-sale:

| Project name and location                                                            | Site area<br>(sq.ft.) | Gross floor area<br>(sq.ft.) | Land-use Purpose | Group's interest (%) | Residential  |                     |
|--------------------------------------------------------------------------------------|-----------------------|------------------------------|------------------|----------------------|--------------|---------------------|
|                                                                                      |                       |                              |                  |                      | No. of units | Gross area (sq.ft.) |
| 1. La Verte<br>283 Jockey Club Road<br>Fanling                                       | 42,884                | 34,308                       | Residential      | 100.00               | 16           | 34,308              |
| 2. The Gloucester<br>212 Gloucester Road<br>Wanchai                                  | 11,545                | 113,977                      | Residential      | 100.00               | 177          | 113,977             |
| 3. 58-66 Boundary Street<br>Kowloon                                                  | 6,750                 | 57,498                       | Residential      | 100.00               | 41           | 57,498              |
| Sub-total:                                                                           |                       |                              |                  |                      | 234          | 205,783             |
| Gross area attributable to the Group:                                                |                       |                              |                  |                      |              | 205,783             |
| Total saleable residential units and gross area from the major development projects: |                       |                              |                  |                      | 764          | 1,834,596           |
| Total gross area attributable to the Group:                                          |                       |                              |                  |                      |              | 1,685,225           |

Note 1: The total site area and the total gross floor area for the whole project of The Beverly Hills are 982,376 square feet and 1,165,240 square feet, respectively.

Note 2: In addition, there are 34 houses in this phase of The Beverly Hills held for investment purpose.

Note 3: In addition, there are 17 residential units held for investment purpose.

**Land Bank**

At 31 December 2010, the Group had a land bank in Hong Kong with a total attributable gross floor area of approximately 21.3 million square feet, made up as follows:

|                                          | Attributable gross floor area<br>(million sq.ft.) |
|------------------------------------------|---------------------------------------------------|
| Properties held for or under development | 9.3                                               |
| Stock of unsold property units           | 1.6                                               |
| Completed investment properties          | 9.4                                               |
| Hotel properties                         | 1.0                                               |
| <b>Total :</b>                           | <b>21.3</b>                                       |

In addition, the Group held rentable car parking spaces with a total area of around 2.8 million square feet.

The Group remains optimistic about the prospects for the Hong Kong property market and has therefore continued to engage in the acquisition of old buildings in the urban areas for redevelopment in tandem with the Government's policy initiative on promoting urban renewal. At the same time, the Group's agricultural land reserve includes significant holdings in the new development areas as designated by the Government. Both of these sources are expected to bring about a significant increase in the Group's development land bank in future years. Since the acquisition cost of old buildings and the premium payable for agricultural land-use conversion compare favourably with the transacted prices of land sites offered at public auctions, such approach to land banking has the advantage of low cost and therefore a higher contribution to earnings.

## **(I) Redevelopment of old buildings in the urban areas**

### **A. Newly-acquired projects**

As mentioned above, the Group believes that the redevelopment of old buildings in the urban areas will provide a source of land supply which requires lower cost and hence yields higher margin. Since 2009, a number of old building projects have been acquired and efforts are continuing to source additional old properties for redevelopment. A summary of the projects which have been acquired is as follows:

| <b>Project name and location</b>                                                                             | <b>Site area<br/>(sq.ft.)</b> | <b>Expected gross floor area<br/>in future redevelopment<br/>(sq.ft.)</b> | <b>Expected year of sales launch<br/>(Note 1)</b> |
|--------------------------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------------------------------------------|---------------------------------------------------|
| <b>A. Projects with ownership fully consolidated:</b>                                                        |                               |                                                                           |                                                   |
| 1. 30-38 Po Tuck Street and<br>36 Clarence Terrace<br>Hong Kong (Note 2)                                     | 7,310                         | 61,103                                                                    | 2012                                              |
| 2. 23-33 Shing On Street<br>Sai Wan Ho, Hong Kong (Note 2)                                                   | 4,699                         | 39,942                                                                    | 2012                                              |
| 3. 186-188 Tai Po Road<br>Sham Shui Po, Kowloon (Note 2)                                                     | 8,234                         | 70,242                                                                    | 2011                                              |
| 4. 75-81 Sa Po Road<br>Kowloon City, Kowloon                                                                 | 3,582                         | 32,238                                                                    | 2012                                              |
| 5. Keung Fu Building<br>45-49 Boundary Street and<br>189-195 Sai Yeung Choi Street North<br>Kowloon (Note 2) | 5,880                         | 52,919                                                                    | 2012                                              |
| 6. 2-12 Observatory Road<br>Tsim Sha Tsui, Kowloon (Note 3)                                                  | 5,415                         | 64,990                                                                    | 2013                                              |
| <b>Sub-total:</b>                                                                                            | <b>35,120</b>                 | <b>321,434</b>                                                            |                                                   |

**B. Projects with the percentage of ownership reaching or exceeding the compulsory sale application threshold for redevelopment:**

|     |                                                                                                                                  |        |         |      |
|-----|----------------------------------------------------------------------------------------------------------------------------------|--------|---------|------|
| 7.  | Western Court<br>450-456G Queen's Road West<br>Hong Kong (Note 2)                                                                | 29,875 | 268,482 | 2013 |
| 8.  | 1-7A Gordon Road<br>Tin Hau, Hong Kong (Note 2)                                                                                  | 7,423  | 61,280  | 2013 |
| 9.  | 62-72 Main Street<br>Ap Lei Chau, Hong Kong                                                                                      | 5,973  | 50,771  | 2013 |
| 10. | 89-95 Shek Pai Wan Road<br>Aberdeen, Hong Kong                                                                                   | 3,300  | 28,050  | 2013 |
| 11. | Matauwei Apartments<br>57-69 Ma Tau Wai Road<br>2-20 Bailey Street and<br>18A-30 Sung Chi Street<br>To Kwa Wan, Kowloon (Note 2) | 23,031 | 207,279 | 2013 |
| 12. | Hoi On Building<br>11-33 Li Tak Street<br>Tai Kok Tsui, Kowloon (Note 2)                                                         | 19,600 | 166,600 | 2012 |
| 13. | 162-168 Pau Chung Street and<br>50-64 Ma Tau Kok Road<br>To Kwa Wan, Kowloon                                                     | 11,700 | 105,300 | 2012 |
| 14. | 186-198 Fuk Wing Street<br>Sham Shui Po, Kowloon                                                                                 | 7,500  | 62,475  | 2012 |
| 15. | Hillwood Apartments<br>38-40A Hillwood Road<br>Jordan, Kowloon (Note 3)                                                          | 4,586  | 55,032  | 2013 |
| 16. | 456-462A Sai Yeung Choi Street North<br>Sham Shui Po, Kowloon                                                                    | 12,300 | 104,550 | 2014 |
| 17. | 1-19 Nam Cheong Street and<br>198 Tung Chau Street<br>Sham Shui Po, Kowloon (Note 2)                                             | 8,625  | 77,626  | 2013 |
| 18. | 565-577 Fuk Wah Street<br>Cheung Sha Wan, Kowloon                                                                                | 7,350  | 58,800  | 2013 |
| 19. | 342-348 Un Chau Street<br>Cheung Sha Wan, Kowloon                                                                                | 4,579  | 38,922  | 2013 |
| 20. | 11-19 Wing Lung Street<br>Cheung Sha Wan, Kowloon                                                                                | 6,510  | 58,590  | 2013 |

|     |                                                                                            |       |        |      |
|-----|--------------------------------------------------------------------------------------------|-------|--------|------|
| 21. | Chu Yau Lan Industrial Building<br>63 Wing Hong Street<br>Cheung Sha Wan, Kowloon (Note 3) | 3,150 | 37,800 | 2012 |
| 22. | 196-202 Ma Tau Wai Road<br>To Kwa Wan, Kowloon                                             | 4,905 | 41,693 | 2013 |
| 23. | 79-83 Fuk Lo Tsun Road<br>Kowloon City, Kowloon                                            | 3,630 | 30,855 | 2013 |

|                   |                |                  |
|-------------------|----------------|------------------|
| <b>Sub-total:</b> | <b>164,037</b> | <b>1,454,105</b> |
|-------------------|----------------|------------------|

|                                                                 |                |                  |
|-----------------------------------------------------------------|----------------|------------------|
| <b>Total for 23 projects with entire or majority ownership:</b> | <b>199,157</b> | <b>1,775,539</b> |
|-----------------------------------------------------------------|----------------|------------------|

Note 1: Completion of a redevelopment is expected to occur in the second year after the year in which the redevelopment is to be launched for pre-sale.

Note 2: Building plan already approved.

Note 3: With the exception of project numbers 6, 15 and 21 above, which are intended to be redeveloped into office or industrial/office buildings, all of the above projects are designated for commercial and residential uses.

The total costs of acquisition for the above 23 urban projects are estimated at about HK\$7,000 million, translating into an average land cost of approximately HK\$3,900 per square foot of gross floor area.

Further acquisitions, involving another 45 projects which are located in various highly accessible urban districts as noted below, are in progress and they are expected to provide an additional total attributable gross floor area of approximately 5.5 million square feet upon successful completion of their acquisition and redevelopment:

|                     | <b>Land area<br/>(sq.ft.)</b> | <b>Expected gross floor area in<br/>future redevelopment<br/>(sq. ft.)</b> |
|---------------------|-------------------------------|----------------------------------------------------------------------------|
| 1. <u>Hong Kong</u> |                               |                                                                            |
| Central & Western   | 121,324                       | 952,957                                                                    |
| Island East         | 80,003                        | 747,447                                                                    |
| Causeway Bay        | 32,387                        | 314,436                                                                    |
| Aberdeen            | 23,017                        | 208,780                                                                    |
| Wanchai             | 8,084                         | 72,756                                                                     |
| <b>Sub-total:</b>   | <b>264,815</b>                | <b>2,296,376</b>                                                           |
| 2. <u>Kowloon</u>   |                               |                                                                            |
| Hung Hom            | 121,750                       | 1,095,750                                                                  |
| Tai Kok Tsui        | 114,939                       | 988,852                                                                    |
| Homantin            | 79,430                        | 643,013                                                                    |
| Sham Shui Po        | 50,141                        | 448,979                                                                    |
| <b>Sub-total:</b>   | <b>366,260</b>                | <b>3,176,594</b>                                                           |
| <b>Total:</b>       | <b>631,075</b>                | <b>5,472,970</b>                                                           |

Together with the above-mentioned 23 projects in which majority ownership is already held, the successful acquisition of these additional 45 projects will add to the Group a total of 68 urban redevelopment projects, with an estimated total attributable gross floor area of about 7.3 million square feet.

## B. Existing projects

In addition to the above newly-acquired urban redevelopment projects, the Group had a total of 9 existing projects under planning for redevelopment or conversion into other purposes which would provide about 1.84 million square feet in attributable gross floor area for commercial and residential use in the urban areas. With approval having been obtained from the Town Planning Board for the residential development at the site at 14-30 King Wah Road, North Point, the Group has applied to the Government for its land-use conversion. The site is expected to be developed into twin harbourfront towers comprising approximately 224,000 square feet in total residential gross floor area. For the large-scale residential joint-venture development project at Yau Tong Bay, Kowloon, a master layout plan has been submitted to the Town Planning Board for review. It is expected that the project will provide a total developable gross floor area of approximately 4.4 million square feet, of which about 810,000 square feet is attributable to the Group as shown in the table below:

|               |                                                                              | Site area<br>(sq.ft.) | Expected gross floor<br>area in future<br>development<br>(sq. ft.) | Group's<br>Interest<br>(%) | Expected attributable<br>gross floor area in<br>future development<br>(sq. ft.) |
|---------------|------------------------------------------------------------------------------|-----------------------|--------------------------------------------------------------------|----------------------------|---------------------------------------------------------------------------------|
| 1.            | 19-21 Wong Chuk Hang Road<br>Hong Kong                                       | 14,298                | 214,303                                                            | 50.00                      | 107,152                                                                         |
| 2.            | 45-47 Pottinger Street /<br>Ezra's Lane, Central<br>Hong Kong                | 9,067                 | 94,190                                                             | 19.095                     | 17,986                                                                          |
| 3.            | 25 La Salle Road<br>Kowloon Tong, Kowloon<br>(Note 1)                        | 13,467                | 24,241                                                             | 100.00                     | 24,241                                                                          |
| 4.            | 29 Lugard Road<br>The Peak, Hong Kong                                        | 23,653                | 11,824                                                             | 100.00                     | 11,824                                                                          |
| 5.            | 8 Wang Kwong Road<br>Kowloon Bay, Kowloon<br>(Note 2)                        | 21,528                | 174,789                                                            | 100.00                     | 174,789                                                                         |
| 6.            | 24 Lee Chung Street<br>Chai Wan, Hong Kong                                   | 11,590                | 173,842                                                            | 100.00                     | 173,842                                                                         |
| 7.            | 59-61 Wing Hong Street /<br>88-92 King Lam Street<br>Cheung Sha Wan, Kowloon | 24,854                | 298,248                                                            | 100.00                     | 298,248                                                                         |
| 8.            | 14-30 King Wah Road<br>North Point, Hong Kong                                | 37,566                | 224,801                                                            | 100.00                     | 224,801                                                                         |
| 9.            | Yau Tong Bay<br>Kowloon                                                      | 878,962               | 4,394,808                                                          | 18.4357                    | 810,214                                                                         |
| <b>Total:</b> |                                                                              | <b>1,034,985</b>      | <b>5,611,046</b>                                                   |                            | <b>1,843,097</b>                                                                |

Note 1: The site was previously held by the Group as a serviced apartment building.

Note 2: Under the Government's new revitalization policy, the old industrial building (i.e., Big Star Centre) at this site may be converted into a hotel free of payment of any fee for the land-use conversion; the related terms are pending Government's finalization.

## **(II) Agricultural land**

With agricultural land reserve of 40.6 million square feet in land area at the year end, the Group continued to have the largest holding of such land among all property developers.

In parallel with the expansion of agricultural land reserve, the Group has taken active steps to apply for the land-use conversion of a number of sites, with significant progress made over the recent years.

Further to the finalization of the land-use conversion for the site at Sha Tin Town Lot 502, Wu Kai Sha (with the total land cost of HK\$3,509 per square foot, including land premium of HK\$3,253 per square foot, of gross floor area based on its total developable gross floor area of approximately 2.95 million square feet, of which 56.75% or about 1.67 million square feet is attributable to the Group) in the preceding year, the land premium for the residential site at Lot 5369, DD 116 at Tai Tong Road, Yuen Long, was also finalized with the total sum of HK\$2,334.8 million fully settled during the year. Based on the expected total gross floor area of approximately 1.175 million square feet in development (of which 79.03% or approximately 930,000 square feet is attributable to the Group), the land premium per square foot of gross floor area was approximately HK\$1,987 with the total land cost per square foot of gross floor area amounted to approximately HK\$2,291. Meanwhile, an adjacent land lot was also in the final stage of land-use conversion and upon finalization of the land premium, it will be merged with the above development at Tai Tong Road, improving the scalability and expanding the total gross floor area of this residential project to approximately 1.3 million square feet, of which 79.03% or approximately 1.02 million square feet is attributable to the Group.

Construction is underway for both sites at Wu Kai Sha, Ma On Shan and Tai Tong Road, Yuen Long and the Group will expedite their developments, as well as their sales/pre-sales programs. The project of Wu Kai Sha, Ma On Shan will be completed in phases and its first phase of development of approximately 0.44 million square feet in attributable GFA, which is due for completion in the fourth quarter of 2012, is expected to be launched for pre-sales in 2012. The remaining 1.23 million square feet in attributable GFA from its subsequent phases of development would be available for pre-sales from 2013 onwards. Meanwhile, the whole project of Tai Tong Road, Yuen Long, with the total attributable GFA of approximately 1.02 million square feet upon successful land-use conversion of the above-mentioned adjacent land-lot, would be available for pre-sales in 2012 with scheduled completion by the end of 2012.

For the wetland restoration and residential project in Wo Shang Wai, Yuen Long, which is planned to be developed into a low-density luxury residential development with a total gross floor area of approximately 895,000 square feet against a total land area of about 2.3 million square feet, the terms for the land-use conversion have been agreed while the premium offer is the subject of an appeal to the Government.

Meanwhile, the Group will actively work in tandem with the Government's development plans and once they are finalized, the Group will pursue land-use conversion of sites situated in the "North East New Territories New Development Areas" and "Hung Shui Kiu New Development Area", with a view to broadening the source of development land:

|                                                     | <b>Total land<br/>area<br/>(sq.ft.)</b> | <b>Preliminary estimated<br/>attributable gross floor area<br/>(sq. ft.)</b> |
|-----------------------------------------------------|-----------------------------------------|------------------------------------------------------------------------------|
| 1. North East New Territories New Development Areas |                                         |                                                                              |
| - Wu Nga Lok Yeung                                  | 2,700,000                               | 6,000,000                                                                    |
| - Ping Che                                          | 2,000,000                               | 1,500,000                                                                    |
| - Kwu Tung North                                    | 400,000                                 | 1,500,000                                                                    |
| <b>Sub-total:</b>                                   | <b>5,100,000</b>                        | <b>9,000,000</b>                                                             |
| 2. Hung Shui Kiu New Development Area               | 4,000,000                               | 8,000,000                                                                    |
| <b>Total:</b>                                       | <b>9,100,000</b>                        | <b>17,000,000</b>                                                            |

For the Group's 50%-owned residential development at Nam Sang Wai with an approved total gross floor area of approximately 3.3 million square feet, the Group will appeal against the recent judgment from the Town Planning Board based on the previous approved development scheme. At the same time, the Group will maintain a close dialogue with the general public, the Government, and environmental groups with a view to achieving an outcome acceptable to all parties.

### (III) Property sales programme

In 2011, the Group plans to embark on the sales launch of a number of residential developments including The Gloucester in Wanchai, 58-66 Boundary Street in Mongkok and La Verte in Fanling. Together with the completed stocks and other projects pending sales, a total of over 1.69 million square feet in attributable residential gross area will be available for sale. Meanwhile, significant portions of the attributable GFA of 1.78 million square feet from the above 23 urban redevelopment projects of old buildings in which entire or majority ownership is already held, and of the total attributable GFA of 2.69 million square feet from the projects at Wu Kai Sha, Ma On Shan and Tai Tong Road, Yuen Long, are expected to be ready for pre-sale at the earliest in 2012 and 2013. In addition to the above newly-acquired urban redevelopment projects of old buildings, the Group had a total of 9 existing projects under redevelopment or conversion into other purposes which would provide about 1.84 million square feet in attributable gross floor area for commercial and residential use in the urban areas as noted below:

|               |                                                                     | Expected year of sales launch<br>(million sq.ft.) |             |             |                    | Total<br>(million sq.ft.) |
|---------------|---------------------------------------------------------------------|---------------------------------------------------|-------------|-------------|--------------------|---------------------------|
|               |                                                                     | 2011                                              | 2012        | 2013        | 2014 or<br>onwards |                           |
| 1             | Stocks and other projects pending sales                             | 1.69                                              | —           | —           | —                  | 1.69                      |
| 2             | Newly acquired urban redevelopment projects of old buildings (Note) | 0.07                                              | 0.56        | 1.04        | 0.11               | 1.78                      |
| 3             | Existing urban redevelopment projects of old buildings              | —                                                 | —           | —           | 1.84               | 1.84                      |
| 4             | Wu Kai Sha development project converted from agricultural land     | —                                                 | 0.44        | 1.23        | —                  | 1.67                      |
| 5             | Tai Tong Road development project converted from agricultural land  | —                                                 | 1.02        | —           | —                  | 1.02                      |
| 6             | Wo Shang Wai                                                        | —                                                 | —           | —           | 0.89               | 0.89                      |
| <b>Total:</b> |                                                                     | <b>1.76</b>                                       | <b>2.02</b> | <b>2.27</b> | <b>2.84</b>        | <b>8.89</b>               |

Note: Completion of a redevelopment is expected to occur, on average, in the second year after the year in which the redevelopment is to be launched for pre-sale

## ***Investment Properties***

At 31 December 2010, the Group held a total attributable gross floor area of approximately 9.4 million square feet in completed investment properties in Hong Kong, comprising 4.5 million square feet of commercial or retail space, 3.4 million square feet of office space, 0.9 million square feet of industrial/office space and 0.6 million square feet of residential and apartment space. This leasing portfolio is geographically diverse, with 25% in Hong Kong Island, 33% in Kowloon and the remaining 42% in the New Territories (with most of the latter being shopping malls).

Since the turn of the year, robust recovery has been seen across all property sectors in the leasing market and the Group's attributable gross rental income in Hong Kong for the year ended 31 December 2010, including that derived from the investment properties owned by the Group's associates and jointly controlled entities, increased by 8% year-on-year to HK\$4,398 million, whilst pre-tax net rental income was HK\$3,147 million, representing a growth of 9% over that for the 12 months ended 31 December 2009. At 31 December 2010, the leasing rate for the Group's core rental properties (including the portfolio of premium office and industrial premises in Kowloon East) stayed high at 94.5%.

Helped by a robust growth in mainland tourist spending and a revival in local consumption with the improved job market, Hong Kong's retail market staged a strong rebound in 2010 with double digit growth in local retail sales throughout the year. The ifc mall at Central was virtually fully let with a significant increase in rental income. The Group's other large-scale shopping malls in the new towns, including Metro City Phase III in Tseung Kwan O and City Landmark II in Tsuen Wan, were fully let, while Sunshine City Plaza in Ma On Shan, Citimall in Yuen Long, Metro City Phase II in Tseung Kwan O, Fanling Centre in Fanling and Shatin Plaza in Shatin also recorded nearly full occupancy by the end of the financial year.

Against a backdrop of upbeat business outlook, the expansion of existing businesses and new corporate set-ups, as well as buoyant hiring activities lent strong support to office demand in Hong Kong. The Group's quality office developments in the core areas, such as the ifc in Central, AIA Tower in North Point as well as ING Tower and Golden Centre in Sheung Wan, have all performed well with increased rents for both renewals and new lettings in most of the cases during the second half of 2010. The limited office space available for leasing in the central business district prompted some tenants to relocate to fringe areas and the Group's approximately 2,000,000-square-foot portfolio of newly-built premium office and industrial premises in Kowloon East benefited from this trend of office decentralization with the overall leasing rate surged from 60% at 31 December 2009 to 87% at 31 December 2010. AIA Financial Centre (formerly known as International Trade Centre) in San Po Kong, was 94% let at 31 December 2010 compared to 74% at 31 December 2009, while the leasing rate of Manulife Financial Centre in Kwun Tong increased from 66% at 31 December 2009 to 87% at 31 December 2010 and to 94% at 1 March 2011.

The sustained influx of overseas companies, as well as their expatriate staff, was also a key driver of leasing demand for luxury residences. With such resilient residential demand, coupled with limited availability of quality stock, the Group's serviced apartments and luxury residences have both performed well. The serviced suite hotel at Four Seasons Place, being the preferred choice for newly-arrived expatriate executives from the legal, banking and financial sectors, continued to achieve high occupancy and increased rents, whilst Eva Court at Mid-Levels also recorded satisfactory occupancy with higher rent for both renewals and new lettings. During the year, rental units in 39 Conduit Road, the Group's premier development in Mid-Levels, were launched for lease with very encouraging response.

The Group regularly upgrades its investment properties so as to stay ahead of the market and enhance their rental values. During the year, the facelift to Kowloon Building on Nathan Road as well as the facility upgrade for Golden Centre in Sheung Wan were completed. In order to further appeal to discerning office tenants with an eye on sustainability, a number of quality buildings such as Manulife Financial Centre are in the process of applying for certifications under the globally recognized HK-BEAM. Meanwhile, for the retail portfolio, the Group continued to stage innovative marketing activities and undertake renovation initiatives so as to attract more shoppers. Rentals for Trend Plaza in Tuen Mun, for instance, were bid up considerably following the completion of a major revamp at its South Wing, whilst renovation to the external wall of its North Wing is scheduled to kick off shortly. Refurbishment of Sunshine City Plaza in Ma On Shan has just commenced, whilst the planning of renovation works for Citimall in Yuen Long and City Landmark I in Tsuen Wan is currently in the pipeline.

### ***Hotel and Retailing Operations***

The recovering global economy, appreciation of most currencies against the Hong Kong dollar, as well as the further expansion of the scope of the Individual Visit Scheme by the Central Government, have all contributed to the record-breaking visitor arrivals to Hong Kong in 2010 - a significant improvement as compared with the preceding accounting period, when tourism was severely hit by the global financial crisis and H1N1 pandemic.

During the year, The Four Seasons Hotel continued to build its international reputation and win numerous prestigious accolades including Forbes five-star award for hotel and being named one of the top four hotels in the world by Institutional Investor magazine. Its signature Lung King Heen and Caprice restaurants also took two spots out of three restaurants in Hong Kong to have been awarded Three Michelin Stars in the latest Michelin Guide to Hong Kong and Macau 2011. With such premier services in an unmatched location at the Central waterfront, The Four Seasons Hotel recorded significant business growth along with the market recovery.

Newton Hotel Kowloon ceased its operation in June 2010 to make way for redevelopment into a residential property, whilst the remaining three Newton hotels owned by the Group, namely, the 362-room Newton Hotel Hong Kong, the 317-room Newton Inn North Point and the 598-room Newton Place Hotel, have all performed well with satisfactory improvement in both average room rates and occupancy. In order to capture the growing business opportunities from the niche market, a boutique hotel, with 92 suites and rooms covering a gross floor area of over 66,000 square feet, at 388 Jaffe Road, Wanchai, is scheduled for opening in the third quarter of 2012 and it will be operated by The Mira Hong Kong, a leading hip hotel in Hong Kong. By integrating state-of-the-art facilities and eco-friendly features into its design, this hotel is targeted at discerning travellers seeking individuality, style and personalized service.

Established in 1989 as a complementary business to the Group's shopping facilities, Citistore's retailing operation has developed into a network of five department store outlets and two "id:c" specialty stores in Hong Kong. On the back of positive consumption sentiment, Citistore recorded a satisfactory growth of 29% year-on-year to a total of HK\$54 million in profit contribution during the year. In mainland China, the Group held, through its wholly-owned subsidiary, Sin Cheng Holdings Pte Ltd ("Sin Cheng"), interests in the jointly controlled entity, Beijing Youyi Shopping City Co., Ltd. Beijing Lufthansa Centre which operates and manages department stores. In October 2010, the Group entered into an agreement with Intime Department Store (Group) Company Limited ("Intime", stock code: 1833) in relation to the sale of the Group's entire equity interest in Sin Cheng for a consideration of HK\$1,612.5 million (subject to adjustment), which was satisfied by the issuance to the Group of 147,664,835 new Intime shares upon completion. The transaction was completed on 22 December 2010, resulting in a net gain on disposal to the Company of approximately HK\$1,007 million, with an approximately 7.73% equity interest of Intime held by the Group. Intime is developing as a renowned department store chain with investment in around 22 department stores and shopping centres across major cities in mainland China including Beijing, Wuhan, Xian, Hangzhou, Ningbo, Wenzhou and Jinhua.

## ***Construction and Property Management***

The Group aims to develop the finest properties, offering unparalleled quality and comfort to the users and their neighbourhoods. As part of this quality pledge, inter-departmental communication and stakeholder engagement are always encouraged so as to ensure that a quality and eco-conscious approach is adopted throughout all phases of a development project.

For a development project in the suburban area, the Group during the year worked with the Government, environmental groups and local villagers to conserve the ecology of the neighbouring 4.74 hectares of wetland, which was considered as a promising area for the protected habitats. Meanwhile, energy-efficient and sustainable features recommended by the LEED and BEAM Plus have been persistently integrated into the design of the Group's new developments, whilst waste and noise controlling measures have also been adopted during demolition and construction so as to minimize disruption to the surrounding communities. With such a committed approach to environmental protection and stringent monitoring of the whole construction process, the Group received numerous accolades including "Considerate Contractors Site Award" from the Development Bureau of the Hong Kong SAR Government.

Apart from sustainability, the Group also places great importance on the cost-effectiveness in the procurement of building materials: supplies for most of the projects under development have been largely secured, enabling the Group to contain cost in the prevailing inflationary environment.

For the Group's talented workforce, their safety on site and professional development top the Group's priority. During the year, the Group won "Proactive Safety Contractor Award" from The Hong Kong Construction Association as the accident rate for the Group's construction activities was well below the industry average. Meanwhile, the Group supported a wide array of construction-related seminars and exhibitions organized by professional bodies such as The University of Hong Kong and The Construction Industry Council Training Academy, nurturing a learning culture to stay current with new developments.

The Group's professional expertise and quality management have also been extended to its developments in mainland China. In addition to its tight grip over all key aspects of development such as contractor selection and material sourcing, the Construction Department has also maintained an ongoing dialogue with contractors and on-site inspection so as to ensure that all the mainland projects are completed on time, within budget and in line with the Group's stringent quality requirements.

The Group's member property management companies, Hang Yick Properties Management Limited ("Hang Yick") and Well Born Real Estate Management Limited ("Well Born"), collectively manage over 75,500 apartments and industrial/commercial units and 18,000 car parking units in Hong Kong. Their professional accreditations such as ISO 9001 Quality Management System Certification, ISO 10002 Complaint Management System Certification, ISO 14001 Environmental Management System Certification, OHSAS 18001 Occupational Health & Safety Management Certification and Q-Mark Service Scheme Certification all reflect their commitment to service excellence and customer satisfaction.

During the year, they received over 600 performance-related accolades including Excellence in Facility Management Award by Hong Kong Institute of Facility Management, Corporate Environmental & Social Leadership of the Year and Customer Service Center of the Year in Asia Pacific Customer Relationship Excellence Awards, as well as the Gold Award in the Best Landscape Award for Private Property Development by the Leisure and Cultural Services Department. Meanwhile, their unflagging efforts in promoting sustainability have paid off with many properties under their management being praised for their excellence in waste separation and indoor air quality. Being named as Caring Company for consecutive years, they were also given the designation of Manpower Developer 1<sup>st</sup> by the Employees Retraining Board (“ERB”) for its devotion to staff training, in addition to the honours of ERB Excellence Award for Employer.

Hang Yick and Well Born also provided their quality property handover and management services to the Group’s property developments in mainland China. Serving a total of more than 5,000 mainland apartments, they have gained growing recognition for their excellent services and Hengli Wanpan Huayuan was recently accredited as a “Community Showcase in Guangdong Province”, in addition to the honours of “Excellent Property Management Community Showcase in Guangdong Province” awarded to Hengbao Garden.

## **Business Review - Mainland China**

Austerity policies advocated by the Central Government during the year of 2010, as anticipated, steered the course of the mainland property market. The build-up in inflationary pressure within the country resulting from changes in the external economic and political environment, and a prolonged period of negative interest rate have fuelled strong support for housing demand for wealth preservation. In order to avert the risk of an asset bubble forming, and to prevent systemic risk to the banking and financial system caused by such asset bubble, the Central Government has launched a series of suitable policy initiatives to rein in excessive appreciation in housing price. Such policy efforts were intensified throughout the year, with economic and administrative measures, ranging from suppression of investment and speculative demand, increase in supply, to enhancement of supervision and so on, having been undertaken so as to ensure complete control over the mainland property market. As a result, the property market in mainland China showed notable volatility in 2010.

Soon after the introduction of “National Eleven Measures” in January 2010, and the subsequent “National Ten Measures” in April, decline in transaction volume was seen across all property sectors. In September, the property market recovered notably with some of the property projects commanding prices comparable to the level prior to the imposition of stringent controls in April. To rein in further upsurge in housing prices which would render tightening measures futile, home purchase and mortgage restrictions were launched on 29 September, in time to cool the country’s property market before the “National Day Golden Week holiday”.

Since November, on the back of genuine demand from end-users and investment needs for wealth preservation, housing prices throughout the country resumed its uptrend, whilst land auctions also became increasingly competitive. In view of such upward momentum regained by the property market, more stringent “National Eight Measures”, which comprised a wider range of home purchase restrictions and tightened credit on property business, were imposed in early 2011. Although the policy efforts have been intensified, the measures that have been launched are conducive to stabilizing the country’s economy and promoting the healthy development of the property sector. The Group is in the mainland for the long haul and is fully confident of the vast potential offered by the mainland property market.

Less directly hit by the austerity policies were the second and third-tier cities. In fact, for those second and third-tier cities in which the Group has property development projects, rapid developments were commonly seen in recent years with many large-scale infrastructure facilities currently under planning or construction. The network of express railways, light rails and city ring expressways, in particular, would have profound improvement for industrial developments and job creation in the peripheral areas, leading to further increase in housing demand in the second and third-tier cities. Benefiting from the Government's heavy investment in infrastructural developments, the Group's property development projects are set to enjoy better transportation convenience and more comprehensive facilities, in addition to the scenic landscaping made possible by large-scale greenery projects. With careful planning in line with the city's overall development, as well as superb quality and ingenious design by internationally-renowned consultants, the Group's projects reflect our unremitting pursuit of excellence, which is our competitive edge in the market.

Many of the Group's projects in the second and third-tier cities have completed their innovative design plans, with the construction progress stepped up as well. For the "Arch of Triumph" in Changsha, "La Botanica" and "Palatial Crest" in Xian and "Villa Green" in Chongqing, which were all launched during the year, as well as "Riverside Park" in Suzhou which was launched in early 2011, enthusiastic buying response and enviable market acclaim were drawn. Higher prices were repeatedly achieved when additional units were released to the market. As these residential communities offered value-for-money quality, they were highly sought after by buyers even though the asking price for each project was a new record in the immediate neighborhood. According to feedback collected in the course of offering after-sale service, most of the buyers were local residents purchasing their first flats for own use and given their genuine accommodation demand, their primary focus was on the design layout and building quality. With wide support and trust from the buyers, sale performance has been encouraging and the Group will step up its marketing efforts and expedite the sales launch.

Turning to commercial projects, following the accomplishment of World Financial Centre in Beijing, the Group during the year completed Henderson Metropolitan, a landmark at the pedestrian avenue of Nanjing Road East in close proximity to the Bund, Shanghai, whilst the Centro in Zhabei District, Shanghai was also completed. Following the success of World Financial Centre in Beijing which received numerous awards, Henderson Metropolitan is also expected to win wide acclaim and top honours.

The following development projects were completed during this financial year:

| <b>Project name</b>                   | <b>Land-use purpose</b> | <b>Group's interest</b> | <b>Approximate attributable gross floor area (sq.ft.)</b> |
|---------------------------------------|-------------------------|-------------------------|-----------------------------------------------------------|
| 1. Phase 1, Arch of Triumph, Changsha | Residential             | 99%                     | 620,000                                                   |
| 2. Centro, Shanghai                   | Office/<br>Commercial   | 100%                    | 430,000                                                   |
| 3. Henderson Metropolitan, Shanghai   | Office/<br>Commercial   | 100%                    | 830,000                                                   |
| <b>Total:</b>                         |                         |                         | <b>1,880,000</b>                                          |

In order to replenish the land bank, the Group's 90.5%-owned project company acquired two pieces of land in the Gaoling area of the Kaifu District, Changsha, for an aggregate consideration of about RMB130 million during the year. With a total site area of about 1,100,000 square feet, these two parcels of land will be jointly developed with the adjacent land lots, which were acquired previously with a total site area of approximately 4,500,000 square feet, into a large-scale residential community with a total gross floor area of about 8,900,000 square feet, of which approximately 8,100,000 square feet is attributable to the Group. Meanwhile, following a previous successful bid for a residential site at Jin Shi Tan, the Group in August 2010 acquired the second piece of land in Dalian at a consideration of RMB1,590 million. Located at Wolong Bay International Business District at this port city of Liaoning Province, the land parcel boasts a site area of approximately 4,200,000 square feet. Upon completion, this composite development will comprise an office building, a shopping centre, serviced apartments and residential towers, providing a total gross floor area of over 8,700,000 square feet.

As a result of the above land acquisitions, the Group's land bank in mainland China increased to approximately 150.4 million square feet in attributable developable gross floor area by the end of December 2010, of which around 83% would be high-end residences for sale:

Land bank under development or held for future development

|                           |  | <b>Group's share of developable gross floor area*<br/>(million sq.ft.)</b> |
|---------------------------|--|----------------------------------------------------------------------------|
| <b>Prime cities</b>       |  |                                                                            |
| Shanghai                  |  | 1.1                                                                        |
| Guangzhou                 |  | 14.2                                                                       |
| <b>Sub-Total:</b>         |  | <b>15.3</b>                                                                |
| <b>Second-tier cities</b> |  |                                                                            |
| Anshan                    |  | 18.0                                                                       |
| Changsha                  |  | 15.2                                                                       |
| Chengdu                   |  | 4.0                                                                        |
| Chongqing                 |  | 6.6                                                                        |
| Dalian                    |  | 10.3                                                                       |
| Nanjing                   |  | 2.4                                                                        |
| Shenyang                  |  | 17.4                                                                       |
| Suzhou                    |  | 17.0                                                                       |
| Tieling                   |  | 8.7                                                                        |
| Xian                      |  | 20.5                                                                       |
| Xuzhou                    |  | 5.3                                                                        |
| Yixing                    |  | 9.7                                                                        |
| <b>Sub-Total:</b>         |  | <b>135.1</b>                                                               |
| <b>Total:</b>             |  | <b>150.4</b>                                                               |

\* Excluding basement areas and car parks

Usage of development land bank

|                                                                 | <b>Developable gross floor<br/>area (million sq.ft.) Percentage</b> |              |
|-----------------------------------------------------------------|---------------------------------------------------------------------|--------------|
| Residential                                                     | 125.2                                                               | 83.2         |
| Office                                                          | 11.1                                                                | 7.4          |
| Commercial                                                      | 9.4                                                                 | 6.3          |
| Others (including clubhouses, schools and community facilities) | 4.7                                                                 | 3.1          |
| <b>Total:</b>                                                   | <b>150.4</b>                                                        | <b>100.0</b> |

The first phase of the “Arch of Triumph” project, which was completed in June 2010, was highly sought after by home buyers in Changsha due to its outstanding building quality and comprehensive facilities. 684 residential units were released in batches to the market since its launch in October 2009 and over 96% were sold at 31 December 2010. Meanwhile, market responses for the pre-sale of “La Botanica” and “Palatial Crest” in Xian, as well as “Villa Green” in Chongqing, were equally overwhelming. “La Botanica”, which is a 50/50 joint venture between the Group and Temasek Holdings (Private) Limited of Singapore, has been immensely popular since it went to market in November 2008 and its Phase 1A of 981 units was fully sold out. Its Phase 1B (South) and Phase 2A, which were both launched for pre-sale in the fourth quarter of 2010, also met with satisfactory response with 652 units and 82 units snapped up respectively by the end of December 2010. “Palatial Crest” and “Villa Green”, which have been a market focus since their launches in the fourth quarter of 2010, were highly sought after by home buyers with 358 units and 83 units successfully pre-sold at 31 December 2010 respectively. As a result, the Group’s attributable property sales in mainland China for the year under review amounted to HK\$303 million. In addition, the amount of mainland properties pre-sold attributable to the Group totalled HK\$994 million for the year ended 31 December 2010.

Leasing performance for the Group’s mainland completed investment property portfolio was satisfactory. Following the recent completion of the Centro and Henderson Metropolitan in Shanghai, this portfolio comprised a total attributable gross floor area of 6.5 million square feet with its major projects increased to a total of seven. During the year under review, the Group’s attributable gross rental income and net rental income amounted to HK\$477 million and HK\$235 million, respectively.

In Beijing, World Financial Centre is the only property in that capital city to have achieved the highest possible “Platinum” rating from both the United States Green Building Council’s LEED and HK-BEAM. Designed by the world-famous architect Cesar Pelli as twin “crystal jewel boxes” incorporating special effect façade lighting on the exterior, these two 22-storey, 2.1 million-square-foot International Grade A office buildings were recently honoured by the nine professional building institutions of Hong Kong with the Quality Building Award 2010 – Merit Award for a Project outside Hong Kong, in addition to the Intelligent Building of the Year award in 2009 by the Asian Institute of Intelligent Buildings. Many discerning financial institutions and multinational corporations such as Standard Chartered Bank, Mizuho Corporate Bank, Huaxia Bank, International Air Transport Association, FAW Toyota and Novo Nordisk were therefore drawn to become its tenants since its completion in early 2009, with the leasing rate at 78%. To celebrate its grand opening in June 2010, the “Sculpture in Movement” from the Louvre Museum, Paris was launched. It was the first time for such exhibition to be staged in a commercial venue, reflecting World Financial Centre’s initiative to bring world-class art and cultural events to the people of Beijing. Meanwhile, the Group’s shopping mall at Beijing Henderson Centre was over 80% let by 31 December 2010. With more food and beverage outlets, as well as forthcoming opening of a large-scale superstore in its basement floors, the mix of tenants will be changed remarkably to enhance the attraction of the mall to shoppers.

In Shanghai, Grand Gateway Office Tower II, the home to a good number of multinational corporations such as Microsoft, Adidas, Tesco and Yum! Brands Inc., was over 97% leased by the end of December 2010. The shopping arcade at the Skycity was over 96% let, whilst leasing response to its neighbouring Centro, a Grade-A office building newly completed in January 2010, was also satisfactory as the energy-efficient features of this 430,000-square-foot development have been highly sought after by cost-conscious tenants. Designed by world renowned Tange Associates and built to the highest construction and environmental standards under LEED and HK-BEAM, Henderson Metropolitan has attracted equally strong leasing interest since its completion in September 2010. Superbly located at the start of the Nanjing Road East pedestrian avenue with direct access to Metro Lines 2 and 10 from the building basement, its 420,000-square-foot Grade-A office space has been largely taken up by multinational corporations such as Oracle Corporation, Mitsubishi Air-conditioning, Deutsche Lufthansa AG and UniTrust Finance & Leasing Corporation, whilst a world-class electronics product flagship store, as well as the finest selection of retailer outlets and gourmet restaurants, will soon open for business in the first half of 2011, making its 410,000-square-foot shopping mall the shopping Mecca in town. In Guangzhou, Hengbao Plaza recorded a 20% year-on-year growth in rental income with over 90% leasing rate by the end of 2010.

### **Joint-Venture Development in Macau**

In April 2005, the Group entered into an agreement to jointly develop a large-scale waterfront development with a site area of approximately 1.45 million square feet in Taipa, Macau. The project is subject to application for land-use conversion with the total gross floor area to be finalized.

### **Henderson Investment Limited (“HIL”)**

For the year ended 31 December 2010 this group’s profit attributable to equity shareholders amounted to HK\$163 million compared to HK\$156 million for the 18-month period ended 31 December 2009, an increase of HK\$7 million or 5%. Nevertheless, for a comparison of this group’s profit attributable to equity shareholders for the year ended 31 December 2010 with that for the corresponding period of 12 months ended 31 December 2009 which therefore excludes this group’s reported profit attributable to equity shareholders of HK\$61 million for the six months ended 31 December 2008, this group’s profit attributable to equity shareholders for the corresponding period of 12 months ended 31 December 2009 was HK\$95 million. On this basis, this group’s profit attributable to equity shareholders of HK\$163 million for the year ended 31 December 2010 represented an increase of HK\$68 million, or 72%, over and above such profit attributable to equity shareholders of HK\$95 million for the corresponding period of 12 months ended 31 December 2009. Such increase was mainly attributable to (i) the increased profit contribution from this group’s operating right of a toll bridge in Hangzhou during the year ended 31 December 2010 of HK\$29 million compared with the corresponding period of 12 months ended 31 December 2009; (ii) the net gain on the disposal of HIL’s entire interest in Maanshan Huan Tong Highway Development Limited (“Maanshan Highway JV”) attributable to equity shareholders of HIL of HK\$26 million; and (iii) a dividend income received during the year of HK\$11 million in relation to a project which was completed in 2004 and in which HIL had an 8% interest.

After divesting its entire interest in Maanshan Highway JV, this group’s core asset is its 60% interest in Hangzhou Qianjiang Third Bridge. During the year, Hangzhou Qianjiang Third Bridge reported a steady year-on-year growth of 17% in toll revenue to HK\$317 million, mainly driven by the increase in traffic volume given its prime location in Hangzhou.

## **Associated Companies**

### ***The Hong Kong and China Gas Company Limited (“Hong Kong and China Gas”)***

Profit after taxation attributable to shareholders of Hong Kong and China Gas for the year amounted to HK\$5,584.8 million, an increase of HK\$309.7 million compared to the restated profit of 2009. Earnings per share for the year amounted to HK 77.8 cents, an increase of 6.6% over 2009. Profit growth in 2010 was mainly due to growth in profit of mainland businesses. During the year under review, Hong Kong and China Gas invested HK\$4,277.5 million in production facilities, pipelines, plants and other fixed assets for the sustainable development of its various businesses in Hong Kong and the mainland.

### **Gas Business in Hong Kong**

The total volume of gas sales in Hong Kong in year 2010 rose by 1.1% compared to 2009, whilst the total number of appliances sold in 2010 was 233,313 units, an increase of 6.1% over 2009. As at the end of 2010, the number of customers was 1,724,316, an increase of 25,593 compared to 2009.

Laying of a 15 km pipeline to bring natural gas from Tai Po to Ma Tau Kok gas production plant, to partially replace naphtha as feedstock for the production of town gas, is progressing well. Construction of a 9 km pipeline in the western New Territories is also in progress. In tandem with the government’s development of West Kowloon, South East Kowloon and a cruise terminal, network planning, design and construction in these regions are underway. Route planning for a new submarine pipeline from Ma Tau Kok to North Point is progressing well. Meanwhile, construction of the gas supply trunk mains to Ocean Park Hong Kong to support new attractions, facilities and future extensions has been completed.

### **Mainland Utility Business**

In mid-July 2010, Hong Kong and China Gas completed the injection of its entire equity interests in six piped city-gas project companies in Liaoning and Zhejiang provinces into its subsidiary, Towngas China Company Limited (“Towngas China”; stock code: 1083) in exchange for the allotment and issue of 485 million new shares by Towngas China. The transaction raised Hong Kong and China Gas’s shareholding in Towngas China from approximately 45.5% to approximately 56.3%. As such, Towngas China has become a majority-owned subsidiary of Hong Kong and China Gas and Standard & Poor’s Ratings Services, an international rating agency, has raised its long-term corporate credit rating on Towngas China to BBB with a stable rating outlook.

In mid-November 2010, Hong Kong and China Gas took 250 million Towngas China shares placed by a subsidiary of Enerchina Holdings Limited (stock code: 622), the second largest shareholder of Towngas China, for an aggregate consideration of HK\$907.5 million. As a result, Hong Kong and China Gas’s interests in Towngas China were further increased to approximately 66.5%.

In 2010, Towngas China acquired eight new projects located in the New Industrial District of Anshan, Dalian Lvshun Economic Development Zone, Kazuo county of Chaoyang in Liaoning province; in the Lingui New District of Guilin in Guangxi Zhuang Autonomous Region; in the Nanhai New District of Laiyang and Linqu county of Weifang in Shandong province; and in the Chengdong Harbour District of Jiujiang and the Fubei Industrial Park of Fuzhou in Jiangxi province. In 2010, Towngas China’s profit after taxation attributable to its shareholders amounted to HK\$436 million, an increase of approximately 64.4% over 2009.

Hong Kong and China Gas's city-gas businesses progressed well in 2010, with a further new project successfully established in Yonganzhou Industrial Park, Taizhou, Jiangsu province. Inclusive of eight new projects established by Towngas China in 2010, Hong Kong and China Gas had 93 city-gas projects in mainland cities spread across 17 provinces/autonomous regions/municipalities as at the end of 2010. During the year under review, the number of gas customers in the mainland reached 11.88 million and total volume of gas sales was 8,540 million cubic metres. Hong Kong and China Gas has now become the largest city-gas enterprise on the mainland.

Hong Kong and China Gas's midstream natural gas projects include high-pressure natural gas pipeline joint ventures in Anhui province, Hebei province and Hangzhou, Zhejiang province; a joint venture that invests in the construction of natural gas pipelines and the exploitation of gas fields in Jilin province; the Guangdong Liquefied Natural Gas Receiving Terminal project; and a natural gas valve station project in Suzhou Industrial Park, Suzhou, Jiangsu province. Hong Kong and China Gas also operates water supply projects in Wujiang, Jiangsu province and in Wuhu, Anhui province, and manages an integrated water supply and wastewater joint venture in Suzhou Industrial Park, Suzhou, Jiangsu province. These projects are progressing well.

Overall, as at the end of 2010, inclusive of projects of Towngas China, Hong Kong and China Gas had 120 projects spread across 20 provinces/autonomous regions/municipalities, encompassing upstream, midstream and downstream natural gas sectors, the water supply and wastewater treatment sectors, natural gas filling stations and emerging environmentally-friendly energy and energy resources projects.

### **Environmentally-Friendly Energy Businesses**

Hong Kong and China Gas's development of emerging environmentally-friendly energy projects, through its wholly-owned subsidiary ECO Environmental Investments Limited and the latter's subsidiaries (together known as "ECO"), is also progressing well. At the end of 2009, ECO established a Chinese holding company in Erdos, Inner Mongolia to increase management effectiveness and financing channels.

ECO's coalbed methane and non-conventional methane utilisation businesses have been developed based on the technology and operational experience gained from its landfill gas utilisation project which has been successfully operating in Hong Kong for several years. Since 2008, ECO has been developing similar projects on the mainland with an extended scope of application, the first being a phase-one coalbed methane liquefaction facility located in Jincheng, Shanxi province which was commissioned in late 2008. Construction of the phase-two facility was successfully completed during the year under review, and is expected to be commissioned in the first quarter of 2011. Annual production capacity of the whole facility, the largest liquefaction and utilisation project of its kind on the mainland, will then increase to approximately 250 million standard cubic metres of liquefied coalbed methane.

Construction of ECO's coal-mine methane liquefaction project in Chongqing is progressing well; commissioning is expected in the first quarter of 2012. Coal-mine gas, which typically contains about 40% of methane, will be used to produce liquefied methane deploying coal-mine gas deoxidization and coalbed methane cryogenic liquefaction technologies. Other than in-situ power generation plants, this project, with an estimated annual production capacity of 91 million standard cubic metres, is slated to become the world's first large-scale coal-mine gas utilisation facility. ECO has also confirmed its investment in a second coal-mine methane deoxidization and liquefaction project located in Yangquan, Shanxi province.

ECO started to develop coal resources and coal chemical processing businesses in 2009 and its construction of a methanol production plant and development of a coal mine in Junger, Erdos, Inner Mongolia are progressing well; both are expected to be commissioned in 2011. With an annual production capacity of 200,000 tonnes, the methanol production plant has already entered the commissioning stage. ECO's coking coal mining and plant project in Fengcheng, Jiangxi province, is also on schedule; commissioning is expected in 2012. This project will provide an additional gas source for Hong Kong and China Gas's Fengcheng city-gas project.

ECO's energy-related logistics and facilities businesses originated from its five dedicated liquefied petroleum gas ("LPG") filling stations in Hong Kong which have been operating steadily for several years servicing taxis and minibuses. ECO started to develop its gas filling station business on the mainland in 2008. Since then, ECO has been gradually establishing a network of compressed and liquefied natural gas filling stations used by heavy-duty trucks in Shaanxi, Shandong, Liaoning, Henan and Anhui provinces.

ECO's aviation fuel facility in Area 38, Tuen Mun, to service Hong Kong International Airport, was completed and commissioned in November 2010. Jetties and facilities are available for berthing tankers of 80,000 tonnes and 50,000 tonnes and unloading their aviation fuel into eight large tanks with a total capacity of 264,000 cubic metres. After re-certification, the fuel is then transported to the airport via submarine pipelines. The facility has now become a major logistics base for supply of aviation fuel in Hong Kong.

### **Property Developments**

By the end of December 2010, over 99% of the total residential floor area of the Grand Promenade had been sold, whilst Grand Waterfront was sold out. In addition to the commercial area of Grand Waterfront, this group also has an approximately 15.8% interest in the International Finance Centre ("ifc") complex and both of them leased well.

### **Financing Programmes**

HKCG (Finance) Limited, a wholly-owned subsidiary of this group, successfully issued and sold US\$1 billion of notes guaranteed by Hong Kong and China Gas (stock code: 4303) in August 2008 and further established a US\$1 billion medium term note programme (the "MTN Programme") in May 2009. Since the establishment of the MTN Programme, this group has issued medium term notes with, up to now, an aggregate amount of HK\$3,010 million at nominal interest rates ranging from 3.90% to 5.00% per annum and with a maturity of 10 to 40 years. These term notes have included the first ever issue of 30-year and 40-year notes, the longest term corporate papers ever issued, in the Hong Kong dollar bond market. In February 2011, this group concluded a HK\$3.8 billion 5-year syndicated term loan and revolving credit facility, the first syndicated financing transaction for this group since 2006.

Hong Kong and China Gas predicts steady growth and an increase of about 25,000 new customers in Hong Kong for 2011, whilst the combined results of its emerging environmentally-friendly energy businesses and mainland utility businesses will reach the same level as that of its Hong Kong gas business in 2012.

### ***Hong Kong Ferry (Holdings) Company Limited (“Hong Kong Ferry”)***

The consolidated profit after taxation of Hong Kong Ferry for the year ended 31 December 2010 amounted to approximately HK\$483 million, a drop of 56% as compared with the profit after taxation of HK\$1,095 million in 2009 due to the fact that fewer development properties were sold this year.

For the year under review, Hong Kong Ferry sold 30 units in Shining Heights and 72 units in The Spectacle with a total profit of approximately HK\$228 million. A profit of HK\$36 million was also realized from the sales proceeds of approximately HK\$70 million upon the disposal of MetroRegalia shops. Rental and other income from its commercial arcades amounted to approximately HK\$44 million. The occupancy rates of the commercial arcades of Metro Harbour View and Shining Heights were 97% and 82% respectively whereas the commercial arcade of MetroRegalia was fully let for the year with a rental income of approximately HK\$1.2 million.

As regards property development, Hong Kong Ferry acquired at a public land auction in May 2010, Fanling Sheung Shui Town Lot No. 177 located at the junction of Ma Sik Road and Sha Tau Kok Road (Lung Yeuk Tau Section) Area 19, Fanling, New Territories with a site area of approximately 95,800 square feet designated for residential cum-commercial use. The development comprises 3 residential towers built on a 2 storey commercial podium with a total gross floor area of approximately 540,000 sq. ft. The foundation works of the property has commenced and it is expected to be finished by phases before 2014. Also, it has already acquired the entire ownership of the property at 204-214 Tung Chau Street, Shum Shui Po, Kowloon. The property will be re-developed into a commercial/residential building with a gross floor area of approximately 54,000 square feet. It is expected that the property will be demolished and construction works will commence in the later part of this year.

Hong Kong Ferry realized a profit of HK\$42 million in securities investment and recorded a marked-to-market profit of approximately HK\$4.7 million in equity-linked-notes.

The ferry, shipyard and related operations recorded a profit of approximately HK\$9.9 million in total, an increase of 230% as compared with last year. The harbour cruise operation achieved an increase of approximately 100% in operating profit, whilst the deficit of the shipyard was reduced by 27%.

The travel and hotel operation recorded a profit of HK\$2.4 million with a turnaround result registered by The Silvermine Beach Hotel.

The sales proceeds from the remaining 25 units of Shining Heights and 34 units of The Spectacle will remain the main source of income of Hong Kong Ferry in 2011.

***Miramar Hotel and Investment Company, Limited (“Miramar”)***

For the financial year ended 31 December 2010 (the “Reporting Year”), Miramar’s turnover amounted to approximately HK\$2,112 million compared with HK\$1,303 million for the nine months ended 31 December 2009 (referred to as the “2009 Reporting Period”) due to a change of the financial year end date. Profit attributable to shareholders amounted to approximately HK\$784 million (2009 Reporting Period (Restated): HK\$260 million). Excluding the net increase in the fair value of our investment properties, underlying profit attributable to shareholders for the Reporting Year was approximately HK\$378 million (2009 Reporting Period (Restated): HK\$152 million).

In September 2010, Miramar disposed of the 25% equity interest in a hotel in Shekou. Miramar currently owns and/or provides management services for six hotels and serviced apartments in Hong Kong and mainland China. Miramar is the sole owner of The Mira, and Miramar Apartments in Shanghai, a block of serviced apartments. In addition, it provides management services for two hotels in Shekou, a serviced apartment complex and a hotel in Hong Kong. Miramar is working on a hotel management project for a 32-storey boutique hotel in Wan Chai, which is currently under construction and expected to commence trial operation in 2013 under the brand name of “The Mira”.

The hotel and hotel management business achieved a turnaround during the Reporting Year. EBITDA (earnings before interest, taxes, depreciation and amortisation) reached approximately HK\$120 million, compared with a loss of HK\$12 million recorded in 2009 Reporting Period. During the Reporting Year, the occupancy rate of The Mira grew from 58% in 2009 Reporting Period to 80%, whilst the average room rate was up 26%. It also achieved remarkable success in terms of its food and beverage operations with a host of accolades received by its restaurants. Cuisine Cuisine at The Mira has been awarded two Michelin stars in Michelin Guide to Hong Kong and Macau 2011, whilst Whisk has won the coveted title as a Newly Selected Restaurant.

Miramar’s property rental business grew steadily during the Reporting Year, registering a turnover of approximately HK\$480 million and rental income derived from Miramar Shopping Centre and Miramar Tower remained as the major income contributor. The average occupancy rate of Miramar Shopping Centre for the Reporting Year was in line with that of the 2009 Reporting Period, and the average unit rate decreased slightly by 2%. The refurbishment work in Basement one was completed on schedule in the second quarter of 2010. As at the end of 2010, occupancy rate of Miramar Shopping Centre exceeded 95%. As at the end of 2010, occupancy rate at Miramar Tower was nearly 100% and the average unit rate dropped by about 5%. Miramar has undertaken refurbishment work in the public areas of Miramar Tower since May 2010 and the work is expected to be completed in early 2011. Basement one to the second floor of the shopping centre at The Mira underwent a refurbishment and the work is expected to be completed in mid-2011. Miramar optimised property portfolio and acquired an investment property located at Stanley Main Street at a consideration of approximately HK\$64 million.

Miramar operates three Tsui Hang Village restaurants (one located in the Miramar Shopping Centre, Tsim Sha Tsui; one in the New World Tower, Central; and one situated in Club Marina Cove, Sai Kung), a Sichuan restaurant named Yunyan Szechuan Restaurant at Miramar Shopping Centre, two outlets at the IFC, namely Cuisine Cuisine and The French Window, and a canteen and Green Café at the Union Hospital. During the Reporting Year, Miramar completed the two-month renovation work at Yunyan Szechuan Restaurant and brought its successful brand “Cuisine Cuisine” to the mainland China market. The first Cuisine Cuisine restaurant will set foot in Beijing and the restaurant will open in the third quarter of 2011. Another Cuisine Cuisine restaurant in Wuhan will also open in 2011. In September 2010, Miramar joined hands with Green House Food Co. Ltd. to expand the business network of Saboten Tonkatsu, a chain restaurant specialising in traditional deep-fried breaded pork cutlet, to reach Hong Kong and the first outlet in Hong Kong will open in Causeway Bay in the second quarter of 2011. During the Reporting Year, Miramar also entered into a franchise agreement with Hide-Chan Ramen and the first franchise store is opened in March 2011 near Lan Kwai Fong, Central. In the second quarter of 2011, Miramar will open Assaggio Trattoria Italiana, its first Italian restaurant, located at the Hong Kong Art Centre in Wan Chai.

Turnover of the travel business segment showed double-digit growth, reaching approximately HK\$980 million. Double-digit year-on-year growth in operating net profit was also logged. The number of Japan tours surged, resulting in over 20% increase in revenue.

Miramar commenced apparel retail business at the end of 2010 and has become a franchisee of DKNY Jeans in the mainland China. Looking forward to 2011, Miramar will foster collaboration with international fashion brands and set up its own retail network by opening exclusive stores in the mainland China.

## **Corporate Finance**

In order to provide additional funding resources to the Group to cater for its general funding and working capital requirements, the Group concluded a HK\$13,250 million five-year syndicated term loan / revolving credit facility on 28 June 2010 with a consortium of 18 leading international banks and local financial institutions. Riding on the Group’s solid credit quality and sound financial position, the facility received an overwhelming response from the banking community. From an initially planned facility amount of HK\$8,000 million, the facility was increased to the final amount of HK\$13,250 million indicating the strong confidence and continuing support of international as well as local banks for the Group.

In addition, the Group also signed up a HK\$10,000 million three-year syndicated term loan / revolving credit facility on 10 January 2011 with a consortium of 13 leading international banks and local financial institutions. Again, the facility received an overwhelming response from the banking community, with its size increased from an initially planned facility amount of HK\$5,000 million to the final amount of HK\$10,000 million.

Further, in light of the low interest rate levels resulting from quantitative easing measures adopted by major economies around the world over the past year, the Group has concluded Hong Kong dollar interest rate swap contracts for terms of ten years and fifteen years. Such contracts were entered into for the purpose of converting part of the Group’s Hong Kong dollar borrowings from floating interest rates into fixed interest rates at levels which are well below the average for the past few years. It is considered that such a treasury management strategy will be of benefit to the Group in the long run.

## Prospects

Despite changes in the external economic and political environment, the current low interest rate and inflationary environment in Hong Kong, rising household income amid an improving job market, should lend support to the local residential property market. Attracted by the positive outlook in the region as mainland China is still expected to experience steady and fast economic development, an increasing number of mainland and international financial institutions have established a presence in Hong Kong, while the prominent growth of offshore Renminbi business and the continued proliferation of the Renminbi financial products have also reinforced Hong Kong's status as an international financial centre.

Turning to mainland China, with the mainland economy continuing to prosper, household income is set to increase in line with the booming economy. As inflation expectation and negative interest rate linger on, and given the limited availability of investment vehicles, home purchase is regarded as the preferred investment choice. Fuelled by such robust demand, home prices are expected to remain stable in the mainland second and third-tier cities. For the current year, the Group plans to launch a total of more than 10 projects for sale in the second and third-tier cities and the total sales amount is expected to grow significantly.

The Group has a sizeable asset portfolio. The Company's stake in Hong Kong and China Gas singly accounted for approximately 45% of the Company's market capitalization on 31 December 2010 based on closing share prices on that date. The other assets also serve as a solid base for the delivery of strong earnings growth in the years to come and include:

- (i) Continued expansion of the Group's rental portfolio in both Hong Kong and mainland China with an improved property mix: The Group held a total attributable gross floor area (GFA) of approximately 9.4 million square feet in completed investment properties in Hong Kong with most of them being quality offices and large-scale shopping malls in the busiest areas, plus approximately 6.5 million square feet of completed investment properties in mainland China. The recurrent rental income is set to grow further.
- (ii) Urban redevelopment projects of old buildings and other projects under development: The 23 urban redevelopment projects which have been successfully acquired with ownership of between 80%-100%, together with the further acquisition, currently in progress, of 45 projects, will add a total attributable GFA of about 7.3 million square feet to the Group's land bank upon successful completion of the acquisition of all the 68 urban redevelopment projects of old buildings. In addition, the Group has a total of 9 existing projects under redevelopment or conversion into other purposes, which would provide about 1.84 million square feet in attributable GFA for commercial and residential use in the urban areas.
- (iii) Agricultural land reserve: The Group's agricultural land reserve increased to 40.6 million square feet in site area, the largest among all property developers in Hong Kong. In addition to an aggregate attributable GFA of about 2.7 million square feet from the sites at Wu Kai Sha and Tai Tong Road, which are now under construction, the terms (except the land premium) for the land-use conversion of the wetland restoration and residential project in Wo Shang Wai, Yuen Long with attributable GFA of 895,000 square feet have also been agreed with the government. Meanwhile, the sites situated in the satellite towns of Wu Nga Lok Yeung, Ping Che, Kwu Tung North and Hung Shui Kiu are expected to provide, based on a preliminary estimate, an attributable GFA totalling 17 million square feet.

- (iv) The large development land bank in mainland China: Most of the development projects were acquired in previous years at relatively low cost. As the development of a number of projects has gained pace with an increasing amount of residences scheduled for sales/pre-sales in coming years, the Group's efforts in mainland China will soon bear fruit.
- (v) Low cost approach to land banking: As the acquisition cost of old buildings and the premium payable for agricultural land-use conversion compare favourably with the transacted prices of land sites offered at public auctions, it would benefit the future contribution to the Group's results.
- (vi) Contribution from the listed associates: The three listed associates (namely, Hong Kong and China Gas, Hong Kong Ferry and Miramar) provide steady income stream to the Group.

Given the above valuable assets with immense potential and the significant contributions they are expected to generate going forward, the Group is confident of the creation of abundant value for shareholders.

### **Appreciation**

I would like to take this opportunity to express my gratitude to my fellow directors for their support and wise counsel, and to thank all our staff for their dedication and hard work.

**Lee Shau Kee**  
*Chairman*

Hong Kong, 17 March 2011

## BUSINESS RESULTS

### Consolidated income statement for the year ended 31 December 2010

|                                                                                         |             | <b>Year ended<br/>31 December<br/>2010</b> | <i>Period<br/>from 1 July<br/>2008 to<br/>31 December<br/>2009<br/>(restated)</i> |
|-----------------------------------------------------------------------------------------|-------------|--------------------------------------------|-----------------------------------------------------------------------------------|
|                                                                                         | <i>Note</i> | <b>HK\$ million</b>                        | <b>HK\$ million</b>                                                               |
| <b>Turnover</b>                                                                         | 3           | <b>7,092</b>                               | 14,695                                                                            |
| <b>Direct costs</b>                                                                     |             | <b>(3,843)</b>                             | (6,834)                                                                           |
|                                                                                         |             | <b>3,249</b>                               | 7,861                                                                             |
| Other revenue                                                                           | 4           | <b>209</b>                                 | 368                                                                               |
| Other income/(expenses), net                                                            | 5           | <b>1,555</b>                               | (119)                                                                             |
| Selling and marketing expenses                                                          |             | <b>(658)</b>                               | (870)                                                                             |
| Administrative expenses                                                                 |             | <b>(1,508)</b>                             | (2,033)                                                                           |
| <b>Profit from operations before changes<br/>in fair value of investment properties</b> |             | <b>2,847</b>                               | 5,207                                                                             |
| Increase in fair value of investment<br>properties                                      | 6           | <b>9,538</b>                               | 7,156                                                                             |
| <b>Profit from operations after changes<br/>in fair value of investment properties</b>  |             | <b>12,385</b>                              | 12,363                                                                            |
| Finance costs                                                                           | 7(a)        | <b>(970)</b>                               | (1,341)                                                                           |
|                                                                                         |             | <b>11,415</b>                              | 11,022                                                                            |
| Share of profits less losses of associates                                              |             | <b>2,908</b>                               | 3,175                                                                             |
| Share of profits less losses of jointly<br>controlled entities                          |             | <b>2,916</b>                               | 4,919                                                                             |
| <b>Profit before taxation</b>                                                           | 7           | <b>17,239</b>                              | 19,116                                                                            |
| Income tax                                                                              | 8           | <b>(1,601)</b>                             | (1,703)                                                                           |
| <b>Profit for the year/period</b>                                                       |             | <b>15,638</b>                              | 17,413                                                                            |
| <b>Attributable to:</b>                                                                 |             |                                            |                                                                                   |
| Equity shareholders of the Company                                                      |             | <b>15,820</b>                              | 15,465                                                                            |
| Non-controlling interests                                                               |             | <b>(182)</b>                               | 1,948                                                                             |
| <b>Profit for the year/period</b>                                                       |             | <b>15,638</b>                              | 17,413                                                                            |

**Consolidated income statement  
for the year ended 31 December 2010 (continued)**

|                                               |             | <b>Year ended<br/>31 December<br/>2010</b> | <i>Period<br/>from 1 July<br/>2008 to<br/>31 December<br/>2009<br/>(restated)</i> |
|-----------------------------------------------|-------------|--------------------------------------------|-----------------------------------------------------------------------------------|
|                                               | <i>Note</i> | <b>HK\$ million</b>                        | HK\$ million                                                                      |
| <b>Earnings per share – Basic and diluted</b> | 10(a)       | <u><b>HK\$7.32</b></u>                     | <u>HK\$7.20</u>                                                                   |
| <b>Adjusted earnings per share</b>            | 10(b)       | <u><b>HK\$2.33</b></u>                     | <u>HK\$2.81</u>                                                                   |

Details of dividends payable to equity shareholders of the Company attributable to the profit for the year/period are set out in note 9.

**Consolidated statement of comprehensive income  
for the year ended 31 December 2010**

|                                                                                                             | <i>Year ended<br/>31 December<br/>2010</i> | <i>Period<br/>from 1 July<br/>2008 to<br/>31 December<br/>2009<br/>(restated)</i> |
|-------------------------------------------------------------------------------------------------------------|--------------------------------------------|-----------------------------------------------------------------------------------|
|                                                                                                             | <b>HK\$ million</b>                        | <b>HK\$ million</b>                                                               |
| <b>Profit for the year/period</b>                                                                           | <b>15,638</b>                              | <b>17,413</b>                                                                     |
| <b>Other comprehensive income for the<br/>year/period (after tax and reclassification<br/>adjustments):</b> |                                            |                                                                                   |
| Exchange differences: net movement in<br>the exchange reserve                                               | <b>1,120</b>                               | (81)                                                                              |
| Cash flow hedges: net movement in the<br>hedging reserve                                                    | <b>136</b>                                 | 136                                                                               |
| Available-for-sale equity securities: net<br>movement in the fair value reserve                             | <b>175</b>                                 | 90                                                                                |
| Net movement in the property revaluation<br>reserve                                                         | -                                          | (70)                                                                              |
| Share of other comprehensive income of<br>associates and jointly controlled entities                        | <b>335</b>                                 | 308                                                                               |
|                                                                                                             | <b>1,766</b>                               | 383                                                                               |
| <b>Total comprehensive income for the<br/>year/period</b>                                                   | <b>17,404</b>                              | <b>17,796</b>                                                                     |
| <b>Attributable to:</b>                                                                                     |                                            |                                                                                   |
| Equity shareholders of the Company                                                                          | <b>17,560</b>                              | 15,855                                                                            |
| Non-controlling interests                                                                                   | <b>(156)</b>                               | 1,941                                                                             |
| <b>Total comprehensive income for the<br/>year/period</b>                                                   | <b>17,404</b>                              | <b>17,796</b>                                                                     |

## Consolidated balance sheet at 31 December 2010

|                                                                   |             | <i>At 31<br/>December<br/>2010</i> | <i>At 31<br/>December<br/>2009<br/>(restated)</i> | <i>At 1 July<br/>2008<br/>(restated)</i> |
|-------------------------------------------------------------------|-------------|------------------------------------|---------------------------------------------------|------------------------------------------|
|                                                                   | <i>Note</i> | <b>HK\$ million</b>                | HK\$ million                                      | HK\$ million                             |
| <b>Non-current assets</b>                                         |             |                                    |                                                   |                                          |
| Fixed assets                                                      |             | <b>84,068</b>                      | 70,296                                            | 60,319                                   |
| Intangible operating rights                                       |             | <b>479</b>                         | 508                                               | 749                                      |
| Interest in associates                                            |             | <b>37,981</b>                      | 36,561                                            | 34,884                                   |
| Interest in jointly controlled entities                           |             | <b>20,947</b>                      | 18,893                                            | 15,517                                   |
| Derivative financial instruments                                  |             | <b>752</b>                         | 516                                               | 268                                      |
| Other financial assets                                            |             | <b>3,489</b>                       | 1,919                                             | 2,164                                    |
| Deferred tax assets                                               |             | <b>541</b>                         | 156                                               | 129                                      |
|                                                                   |             | <b>148,257</b>                     | 128,849                                           | 114,030                                  |
| <b>Current assets</b>                                             |             |                                    |                                                   |                                          |
| Deposits for acquisition of properties                            |             | <b>6,925</b>                       | 5,894                                             | 4,840                                    |
| Inventories                                                       |             | <b>60,717</b>                      | 41,541                                            | 37,624                                   |
| Trade and other receivables                                       | 12          | <b>4,497</b>                       | 7,365                                             | 5,072                                    |
| Cash held by stakeholders                                         |             | <b>119</b>                         | 46                                                | 154                                      |
| Cash and cash equivalents                                         |             | <b>9,797</b>                       | 10,525                                            | 15,675                                   |
|                                                                   |             | <b>82,055</b>                      | 65,371                                            | 63,365                                   |
| Assets classified as held for sale                                |             | -                                  | 196                                               | -                                        |
|                                                                   |             | <b>82,055</b>                      | 65,567                                            | 63,365                                   |
| <b>Current liabilities</b>                                        |             |                                    |                                                   |                                          |
| Trade and other payables                                          | 13          | <b>5,812</b>                       | 5,359                                             | 4,589                                    |
| Bank loans and overdrafts                                         |             | <b>7,516</b>                       | 4,858                                             | 3,307                                    |
| Current taxation                                                  |             | <b>733</b>                         | 713                                               | 879                                      |
|                                                                   |             | <b>14,061</b>                      | 10,930                                            | 8,775                                    |
| Liabilities associated with assets<br>classified as held for sale |             | -                                  | 39                                                | -                                        |
|                                                                   |             | <b>14,061</b>                      | 10,969                                            | 8,775                                    |
| <b>Net current assets</b>                                         |             | <b>67,994</b>                      | 54,598                                            | 54,590                                   |
| <b>Total assets less current liabilities</b>                      |             | <b>216,251</b>                     | 183,447                                           | 168,620                                  |

# Consolidated balance sheet at 31 December 2010 (continued)

|                                                                            | <i>At 31<br/>December<br/>2010</i> | <i>At 31<br/>December<br/>2009<br/>(restated)</i> | <i>At 1 July<br/>2008<br/>(restated)</i> |
|----------------------------------------------------------------------------|------------------------------------|---------------------------------------------------|------------------------------------------|
| <i>Note</i>                                                                | <b>HK\$ million</b>                | HK\$ million                                      | HK\$ million                             |
| <b>Non-current liabilities</b>                                             |                                    |                                                   |                                          |
| Bank loans                                                                 | 27,132                             | 24,157                                            | 29,007                                   |
| Guaranteed notes                                                           | 6,991                              | 6,994                                             | 3,312                                    |
| Amount due to a fellow subsidiary                                          | 12,976                             | 2,210                                             | 1,872                                    |
| Derivative financial instruments                                           | 641                                | 557                                               | 309                                      |
| Deferred tax liabilities                                                   | 4,088                              | 2,625                                             | 1,865                                    |
|                                                                            | <u>51,828</u>                      | <u>36,543</u>                                     | <u>36,365</u>                            |
| <b>NET ASSETS</b>                                                          | <u>164,423</u>                     | <u>146,904</u>                                    | <u>132,255</u>                           |
| <b>CAPITAL AND RESERVES</b>                                                |                                    |                                                   |                                          |
| Share capital                                                              | 4,352                              | 4,294                                             | 4,294                                    |
| Reserves                                                                   | 154,686                            | 137,934                                           | 124,870                                  |
| <b>Total equity attributable to equity<br/>shareholders of the Company</b> | 159,038                            | 142,228                                           | 129,164                                  |
| <b>Non-controlling interests</b>                                           | 5,385                              | 4,676                                             | 3,091                                    |
| <b>TOTAL EQUITY</b>                                                        | <u>164,423</u>                     | <u>146,904</u>                                    | <u>132,255</u>                           |

## Notes:

### 1 Basis of preparation

The final results set out in this announcement do not constitute the Group's statutory accounts for the year ended 31 December 2010 but are extracted from those accounts.

The statutory accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual HKFRSs, 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. Those accounts also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The measurement basis used in the preparation of the accounts is the historical cost basis except that the following assets and liabilities are stated at their fair value:

- financial instruments classified as available-for-sale equity securities;
- derivative financial instruments; and
- investment properties.

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell.

The Company changed its financial year end date from 30 June to 31 December in the last financial period. The consolidated accounts now presented cover a period of twelve months from 1 January 2010 to 31 December 2010. Accordingly, the comparative figures (which cover a period of eighteen months from 1 July 2008 to 31 December 2009) for the consolidated income statement, consolidated statement of comprehensive income and related notes are not comparable with those of the current year.

### 2 Changes in accounting policies

The HKICPA has issued one new HKFRS, a number of amendments to HKFRSs and two new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the accounts of the Group:

|                          |                                                                                                                                 |
|--------------------------|---------------------------------------------------------------------------------------------------------------------------------|
| HKAS 1 (Revised)         | Presentation of financial statements                                                                                            |
| HKAS 23 (Revised)        | Borrowing costs                                                                                                                 |
| HKAS 27 (Revised)        | Consolidated and separate financial statements                                                                                  |
| HKFRS 3 (Revised)        | Business combinations                                                                                                           |
| HKFRS 7 (Amendments)     | Financial instruments: Disclosures                                                                                              |
| HKFRS 8                  | Operating segments                                                                                                              |
| HKFRSs (Amendments 2008) | Improvements to HKFRSs (2008)                                                                                                   |
| HKFRSs (Amendments 2009) | Improvements to HKFRSs (2009)                                                                                                   |
| HK (Int) 5               | Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause |
| HK(IFRIC) - Int 15       | Agreements for the construction of real estate                                                                                  |

## 2 Changes in accounting policies (continued)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, with the exception of the amendments to HKAS 12, *Income taxes*, in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40, *Investment property*. The amendments are effective for annual periods beginning on or after 1 January 2012, but as permitted by the amendments, the Group has decided to adopt the amendments early.

### (i) *Early adoption of the amendments to HKAS 12, Income taxes*

The change in policy arising from the amendments to HKAS 12 is the only change which has had a material impact on the current and comparative periods. As a result of this change in policy, the Group now measures any deferred tax liability in respect of its investment properties in Hong Kong with reference to the tax liability that would arise if the properties were disposed of at their carrying amounts at the balance sheet date. Previously, where these properties were held under leasehold interests, deferred tax were generally measured using the tax rate that would apply as a result of recovery of the asset's value through use.

This change in policy has been applied retrospectively by restating the opening balances at 1 July 2008 and 1 January 2010, with consequential adjustments to comparatives for the period ended 31 December 2009. This has resulted in a reduction in the amount of deferred tax provided on valuation gain as follows:

## 2 Changes in accounting policies (continued)

### (i) Early adoption of the amendments to HKAS 12, Income taxes (continued)

|                                                                                 | <i>As previously<br/>reported</i> | <i>Reclassification<br/>due to cancelled<br/>property sale<br/>transactions<br/>(Note 14)</i> | <i>Effect of<br/>adoption of<br/>amendments to<br/>HKAS 12</i> | <i>As restated</i> |
|---------------------------------------------------------------------------------|-----------------------------------|-----------------------------------------------------------------------------------------------|----------------------------------------------------------------|--------------------|
|                                                                                 | HK\$ million                      | HK\$ million                                                                                  | HK\$ million                                                   | HK\$ million       |
| <b>Consolidated income statement for the<br/>period ended 31 December 2009:</b> |                                   |                                                                                               |                                                                |                    |
| Other income/(expenses), net *                                                  | (227)                             | 105                                                                                           | 3                                                              | (119)              |
| Share of profits less losses of associates                                      | 3,074                             | -                                                                                             | 101                                                            | 3,175              |
| Share of profits less losses of jointly<br>controlled entities                  | 4,363                             | -                                                                                             | 556                                                            | 4,919              |
| Income tax                                                                      | (2,356)                           | -                                                                                             | 653                                                            | (1,703)            |
| Profit for the period                                                           | 16,100                            | -                                                                                             | 1,313                                                          | 17,413             |
| Attributable to:                                                                |                                   |                                                                                               |                                                                |                    |
| Equity shareholders of the Company                                              | 14,320                            | -                                                                                             | 1,145                                                          | 15,465             |
| Non-controlling interests                                                       | 1,780                             | -                                                                                             | 168                                                            | 1,948              |
| Earnings per share – Basic and diluted                                          | HK\$6.67                          | -                                                                                             | HK\$0.53                                                       | HK\$7.20           |
| <b>Consolidated balance sheet as at<br/>31 December 2009:</b>                   |                                   |                                                                                               |                                                                |                    |
| Interest in associates                                                          | 35,569                            | -                                                                                             | 992                                                            | 36,561             |
| Interest in jointly controlled entities                                         | 16,711                            | -                                                                                             | 2,182                                                          | 18,893             |
| Deferred tax liabilities                                                        | (8,845)                           | -                                                                                             | 6,220                                                          | (2,625)            |
| Non-controlling interests                                                       | (4,383)                           | -                                                                                             | (293)                                                          | (4,676)            |
| Retained profits                                                                | 95,279                            | -                                                                                             | 9,099                                                          | 104,378            |
| Other property revaluation reserve                                              | 14                                | -                                                                                             | 2                                                              | 16                 |
| <b>Consolidated balance sheet as at<br/>1 July 2008:</b>                        |                                   |                                                                                               |                                                                |                    |
| Interest in associates                                                          | 33,993                            | -                                                                                             | 891                                                            | 34,884             |
| Interest in jointly controlled entities                                         | 13,891                            | -                                                                                             | 1,626                                                          | 15,517             |
| Deferred tax liabilities                                                        | (7,441)                           | -                                                                                             | 5,576                                                          | (1,865)            |
| Non-controlling interests                                                       | (2,966)                           | -                                                                                             | (125)                                                          | (3,091)            |
| Retained profits                                                                | 83,750                            | -                                                                                             | 7,954                                                          | 91,704             |
| Other property revaluation reserve                                              | 72                                | -                                                                                             | 14                                                             | 86                 |

\* The amount was reported separately as “other net income” of HK\$56 million and “other operating expenses/(income), net” of HK\$283 million in the consolidated accounts for the period ended 31 December 2009.

## **2 Changes in accounting policies (continued)**

### **(ii) Other changes in accounting policies as a result of developments in HKFRSs**

The adoption of HKAS 23 (Revised), HK(IFRIC) - Int 15 and HK (Int) 5 have no material impact on these accounts as the amendments and interpretations are consistent with policies already adopted by the Group. The impact of the remainder of the above developments on these accounts is as follows.

#### **(i) HKAS 1 (Revised), Presentation of financial statements**

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

#### **(ii) HKAS 27 (Revised), Consolidated and separate financial statements**

HKAS 27 (Revised) has removed the requirement that dividends out of pre-acquisition profits should be recognised as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2010 all dividends receivable from subsidiaries, whether out of pre- or post-acquisition profits, will be recognised in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognising the dividend income in profit or loss, the Company would recognise an impairment loss. In accordance with the transitional provisions, this new policy is applied prospectively to any dividends receivable in the current year or future periods and previous periods have not been restated.

HKAS 27 (Revised) also provides that when changes in a parent's ownership interest in a subsidiary do not result in a loss of control, this will be accounted for as equity transactions which will no longer result in goodwill, or gain or loss. When the changes result in a parent losing control over a subsidiary, this will be accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any remaining interest would be recognised at fair value as if reacquired and the difference between the fair value and the carrying amount is recognised in profit or loss. This new policy is applied prospectively in accordance with the transitional provisions and there has been no effect on reported profit or loss and net assets for the year.

## 2 Changes in accounting policies (continued)

### (iii) *HKFRS 3 (Revised), Business combinations*

As a result of the adoption of HKFRS 3 (Revised), where a business combination is achieved in stages (other than that for existing subsidiary), the existing interest in the acquiree should be re-measured at fair value at each acquisition date and any resulting gain or loss is recognised in profit or loss. Previously, such gain or loss would be offset against goodwill. HKFRS 3 (Revised) has been applied prospectively for the transactions after 1 January 2010 and the adoption of HKFRS 3 (Revised) had no significant impact on the accounts of the Group for the year ended 31 December 2010.

### (iv) *HKFRS 8, Operating segments*

HKFRS 8 supersedes HKAS 14, *Segment reporting* and requires segment disclosure to be based on the way the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's accounts into segments based on related activities and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's most senior executive management. Corresponding amounts have been provided on a basis consistent with the revised segment information.

### (v) *Improvements to HKFRSs (2008)*

Improvements to HKFRSs (2008) contain amendments to HKAS 40, *Investment property* under which investment property which is under construction will be carried at fair value at the earlier of when the fair value becomes reliably measurable and the date of completion of the property. Any gain or loss will be recognised in profit or loss, consistent with the policy adopted for all other investment properties carried at fair value. Previously such property was carried at cost until construction was completed, at which time it was fair valued with any gain or loss being recognised in profit or loss.

The amendments to HKAS 40 are applied prospectively in accordance with the transitional provisions and the adoption of which results in the increase in the profit attributable to equity shareholders of the Company for the year ended 31 December 2010 by HK\$91 million, being the increase in fair value (net of deferred tax and non-controlling interests) of the investment properties under development previously carried at cost. Previous periods have not been restated.

## 2 Changes in accounting policies (continued)

### (vi) Improvements to HKFRSs (2009)

Improvements to HKFRSs (2009) contain amendments to HKAS 17, *Leases* which removes the guidance that a lease of land with an indefinite economic life is normally classified as an operating lease unless at the end of the lease term title is expected to pass to the lessee. Under the amendments, a land lease with a lease term of several decades or longer may be classified as a finance lease, even if at the end of the lease term title will not pass to the lessee, because in such arrangements substantially all risks and rewards are transferred to the lessee and the present value of the residual value of the leased asset is considered negligible.

This new policy is applied retrospectively and as a result of the amendments, certain leases of land with carrying amount of HK\$976 million at 31 December 2009 and HK\$880 million at 31 December 2010 have been reclassified as finance leases and included under “Fixed assets” (previously included under “Interests in leasehold land held for own use under operating leases”). The reclassification has no effect on reported profit or loss or net assets for any of the periods presented.

Up to the date of issue of these accounts, except the amendments to HKAS 12, *Income taxes*, the HKICPA has issued a number of amendments, new standards and new interpretations which are not yet effective for the year ended 31 December 2010 and which have not been adopted in these accounts.

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.

## 3 Turnover

Turnover of the Group represents revenue from the sale of properties, rental income, income from construction, infrastructure business, hotel operation and management, department store operation and management, and others mainly including income from provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services.

### 3 Turnover (continued)

The major items are analysed as follows:

|                                   | <b>Year ended<br/>31 December<br/>2010</b> | <i>Period<br/>from 1 July<br/>2008 to<br/>31 December<br/>2009<br/>(restated)</i> |
|-----------------------------------|--------------------------------------------|-----------------------------------------------------------------------------------|
|                                   | <b>HK\$ million</b>                        | <b>HK\$ million</b>                                                               |
| Sale of properties (note (i))     | 5,752                                      | 8,607                                                                             |
| Less: Cancelled sales (note (ii)) | <u>(3,230)</u>                             | <u>(469)</u>                                                                      |
|                                   | <b>2,522</b>                               | <b>8,138</b>                                                                      |
| Rental income                     | <b>3,157</b>                               | <b>4,178</b>                                                                      |
| Construction                      | <b>37</b>                                  | <b>400</b>                                                                        |
| Infrastructure                    | <b>317</b>                                 | <b>441</b>                                                                        |
| Hotel operation                   | <b>184</b>                                 | <b>248</b>                                                                        |
| Department store operation        | <b>307</b>                                 | <b>406</b>                                                                        |
| Others                            | <u><b>568</b></u>                          | <u><b>884</b></u>                                                                 |
|                                   | <u><b>7,092</b></u>                        | <u><b>14,695</b></u>                                                              |

Notes:

- (i) Included in sale of properties is an amount of HK\$45 million (Period ended 31 December 2009: HK\$137 million) relating to the Group's share of revenue from its interest in a property project jointly developed by the Group and an associate.
- (ii) During the year ended 31 December 2010, the Group received written requests from the purchasers of 20 property units in 39 Conduit Road for the cancellation of the sale and purchase agreements entered into in the previous year. In accordance with the terms of the agreements for sale and purchase, the Group has retained the forfeited deposits of 5% of the purchase price, and has refunded to the purchasers other payments over and above the 5% deposits received. As a result of the cancelled sales in respect of 39 Conduit Road and two other projects during the year, revenue less direct and related costs was reduced by a loss on cancellation of HK\$1,629 million, and inventory was increased by HK\$1,554 million. The loss on cancellation attributable to the Group, i.e. after taking into account taxation and non-controlling interests, amounted to HK\$864 million (of which HK\$734 million relates to the cancelled sales of the 20 units at 39 Conduit Road).

During the period ended 31 December 2009, revenue less direct and related costs was reduced by a loss on cancellation of HK\$8 million and inventory was increased by HK\$430 million. In previous periods losses on cancellation were presented as part of other income/(expenses), net. The loss on cancellation attributable to the Group, i.e. after taking into account taxation and non-controlling interests, amounted to HK\$10 million.

#### 4 Other revenue

|                       | <i>Year ended<br/>31 December<br/>2010<br/>HK\$ million</i> | <i>Period<br/>from 1 July<br/>2008 to<br/>31 December<br/>2009<br/>HK\$ million</i> |
|-----------------------|-------------------------------------------------------------|-------------------------------------------------------------------------------------|
| Bank interest income  | 120                                                         | 250                                                                                 |
| Other interest income | 19                                                          | 17                                                                                  |
| Others                | 70                                                          | 101                                                                                 |
|                       | <u>209</u>                                                  | <u>368</u>                                                                          |

#### 5 Other income/(expenses), net

|                                                                                                             | <i>Year ended<br/>31 December<br/>2010<br/>HK\$ million</i> | <i>Period<br/>from 1 July<br/>2008 to<br/>31 December<br/>2009<br/>(restated)<br/>HK\$ million</i> |
|-------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| Net gain on disposal of subsidiaries (note (i))                                                             | 1,203                                                       | 48                                                                                                 |
| Gain on disposal of an associate                                                                            | 37                                                          | -                                                                                                  |
| Net gain on disposal of fixed assets                                                                        | 272                                                         | 72                                                                                                 |
| Gain on sale of listed investments                                                                          | 90                                                          | 37                                                                                                 |
| Excess of interest in fair value of the acquirees'<br>identifiable assets over cost of business combination | 22                                                          | -                                                                                                  |
| (Impairment loss)/reversal of impairment loss<br>for trade and other receivables                            |                                                             |                                                                                                    |
| - trade debtors                                                                                             | 59                                                          | (56)                                                                                               |
| - others (note (ii))                                                                                        | (171)                                                       | -                                                                                                  |
| Provision on inventories                                                                                    | (4)                                                         | (34)                                                                                               |
| Impairment loss on available-for-sale equity securities                                                     | -                                                           | (73)                                                                                               |
| Net foreign exchange gain/(loss)                                                                            | 27                                                          | (54)                                                                                               |
| Others                                                                                                      | 20                                                          | (59)                                                                                               |
|                                                                                                             | <u>1,555</u>                                                | <u>(119)</u>                                                                                       |

## **5 Other income/(expenses), net (continued)**

Notes:

- (i) During the year ended 31 December 2010, the Group completed the disposal of (i) its entire interest in Maanshan Huan Tong Highway Development Limited, as a result of which the Group recognised a net gain on disposal of HK\$47 million; and (ii) its entire interest in Sin Cheng Holdings Pte Ltd., an indirect wholly-owned subsidiary (which owns 50% equity interest in Beijing Youyi Lufthansa Shopping City Co Ltd. Beijing Lufthansa Centre), as a result of which the Group recognised a net gain on disposal of HK\$1,156 million. Accordingly, the Group recorded an aggregate net gain on disposal of HK\$1,203 million for the year ended 31 December 2010.

During the period ended 31 December 2009, the Group sold a subsidiary which was engaged in property leasing business for an aggregate consideration of HK\$60 million. Adjusting for the effect of deferred tax relating to the subsidiaries disposed of under the amendments to HKAS 12, this resulted in a net gain on disposal (as restated) of HK\$48 million.

- (ii) The impairment loss for the year ended 31 December 2010 as referred to above includes an amount of HK\$135 million which was written off against certain remaining amounts of prepaid development costs in relation to a property development project in mainland China which was terminated during the previous financial year ended 30 June 2008.

## **6 Increase in fair value of investment properties**

The Group's investment properties and investment properties under development were revalued at 31 December 2010 by DTZ, an independent firm of professional surveyors who have among their staff Fellows of The Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis. The Group's investment properties were valued in their existing states by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net rental income allowing for reversionary income potential. The Group's investment properties under development were valued by estimating the fair value of such properties as if they were completed in accordance with the relevant development plan and then deducting from that amount the estimated costs to complete the construction, financing costs and a reasonable profit margin.

No valuations were performed for the Group's investment properties under development at 31 December 2009 and therefore they are stated at cost as their fair values cannot be reliably measured at that date.

## 7 Profit before taxation

*Profit before taxation is arrived at after charging/(crediting):*

|                                                                                                                                               | <i>Year ended<br/>31 December<br/>2010<br/>HK\$ million</i> | <i>Period<br/>from 1 July<br/>2008 to<br/>31 December<br/>2009<br/>HK\$ million</i> |
|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------------------------------|
| (a) Finance costs:                                                                                                                            |                                                             |                                                                                     |
| Bank interest                                                                                                                                 | 818                                                         | 1,343                                                                               |
| Interest on loans wholly repayable within<br>five years                                                                                       | 157                                                         | 212                                                                                 |
| Interest on loans repayable after five years                                                                                                  | 308                                                         | 227                                                                                 |
| Other borrowing costs                                                                                                                         | 158                                                         | 130                                                                                 |
|                                                                                                                                               | <u>1,441</u>                                                | <u>1,912</u>                                                                        |
| Less: Amount capitalised *                                                                                                                    | (471)                                                       | (571)                                                                               |
|                                                                                                                                               | <u>970</u>                                                  | <u>1,341</u>                                                                        |
| * The borrowing costs have been capitalised at rates ranging from 2.2% to 5.64%<br>(Period ended 31 December 2009: 1.87% to 6.55%) per annum. |                                                             |                                                                                     |
| (b) Directors' remuneration:                                                                                                                  |                                                             |                                                                                     |
| - For the year ended 31 December 2010                                                                                                         | 167                                                         | -                                                                                   |
| - For the six months from 1 July 2008 to<br>31 December 2008                                                                                  | -                                                           | 103                                                                                 |
| - For the twelve months from 1 January 2009 to<br>31 December 2009                                                                            | -                                                           | 156                                                                                 |
|                                                                                                                                               | <u>167</u>                                                  | <u>259</u>                                                                          |
| (c) Staff costs (other than directors' remuneration):                                                                                         |                                                             |                                                                                     |
| Salaries, wages and other benefits                                                                                                            | 1,396                                                       | 1,927                                                                               |
| Contributions to defined contribution<br>retirement plans                                                                                     | 61                                                          | 77                                                                                  |
|                                                                                                                                               | <u>1,457</u>                                                | <u>2,004</u>                                                                        |

## 7 Profit before taxation (continued)

### *Profit before taxation is arrived at after charging/(crediting): (continued)*

|                                                                                                                                                                    | <i>Year ended<br/>31 December<br/>2010</i> | <i>Period<br/>from 1 July<br/>2008 to<br/>31 December<br/>2009<br/>(restated)</i> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|-----------------------------------------------------------------------------------|
|                                                                                                                                                                    | <b>HK\$ million</b>                        | <b>HK\$ million</b>                                                               |
| (d) Other items:                                                                                                                                                   |                                            |                                                                                   |
| Depreciation                                                                                                                                                       | <b>146</b>                                 | 215                                                                               |
| Less: Amount capitalised                                                                                                                                           | <b>(14)</b>                                | (3)                                                                               |
|                                                                                                                                                                    | <b>132</b>                                 | 212                                                                               |
| Net foreign exchange gains                                                                                                                                         | <b>(26)</b>                                | (92)                                                                              |
| Cash flow hedges: net foreign exchange<br>(gains)/losses reclassified from equity                                                                                  | <b>(1)</b>                                 | 146                                                                               |
|                                                                                                                                                                    | <b>(27)</b>                                | 54                                                                                |
| Amortisation of intangible operating rights                                                                                                                        | <b>43</b>                                  | 69                                                                                |
| Cost of sales                                                                                                                                                      |                                            |                                                                                   |
| - completed properties for sale (net of cancelled<br>sales) (note (i))                                                                                             | <b>2,096</b>                               | 4,126                                                                             |
| - trading stocks                                                                                                                                                   | <b>292</b>                                 | 379                                                                               |
| Auditors' remuneration                                                                                                                                             | <b>20</b>                                  | 22                                                                                |
| Rentals receivable from investment properties<br>net of direct outgoings of HK\$1,051 million<br>(Period ended 31 December 2009:<br>HK\$1,301 million) (note (ii)) | <b>(1,632)</b>                             | (2,216)                                                                           |
| Other rental income less direct outgoings                                                                                                                          | <b>(301)</b>                               | (405)                                                                             |
| Dividend income from investments in available-<br>for-sale equity securities                                                                                       |                                            |                                                                                   |
| - listed                                                                                                                                                           | <b>(25)</b>                                | (26)                                                                              |
| - unlisted                                                                                                                                                         | <b>(18)</b>                                | (23)                                                                              |

#### Notes:

- (i) Included in the cost of sales for the year ended 31 December 2010 in respect of completed properties for sale is an amount of HK\$10 million (Period ended 31 December 2009: HK\$36 million) relating to the Group's share of cost of properties sold in connection with the property project jointly developed by the Group and the associate as disclosed in note 3.
- (ii) Included contingent rental income of HK\$165 million for the year ended 31 December 2010 (Period ended 31 December 2009: HK\$208 million).

## 8 Income tax

*Income tax in the consolidated income statement represents:*

|                                                                   | <i>Year ended<br/>31 December<br/>2010</i> | <i>Period<br/>from 1 July<br/>2008 to<br/>31 December<br/>2009<br/>(restated)</i> |
|-------------------------------------------------------------------|--------------------------------------------|-----------------------------------------------------------------------------------|
|                                                                   | <b>HK\$ million</b>                        | <b>HK\$ million</b>                                                               |
| <b>Current tax - Provision for Hong Kong Profits Tax</b>          |                                            |                                                                                   |
| Provision for the year/period                                     | 370                                        | 774                                                                               |
| Under/(over)-provision in respect of prior years                  | 36                                         | (4)                                                                               |
|                                                                   | <u>406</u>                                 | <u>770</u>                                                                        |
| <b>Current tax - Provision for taxation outside<br/>Hong Kong</b> |                                            |                                                                                   |
| Provision for the year/period                                     | 261                                        | 129                                                                               |
| Under-provision in respect of prior years                         | 26                                         | 26                                                                                |
|                                                                   | <u>287</u>                                 | <u>155</u>                                                                        |
| <b>Current tax - Provision for Land Appreciation Tax</b>          |                                            |                                                                                   |
| Provision for the year/period                                     | <u>18</u>                                  | <u>78</u>                                                                         |
| <b>Deferred taxation</b>                                          |                                            |                                                                                   |
| Origination and reversal of temporary differences                 | 890                                        | 693                                                                               |
| Effect of change in tax rate                                      | -                                          | 7                                                                                 |
|                                                                   | <u>890</u>                                 | <u>700</u>                                                                        |
|                                                                   | <u><b>1,601</b></u>                        | <u><b>1,703</b></u>                                                               |

Provision for Hong Kong Profits Tax has been made at 16.5% (Period ended 31 December 2009: 16.5%) on the estimated assessable profits for the year/period.

Provision for taxation outside Hong Kong is provided for at the applicable rates of taxation for the year/period on the estimated assessable profits arising in the relevant foreign tax jurisdictions during the year/period.

Land Appreciation Tax is levied on properties in mainland China developed by the Group for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the revenue from sale of properties less deductible expenditure including lease charges of land use rights, borrowing costs and all property development expenditure.

## 9 Dividends

**(a) Dividends payable to equity shareholders of the Company attributable to profit for the year/period**

|                                                                                                                          | <i>Year ended<br/>31 December<br/>2010<br/>HK\$ million</i> | <i>Period<br/>from 1 July<br/>2008 to<br/>31 December<br/>2009<br/>HK\$ million</i> |
|--------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------------------------------|
| First interim dividend declared and paid for<br>2008/2009 of HK\$0.3 per share                                           | -                                                           | 644                                                                                 |
| Second interim dividend declared and paid for<br>2008/2009 of HK\$0.3 per share                                          | -                                                           | 644                                                                                 |
| Interim dividend declared and paid for<br>2010 of HK\$0.3 per share                                                      | 650                                                         | -                                                                                   |
| Final dividend proposed after the balance sheet<br>date of HK\$0.7 (Period ended<br>31 December 2009: HK\$0.7) per share | <u>1,523</u>                                                | <u>1,503</u>                                                                        |
|                                                                                                                          | <u>2,173</u>                                                | <u>2,791</u>                                                                        |

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

**(b) Dividends payable to equity shareholders of the Company attributable to profit for the previous financial period/year, approved and paid during the year/period**

|                                                                                                                                                                                  | <i>Year ended<br/>31 December<br/>2010<br/>HK\$ million</i> | <i>Period<br/>from 1 July<br/>2008 to<br/>31 December<br/>2009<br/>HK\$ million</i> |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------|-------------------------------------------------------------------------------------|
| Final dividend in respect of the previous<br>financial period/year, approved and paid during<br>the year/period of HK\$0.7 (Period ended<br>31 December 2009: HK\$0.7) per share | <u>1,503</u>                                                | <u>1,503</u>                                                                        |

## 10 Earnings per share

- (a) The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$15,820 million (Period ended 31 December 2009 (restated): HK\$15,465 million) and on the weighted average number of 2,160 million ordinary shares in issue during the year (Period ended 31 December 2009: 2,147 million ordinary shares), calculated as follows:

|                                                                                                  | <b>Year ended<br/>31 December<br/>2010<br/>million</b> | <i>Period<br/>from 1 July<br/>2008 to<br/>31 December<br/>2009<br/>million</i> |
|--------------------------------------------------------------------------------------------------|--------------------------------------------------------|--------------------------------------------------------------------------------|
| Number of issued ordinary shares at 1 January 2010/<br>1 July 2008                               | <b>2,147</b>                                           | 2,147                                                                          |
| Weighted average number of shares issued<br>in respect of scrip dividends                        | <b>13</b>                                              | -                                                                              |
| Weighted average number of ordinary shares<br>for the year/period and at the balance sheet dates | <b>2,160</b>                                           | 2,147                                                                          |

Diluted earnings per share were same as the basic earnings per share for both the current year and prior period as the inclusion of the dilutive potential ordinary shares in respect of the warrants in issue during the year ended 31 December 2010 would have an anti-dilutive effect and there were no dilutive potential ordinary shares in existence during the period ended 31 December 2009.

- (b) The calculation of adjusted earnings per share is based on the profit attributable to equity shareholders of the Company and adjusted as follows:

|                                                                                                     | <b>Year ended<br/>31 December<br/>2010<br/>HK\$ million</b> | <i>Period<br/>from 1 July<br/>2008 to<br/>31 December<br/>2009<br/>(restated)<br/>HK\$ million</i> |
|-----------------------------------------------------------------------------------------------------|-------------------------------------------------------------|----------------------------------------------------------------------------------------------------|
| Profit attributable to equity shareholders of the<br>Company                                        | <b>15,820</b>                                               | 15,465                                                                                             |
| Effect of changes in fair value of investment<br>properties                                         | <b>(9,538)</b>                                              | (7,156)                                                                                            |
| Effect of deferred taxation on changes in fair<br>value of investment properties                    | <b>1,072</b>                                                | 721                                                                                                |
| Effect of share of changes in fair value of investment<br>properties (net of deferred taxation) of: |                                                             |                                                                                                    |
| - associates                                                                                        | <b>(659)</b>                                                | (568)                                                                                              |
| - jointly controlled entities                                                                       | <b>(1,742)</b>                                              | (3,556)                                                                                            |
| Effect of share of non-controlling interests                                                        | <b>89</b>                                                   | 1,121                                                                                              |
| Adjusted earnings for calculation of earnings per share                                             | <b>5,042</b>                                                | 6,027                                                                                              |
| Adjusted earnings per share                                                                         | <b>HK\$2.33</b>                                             | HK\$2.81                                                                                           |

## 11 Segment reporting

The Group manages its businesses by a mixture of business lines and geography. On first-time adoption of HKFRS 8 and in a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified the following reportable segments.

|                            |                                                                                                                                            |
|----------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|
| Property development       | : Development and sale of properties                                                                                                       |
| Property leasing           | : Leasing of properties                                                                                                                    |
| Construction               | : Construction of building works                                                                                                           |
| Infrastructure             | : Investment in infrastructure projects                                                                                                    |
| Hotel operation            | : Hotel operation and management                                                                                                           |
| Department store operation | : Department store operation and management                                                                                                |
| Others                     | : Provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services |

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results attributable to each reportable segment on the following bases.

Revenue and expenses are allocated to the reportable segments with reference to revenues generated by those segments and the expenses incurred by those segments. Segment results form the basis of measurement used for assessing segment performance and represent profit or loss before bank interest income, write-down of inventories, fair value adjustment of investment properties, finance costs, income tax and items not specifically attributed to individual segments, such as unallocated head office and corporate expenses.

### **(a) Results of reportable segments**

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the year ended 31 December 2010 and period ended 31 December 2009 is set out below.

## 11 Segment reporting (continued)

### (a) Results of reportable segments (continued)

| <i>Year ended 31 December</i><br><i>2010</i>                            | <i>Property<br/>development<br/>HK\$ million</i> | <i>Property<br/>leasing<br/>HK\$ million</i> | <i>Construction<br/>HK\$ million</i> | <i>Infra-<br/>structure<br/>HK\$ million</i> | <i>Hotel<br/>operation<br/>HK\$ million</i> | <i>Department<br/>store<br/>operation<br/>HK\$ million</i> | <i>Others<br/>HK\$ million</i> | <i>Eliminations<br/>HK\$ million</i> | <i>Consolidated<br/>HK\$ million</i> |
|-------------------------------------------------------------------------|--------------------------------------------------|----------------------------------------------|--------------------------------------|----------------------------------------------|---------------------------------------------|------------------------------------------------------------|--------------------------------|--------------------------------------|--------------------------------------|
| External revenue                                                        | 2,522                                            | 3,157                                        | 37                                   | 317                                          | 184                                         | 307                                                        | 568                            | -                                    | 7,092                                |
| Inter-segment revenue                                                   | -                                                | 188                                          | 425                                  | -                                            | -                                           | -                                                          | 30                             | (643)                                | -                                    |
| Reportable segment revenue                                              | <u>2,522</u>                                     | <u>3,345</u>                                 | <u>462</u>                           | <u>317</u>                                   | <u>184</u>                                  | <u>307</u>                                                 | <u>598</u>                     | <u>(643)</u>                         | <u>7,092</u>                         |
| Reportable segment results                                              | <u>(211)</u>                                     | <u>1,933</u>                                 | <u>(30)</u>                          | <u>271</u>                                   | <u>35</u>                                   | <u>54</u>                                                  | <u>514</u>                     |                                      | 2,566                                |
| Bank interest income                                                    |                                                  |                                              |                                      |                                              |                                             |                                                            |                                |                                      | 120                                  |
| Write-down of inventories                                               | (4)                                              | -                                            | -                                    | -                                            | -                                           | -                                                          | -                              |                                      | (4)                                  |
| Unallocated head office and corporate income, net                       |                                                  |                                              |                                      |                                              |                                             |                                                            |                                |                                      | <u>165</u>                           |
| Profit from operations                                                  |                                                  |                                              |                                      |                                              |                                             |                                                            |                                |                                      | 2,847                                |
| Increase in fair value of investment properties                         |                                                  |                                              |                                      |                                              |                                             |                                                            |                                |                                      | 9,538                                |
| Finance costs                                                           |                                                  |                                              |                                      |                                              |                                             |                                                            |                                |                                      | <u>(970)</u>                         |
|                                                                         |                                                  |                                              |                                      |                                              |                                             |                                                            |                                |                                      | 11,415                               |
| Share of profits less losses of associates (note (i))                   |                                                  |                                              |                                      |                                              |                                             |                                                            |                                |                                      | 2,908                                |
| Share of profits less losses of jointly controlled entities (note (ii)) |                                                  |                                              |                                      |                                              |                                             |                                                            |                                |                                      | 2,916                                |
| Profit before taxation                                                  |                                                  |                                              |                                      |                                              |                                             |                                                            |                                |                                      | 17,239                               |
| Income tax                                                              |                                                  |                                              |                                      |                                              |                                             |                                                            |                                |                                      | <u>(1,601)</u>                       |
| Profit for the year                                                     |                                                  |                                              |                                      |                                              |                                             |                                                            |                                |                                      | <u>15,638</u>                        |

## 11 Segment reporting (continued)

### (a) Results of reportable segments (continued)

|                                                                               | Property<br>development<br>HK\$ million<br>(Note 3) | Property<br>leasing<br>HK\$ million | Construction<br>HK\$ million | Infra-<br>structure<br>HK\$ million | Hotel<br>operation<br>HK\$ million | Department<br>store<br>operation<br>HK\$ million | Others<br>HK\$ million | Eliminations<br>HK\$ million | Consolidated<br>HK\$ million |
|-------------------------------------------------------------------------------|-----------------------------------------------------|-------------------------------------|------------------------------|-------------------------------------|------------------------------------|--------------------------------------------------|------------------------|------------------------------|------------------------------|
| <i>Period ended</i>                                                           |                                                     |                                     |                              |                                     |                                    |                                                  |                        |                              |                              |
| <i>31 December 2009 (restated)</i>                                            |                                                     |                                     |                              |                                     |                                    |                                                  |                        |                              |                              |
| External revenue                                                              | 8,138                                               | 4,178                               | 400                          | 441                                 | 248                                | 406                                              | 884                    | -                            | 14,695                       |
| Inter-segment revenue                                                         | -                                                   | 294                                 | 2,125                        | -                                   | 1                                  | -                                                | 79                     | (2,499)                      | -                            |
| Reportable segment revenue                                                    | <u>8,138</u>                                        | <u>4,472</u>                        | <u>2,525</u>                 | <u>441</u>                          | <u>249</u>                         | <u>406</u>                                       | <u>963</u>             | <u>(2,499)</u>               | <u>14,695</u>                |
| Reportable segment results                                                    | <u>3,171</u>                                        | <u>2,621</u>                        | <u>(20)</u>                  | <u>335</u>                          | <u>32</u>                          | <u>64</u>                                        | <u>397</u>             |                              | 6,600                        |
| Bank interest income                                                          |                                                     |                                     |                              |                                     |                                    |                                                  |                        |                              | 250                          |
| Write-down of inventories                                                     | (34)                                                | -                                   | -                            | -                                   | -                                  | -                                                | -                      |                              | (34)                         |
| Impairment loss on<br>available-for-sale<br>equity securities                 | -                                                   | -                                   | -                            | -                                   | -                                  | -                                                | (73)                   |                              | (73)                         |
| Unallocated head office and<br>corporate expenses, net                        |                                                     |                                     |                              |                                     |                                    |                                                  |                        |                              | <u>(1,536)</u>               |
| Profit from operations                                                        |                                                     |                                     |                              |                                     |                                    |                                                  |                        |                              | 5,207                        |
| Increase in fair value of<br>investment properties                            |                                                     |                                     |                              |                                     |                                    |                                                  |                        |                              | 7,156                        |
| Finance costs                                                                 |                                                     |                                     |                              |                                     |                                    |                                                  |                        |                              | <u>(1,341)</u>               |
|                                                                               |                                                     |                                     |                              |                                     |                                    |                                                  |                        |                              | 11,022                       |
| Share of profits less losses of<br>associates (note (i))                      |                                                     |                                     |                              |                                     |                                    |                                                  |                        |                              | 3,175                        |
| Share of profits less losses of<br>jointly controlled entities<br>(note (ii)) |                                                     |                                     |                              |                                     |                                    |                                                  |                        |                              | 4,919                        |
| Profit before taxation                                                        |                                                     |                                     |                              |                                     |                                    |                                                  |                        |                              | 19,116                       |
| Income tax                                                                    |                                                     |                                     |                              |                                     |                                    |                                                  |                        |                              | <u>(1,703)</u>               |
| Profit for the period                                                         |                                                     |                                     |                              |                                     |                                    |                                                  |                        |                              | <u>17,413</u>                |

## 11 Segment reporting (continued)

### (a) Results of reportable segments (continued)

Notes:

- (i) During the year, the Group's share of revenue of associates arising from their activities of property development and property leasing amounted to HK\$281 million (Period ended 31 December 2009: HK\$978 million) and HK\$517 million (Period ended 31 December 2009: HK\$771 million), respectively.

Included in the Group's share of profits less losses of associates during the year is a profit of HK\$115 million (Period ended 31 December 2009: HK\$261 million) contributed from the property development segment, and a profit of HK\$1,006 million (Period ended 31 December 2009 *(restated)*: HK\$1,060 million) contributed from the property leasing segment (taking into account the increase in fair value of investment properties (net of deferred tax) during the year of HK\$659 million (Period ended 31 December 2009 *(restated)*: HK\$568 million)).

- (ii) During the year, the Group's share of revenue of jointly controlled entities arising from their activities of property development and property leasing amounted to HK\$100 million (Period ended 31 December 2009: HK\$591 million) and HK\$1,203 million (Period ended 31 December 2009: HK\$1,573 million), respectively.

Included in the Group's share of profits less losses of jointly controlled entities during the year is a profit of HK\$71 million (Period ended 31 December 2009: HK\$251 million) contributed from the property development segment, and a profit of HK\$2,544 million (Period ended 31 December 2009 *(restated)*: HK\$4,472 million) contributed from the property leasing segment (taking into account the increase in fair value of investment properties during the year of HK\$1,742 million (Period ended 31 December 2009 *(restated)*: HK\$3,556 million)).

### (b) Geographical information

The following table sets out information about the geographical segment location of (i) the Group's revenue from external customers; and (ii) the Group's fixed assets, intangible operating rights, interests in associates and jointly controlled entities (together, the "Specified non-current assets"). The geographical location of customers is based on the location at which the services were provided or the goods were delivered. The geographical location of the Specified non-current assets is based on the physical location of the asset in the case of fixed assets, the location of the operation to which they are allocated in the case of the intangible operating rights, and the location of operations in the case of interests in associates and jointly controlled entities.

## 11 Segment reporting (continued)

### (b) Geographical information (continued)

|                | Revenue from external customers |                                   | Specified non-current assets |                       |
|----------------|---------------------------------|-----------------------------------|------------------------------|-----------------------|
|                | <i>Year ended</i>               | <i>Period from 1 July 2008 to</i> | <i>At 31 December</i>        |                       |
|                | <i>31 December</i>              | <i>31 December</i>                | <i>2010</i>                  | <i>2009</i>           |
|                | <i>2010</i>                     | <i>2009</i>                       |                              |                       |
|                |                                 | <i>(restated)</i>                 |                              |                       |
|                | <b>HK\$ million</b>             | <b>HK\$ million</b>               | <b>HK\$ million</b>          | <b>HK\$ million</b>   |
| Hong Kong      | 5,958                           | 13,298                            | 118,051                      | 109,128               |
| Mainland China | <u>1,134</u>                    | <u>1,397</u>                      | <u>25,424</u>                | <u>17,130</u>         |
|                | <u><b>7,092</b></u>             | <u><b>14,695</b></u>              | <u><b>143,475</b></u>        | <u><b>126,258</b></u> |

### (c) Other segment information

|                            | Depreciation and amortisation |                                   | Impairment loss/ (reversal of impairment loss) for trade debtors |                                   |
|----------------------------|-------------------------------|-----------------------------------|------------------------------------------------------------------|-----------------------------------|
|                            | <i>Year ended</i>             | <i>Period from 1 July 2008 to</i> | <i>Year ended</i>                                                | <i>Period from 1 July 2008 to</i> |
|                            | <i>31 December</i>            | <i>31 December</i>                | <i>31 December</i>                                               | <i>31 December</i>                |
|                            | <i>2010</i>                   | <i>2009</i>                       | <i>2010</i>                                                      | <i>2009</i>                       |
|                            | <b>HK\$ million</b>           | <b>HK\$ million</b>               | <b>HK\$ million</b>                                              | <b>HK\$ million</b>               |
| Property development       | 1                             | 9                                 | (55)                                                             | 55                                |
| Property leasing           | 16                            | 20                                | -                                                                | -                                 |
| Construction               | 13                            | 10                                | -                                                                | -                                 |
| Infrastructure             | 43                            | 70                                | -                                                                | -                                 |
| Hotel operation            | 53                            | 85                                | -                                                                | -                                 |
| Department store operation | 4                             | 6                                 | -                                                                | -                                 |
| Others                     | <u>45</u>                     | <u>81</u>                         | <u>(4)</u>                                                       | <u>1</u>                          |
|                            | <u><b>175</b></u>             | <u><b>281</b></u>                 | <u><b>(59)</b></u>                                               | <u><b>56</b></u>                  |

## 12 Trade and other receivables

|                                                   | <b>2010</b><br><b>HK\$ million</b> | <b>2009</b><br><b>HK\$ million</b> |
|---------------------------------------------------|------------------------------------|------------------------------------|
| Instalments receivable                            | 1,256                              | 4,709                              |
| Debtors, prepayments and deposits                 | 3,052                              | 2,389                              |
| Gross amount due from customers for contract work | 17                                 | 10                                 |
| Amounts due from associates                       | 139                                | 250                                |
| Amounts due from jointly controlled entities      | 33                                 | 7                                  |
|                                                   | <u>4,497</u>                       | <u>7,365</u>                       |

- (i) All of the trade and other receivables are expected to be recovered or recognised as expense within one year except for various deposits and other receivables of HK\$458 million (2009: HK\$440 million) which are expected to be recovered after more than one year.
- (ii) Included in trade and other receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis at the balance sheet date:

|                                                       | <b>2010</b><br><b>HK\$ million</b> | <b>2009</b><br><b>HK\$ million</b> |
|-------------------------------------------------------|------------------------------------|------------------------------------|
| Current or under 1 month overdue                      | 1,567                              | 4,572                              |
| More than 1 month overdue and up to 3 months overdue  | 66                                 | 78                                 |
| More than 3 months overdue and up to 6 months overdue | 26                                 | 42                                 |
| More than 6 months overdue                            | 65                                 | 601                                |
|                                                       | <u>1,724</u>                       | <u>5,293</u>                       |

- (iii) The trade debtors at 31 December 2010 included an amount of RMB26 million (equivalent to HK\$31 million) (2009: RMB33 million (equivalent to HK\$37 million)) in relation to the toll income receivable from Hangzhou Henderson Qianjiang Third Bridge Company, Limited (the “Third Bridge JV”), a 60% owned subsidiary of the Group which is engaged in the operation of a toll bridge in Hangzhou, mainland China. The toll income is collected on behalf of the Group by 杭州市“四自”工程道路綜合收費管理處 (Hangzhou City “Sizi” Engineering & Highway General Toll Fee Administration Office), a relevant government body in Hangzhou (the “Hangzhou Government Body”) in accordance with the terms of an agreement entered into between the Group and the Hangzhou Government Body.

## 12 Trade and other receivables (continued)

- (iv) Regular review and follow-up actions are carried out on overdue amounts of instalments receivable from sale of properties which enable management to assess their recoverability and to minimise exposure to credit risk. In respect of rental income from leasing properties, monthly rents are received in advance and sufficient rental deposits are held to cover potential exposure to credit risk. For other trade receivables, credit terms given to customers are generally based on the financial strength and repayment history of each customer. As such, the Group does not obtain collateral from its customers. An ageing analysis of the receivables is prepared on a regular basis and is closely monitored to minimise any credit risk associated with the receivables. Adequate allowance for impairment losses have been made for estimated irrecoverable amounts.
- (v) The amounts due from associates and jointly controlled entities are unsecured and interest-free, have no fixed terms of repayment and are neither past due nor impaired.

## 13 Trade and other payables

|                                                 | 2010<br>HK\$ million | 2009<br>HK\$ million |
|-------------------------------------------------|----------------------|----------------------|
| Creditors and accrued expenses                  | 4,271                | 4,395                |
| Gross amount due to customers for contract work | 1                    | -                    |
| Rental and other deposits                       | 908                  | 730                  |
| Forward sales deposits received                 | 410                  | 50                   |
| Derivative financial instruments                | -                    | 12                   |
| Amounts due to associates                       | 107                  | 46                   |
| Amounts due to jointly controlled entities      | 115                  | 126                  |
|                                                 | <u>5,812</u>         | <u>5,359</u>         |

- (i) All of the trade and other payables are expected to be settled within one year except for an amount of HK\$563 million (2009: HK\$410 million) which is expected to be settled after more than one year.
- (ii) Included in trade and other payables are trade creditors with the following ageing analysis at the balance sheet date:

|                                        | 2010<br>HK\$ million | 2009<br>HK\$ million |
|----------------------------------------|----------------------|----------------------|
| Due within 1 month or on demand        | 859                  | 816                  |
| Due after 1 month but within 3 months  | 406                  | 446                  |
| Due after 3 months but within 6 months | 394                  | 287                  |
| Due after 6 months                     | 1,067                | 1,417                |
|                                        | <u>2,726</u>         | <u>2,966</u>         |

- (iii) The amounts due to associates and jointly controlled entities are unsecured, interest-free and have no fixed terms of repayment.

## **14 Comparative figures**

As a result of the application of HKAS 1 (Revised), *Presentation of financial statements*, and HKFRS 8, *Operating segments* (further details of which are disclosed in note 2), certain comparative figures have been adjusted to provide comparative amounts in respect of items disclosed for the first time during the year ended 31 December 2010 and to conform with current year's presentation. Certain line items relating to the cancelled property sale transactions for the period ended 31 December 2009 and certain comparative figures have also been reclassified to conform with current year's presentation.

In addition, certain comparative figures have been adjusted as a result of the adoption of the amendments to HKAS 17, *Leases* and the amendments to HKAS 12, *Income taxes*. Further details of these changes in accounting policies are disclosed in note 2.

## **15 Review of results**

The financial results for the year ended 31 December 2010 have been reviewed with no disagreement by the Audit Committee of the Company.

The figures in respect of the preliminary announcement of the Group's results for the year ended 31 December 2010 have been compared by the Company's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft accounts for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect was limited and did not constitute an audit, review or other assurance engagement and consequently no assurance has been expressed by KPMG on this announcement.

## FINANCIAL REVIEW

### Results of operations

The following discussions should be read in conjunction with the Company's audited consolidated accounts for the year ended 31 December 2010.

The Group has early adopted the amendments to HKAS12, *Income taxes*, in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS40, *Investment property*. The change in policy arising from the amendments to HKAS12 has been applied retrospectively by restating the opening balances at 1 July 2008 and 1 January 2010, with consequential adjustments to comparatives for the period ended 31 December 2009.

### Turnover and profit

|                                                                                                                                                                                                      | <b>Turnover</b>                        |                                                                                     | <b>Contribution / (Loss) from Operations</b> |                                                                                     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|-------------------------------------------------------------------------------------|----------------------------------------------|-------------------------------------------------------------------------------------|
|                                                                                                                                                                                                      | <b>Year ended<br/>31 December 2010</b> | <b>18 months<br/>ended<br/>31 December<br/>2009<br/>(restated)<br/>HK\$ million</b> | <b>Year ended<br/>31 December 2010</b>       | <b>18 months<br/>ended<br/>31 December<br/>2009<br/>(restated)<br/>HK\$ million</b> |
| <i>Reportable segments</i>                                                                                                                                                                           |                                        |                                                                                     |                                              |                                                                                     |
| - Property development                                                                                                                                                                               | 2,522                                  | 8,138                                                                               | (211)                                        | 3,171                                                                               |
| - Property leasing                                                                                                                                                                                   | 3,157                                  | 4,178                                                                               | 1,933                                        | 2,621                                                                               |
| - Construction                                                                                                                                                                                       | 37                                     | 400                                                                                 | (30)                                         | (20)                                                                                |
| - Infrastructure                                                                                                                                                                                     | 317                                    | 441                                                                                 | 271                                          | 335                                                                                 |
| - Hotel operation                                                                                                                                                                                    | 184                                    | 248                                                                                 | 35                                           | 32                                                                                  |
| - Department store operation                                                                                                                                                                         | 307                                    | 406                                                                                 | 54                                           | 64                                                                                  |
| - Other businesses                                                                                                                                                                                   | 568                                    | 884                                                                                 | 514                                          | 397                                                                                 |
|                                                                                                                                                                                                      | <b>7,092</b>                           | <b>14,695</b>                                                                       | <b>2,566</b>                                 | <b>6,600</b>                                                                        |
|                                                                                                                                                                                                      |                                        |                                                                                     |                                              |                                                                                     |
|                                                                                                                                                                                                      |                                        |                                                                                     | <b>Year ended<br/>31 December 2010</b>       | <b>18 months<br/>ended<br/>31 December<br/>2009<br/>(restated)<br/>HK\$ million</b> |
| Profit attributable to equity shareholders of the Company                                                                                                                                            |                                        |                                                                                     |                                              |                                                                                     |
| - excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the Group's subsidiaries, associates and jointly controlled entities |                                        |                                                                                     | 5,042                                        | 6,027                                                                               |
| - including the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the Group's subsidiaries, associates and jointly controlled entities |                                        |                                                                                     | <b>15,820</b>                                | <b>15,465</b>                                                                       |

The Group recorded a decrease in turnover for the year ended 31 December 2010 of HK\$7,603 million, or 52%, to HK\$7,092 million (18-month period ended 31 December 2009 (restated) : HK\$14,695 million). The decrease was mainly attributable to (i) the fact that the corresponding period relates to an extended accounting period of 18 months; and (ii) the decrease in revenue from property sales after deducting the turnover attributable to cancelled property sales during the year ended 31 December 2010 in the amount of HK\$3,230 million (as referred to in the paragraph headed “Property development” below), when compared with that for the corresponding period of 18 months ended 31 December 2009.

The Group underlying profit attributable to equity shareholders (before the fair value change of investment properties) for the year ended 31 December 2010 amounted to HK\$5,042 million, representing a decrease of HK\$985 million, or 16%, from HK\$6,027 million (as restated) for the 18-month period ended 31 December 2009. Such decrease was mainly due to (i) an accounting period of 12 months currently being reported on when compared with an extended accounting period of 18 months ended 31 December 2009; and (ii) the Group’s attributable share of loss on cancellation of property sales during the year in the amount of HK\$864 million as referred to in the paragraph headed “Property development” below. Based on the Group underlying profit, the earnings per share were HK\$2.33 (18-month period ended 31 December 2009 (restated) : HK\$2.81).

Including the fair value change (net of non-controlling interests and deferred taxation) of investment properties, the Group profit attributable to equity shareholders for the year ended 31 December 2010 was HK\$15,820 million. Compared with the Group profit attributable to equity shareholders of HK\$15,465 million (as restated) for the 18-month period ended 31 December 2009, this represented an increase of HK\$355 million, or 2%, due to the reasons for the decrease in the Group underlying profit as referred to above, which were offset by the increase in the Group’s attributable share of fair value change of the investment properties held by the Group’s subsidiaries, associates and jointly controlled entities in the amount of HK\$1,340 million for the year ended 31 December 2010 when compared with the 18-month period ended 31 December 2009. Earnings per share were HK\$7.32 (18-month period ended 31 December 2009 (restated) : HK\$7.20).

Nevertheless, for the reason that the last financial period of the Group being reported on relates to an extended accounting period of 18 months ended 31 December 2009, it would be meaningful to evaluate the Group’s financial performance for the year ended 31 December 2010 against that for the corresponding period of 12 months ended 31 December 2009. Where relevant and appropriate, such evaluation is referred to in the following paragraphs throughout the text of this financial review. It should be noted that the figures for the corresponding period of 12 months ended 31 December 2009 referred to in the following paragraphs throughout the text of this financial review have not been audited or previously published.

The Group underlying profit attributable to equity shareholders (before the fair value change of investment properties) for the year ended 31 December 2010 of HK\$5,042 million represents an increase of HK\$417 million, or 9%, over and above HK\$4,625 million for the corresponding period of 12 months ended 31 December 2009. Based on the underlying profit, the Group earnings per share of HK\$2.33 for the year ended 31 December 2010 represents an increase of HK\$0.18, or 8%, over and above HK\$2.15 for the corresponding period of 12 months ended 31 December 2009. Such increase was mainly due to a net gain of HK\$1,007 million during the year arising from the Group’s disposal of the entire issued share capital of Sin Cheng Holdings Pte Ltd, an indirect wholly-owned subsidiary which owns 50% equity interest in Beijing Youyi Shopping City Co., Ltd. Beijing Lufthansa Centre (details of which are referred to in the section headed “Material acquisitions and disposals” below); and the gain on disposal of HK\$275 million arising from the Group’s disposal of self-use properties, which were partially offset by the increase in the Group’s share of loss on cancelled property sales attributable to equity shareholders of HK\$759 million during the year.

Including the fair value change (net of non-controlling interests and deferred taxation) of investment properties, the Group profit attributable to equity shareholders of HK\$15,820 million for the year ended 31 December 2010 represents an increase of HK\$1,541 million, or 11%, over and above HK\$14,279 million for the corresponding period of 12 months ended 31 December 2009. On such basis, the Group earnings per share of HK\$7.32 for the year ended 31 December 2010 represented an increase of HK\$0.67, or 10%, over and above HK\$6.65 for the corresponding period of 12 months ended 31 December 2009. The fair value change (net of non-controlling interests and deferred taxation) of investment properties for the year ended 31 December 2010 amounted to HK\$10,778 million, which represented an increase of HK\$1,124 million, or 12%, when compared with the fair value change (net of non-controlling interests and deferred taxation) of investment properties of HK\$9,654 million for the corresponding period of 12 months ended 31 December 2009.

Discussions on the major reportable segments are set out below.

### ***Property development***

During the year ended 31 December 2010, the Group's sales of the major property projects included Hill Paramount, Nos. 11-12 Headland Road, The Sparkle, 8 Royal Green, The Beverly Hills, Green Lodge, Jade Suites and one unit of 39 Conduit Road in Hong Kong, as well as Phase 1A of Arch of Triumph in Changsha and Hengli Bayview in Guangzhou, mainland China. Together with the sales of other completed properties, the gross revenue from property sales during the year amounted to HK\$5,752 million (18-month period ended 31 December 2009 (restated) : HK\$8,607 million).

During the year ended 31 December 2010, the amount of properties pre-sold attributable to the Group totalled HK\$994 million (18-month period ended 31 December 2009 : HK\$268 million), all of which were generated in mainland China.

During the year ended 31 December 2010, the Group received written requests from the purchasers of 20 property units at 39 Conduit Road for the cancellation of the sale and purchase agreements entered into in the previous year. In accordance with the terms of the agreements for sale and purchase, the Group forfeited the deposits of 5% of the purchase price, and has refunded to the purchasers other payments over and above the 5% deposits received. As a result of the cancelled sales in respect of 39 Conduit Road and two other property projects during the year, a loss on cancellation of HK\$1,629 million, being the difference between the revenue (net of forfeited deposits) of HK\$3,230 million and direct and related costs of HK\$1,601 million relating to the cancelled transactions, was recognised in profit or loss. The loss on cancellation attributable to the Group, i.e. after taking into account taxation and non-controlling interests, amounted to HK\$864 million (of which HK\$734 million relates to the cancelled sales of the 20 units at 39 Conduit Road).

The revenues and profit contribution / (loss) from property development, before and after taking into account the effects of the cancelled transactions during the year ended 31 December 2010 and the corresponding period of 18 months ended 31 December 2009, are as follows :-

|                                                                                                                           | <b>Year ended<br/>31 December<br/>2010</b> | <b>12 months<br/>ended<br/>31 December<br/>2009</b> | <b>18 months<br/>ended<br/>31 December<br/>2009<br/>(restated)<br/>HK\$ million</b> |
|---------------------------------------------------------------------------------------------------------------------------|--------------------------------------------|-----------------------------------------------------|-------------------------------------------------------------------------------------|
|                                                                                                                           | <b>HK\$ million</b>                        | <b>HK\$ million</b>                                 | <b>HK\$ million</b>                                                                 |
| Gross revenue from property development before taking into account the effect of the cancelled transactions               | 5,752                                      | 6,271                                               | 8,607                                                                               |
| Less :                                                                                                                    |                                            |                                                     |                                                                                     |
| Revenue (net of forfeited deposits) relating to the cancelled transactions                                                | <u>3,230</u>                               | <u>671</u>                                          | <u>469</u>                                                                          |
| Revenue from property development after taking into account the effect of the cancelled transactions                      | <u><b>2,522</b></u>                        | <u><b>5,600</b></u>                                 | <u><b>8,138</b></u>                                                                 |
| Profit contribution from property development before taking into account the effect of the cancelled transactions         | 1,418                                      | 2,441                                               | 3,179                                                                               |
| Less :                                                                                                                    |                                            |                                                     |                                                                                     |
| Loss on the cancelled transactions                                                                                        | <u>1,629</u>                               | <u>119</u>                                          | <u>8</u>                                                                            |
| (Loss) / Profit contribution from property development after taking into account the effect of the cancelled transactions | <u><b>(211)</b></u>                        | <u><b>2,322</b></u>                                 | <u><b>3,171</b></u>                                                                 |

After deducting the revenue relating to the cancelled transactions, the revenue from property development for the year ended 31 December 2010 amounted to HK\$2,522 million (18-month period ended 31 December 2009 (restated) : HK\$8,138 million). Nevertheless, when compared with the revenue from property development of HK\$5,600 million (after deducting the revenue relating to cancelled sale transactions) for the corresponding period of 12 months ended 31 December 2009, the revenue from property development of HK\$2,522 million (after deducting the revenue relating to cancelled sale transactions) for the year represents a decrease of HK\$3,078 million, or 55%. Such decrease in revenue for the year is mainly attributable to the loss of revenue of HK\$2,534 million and HK\$696 million relating to the cancelled sales of the 20 property units at 39 Conduit Road (as referred to above) and certain units at two other property projects, respectively.

Similarly, after accounting for the loss on the cancelled transactions, the loss from property development amounted to HK\$211 million during the year ended 31 December 2010 (18-month period ended 31 December 2009: profit contribution of HK\$3,171 million). It should be noted that after deducting the loss from property development attributable to the non-controlling interests (after accounting for the share of loss on the cancelled transactions attributable to the non-controlling interests) from the loss from property development of HK\$211 million as mentioned above, the profit contribution from property development attributable to equity shareholders of the Company (after accounting for the loss on the cancelled transactions) for the year ended 31 December 2010 amounted to HK\$539 million. Nevertheless, when compared with the profit contribution from property development (after accounting for the loss on cancelled sale transactions) of HK\$2,322 million for the corresponding period of 12 months ended 31 December 2009, the loss from property development of HK\$211 million (after accounting for the loss on the cancelled sale transactions) for the year represents a decrease of HK\$2,533 million, or 109%. Such decrease in profit contribution for the year is mainly attributable to (i) the loss (before

deduction of taxation and non-controlling interest) of HK\$1,465 million which relates to the cancellation of the 20 property units at 39 Conduit Road as referred to above; and (ii) the decrease in gross profit from property development of HK\$880 million mainly for the reason that the profit from the sale of the 20 cancelled property units at 39 Conduit Road was recognized during the corresponding period of 12 months ended 31 December 2009 which did not recur for the year ended 31 December 2010.

During the year ended 31 December 2010, the Group's share of aggregate net pre-tax profit contribution from subsidiaries, associates and jointly controlled entities in relation to property development segment amounted to HK\$539 million (corresponding period of 12 months ended 31 December 2009 : HK\$2,056 million), comprising pre-tax profit contribution from subsidiaries of HK\$329 million (corresponding period of 12 months ended 31 December 2009 : HK\$1,518 million), pre-tax profit contribution from associates of HK\$128 million (corresponding period of 12 months ended 31 December 2009: HK\$287 million) and pre-tax profit contribution from jointly controlled entities of HK\$82 million (corresponding period of 12 months ended 31 December 2009: HK\$251 million). In respect of the foregoing, (i) the contribution from associates during the year ended 31 December 2010 included (inter alia) profits generated from the sales of units of Grand Promenade in which The Hong Kong and China Gas Company Limited ("HKCG", a listed associate of the Company) has a 50% equity interest, the sales of units of Grand Waterfront held by HKCG as well as the sales of units of Shining Heights and The Spectacle held by Hong Kong Ferry (Holdings) Company Limited ("HK Ferry", a listed associate of the Company); and (ii) the contribution from jointly controlled entities during the year ended 31 December 2010 included profits generated from the sales of units of Grand Promenade in which the Group has the other 50% equity interest.

### ***Property leasing***

At 31 December 2010, the Group's major investment properties in Hong Kong recorded an average occupancy rate of 94.5% (2009 : 87.8%). The occupancy rate of Manulife Financial Centre in Kwun Tong, which was completed after 1 January 2008, was 87% at 31 December 2010 which showed a remarkable improvement from that of 66% at 31 December 2009. During the year ended 31 December 2010, there were increases in the new rents upon lease renewals and new lettings in most of the cases of shop tenants when compared with the corresponding passing rents.

Revenue from property leasing for the year ended 31 December 2010 amounted to HK\$3,157 million (18-month period ended 31 December 2009 : HK\$4,178 million). Nevertheless, when compared with the revenue from property leasing for the corresponding period of 12 months ended 31 December 2009 which amounted to HK\$2,814 million, the revenue from property leasing of HK\$3,157 million for the year ended 31 December 2010 represents an increase of HK\$343 million, or 12%.

Profit contribution from property leasing for the year ended 31 December 2010 amounted to HK\$1,933 million (18-month period ended 31 December 2009 : HK\$2,621 million). Nevertheless, when compared with the profit contribution from property leasing for the corresponding period of 12 months ended 31 December 2009 which amounted to HK\$1,725 million, the profit contribution from property leasing of HK\$1,933 million for the year ended 31 December 2010 represents an increase of HK\$208 million, or 12%.

Taking into account the Group's share of leasing revenue from properties owned by subsidiaries, associates and jointly controlled entities, gross revenue from property leasing attributable to the Group during the year ended 31 December 2010 amounted to HK\$4,875 million (18-month period ended 31 December 2009: HK\$6,522 million). Nevertheless, when compared with the gross revenue from property leasing attributable to the Group for the corresponding period of 12 months ended 31 December 2009 which amounted to HK\$4,436 million, the gross revenue from property leasing attributable to the Group of HK\$4,875 million for the year ended 31 December 2010 represents an increase of HK\$439 million, or 10%.

During the year ended 31 December 2010, the Group's share of pre-tax net rental income from properties owned by subsidiaries, associates and jointly controlled entities (before any changes in fair value of investment properties and related deferred taxation) in total amounted to HK\$3,382 million (18-month period ended 31 December 2009 : HK\$4,540 million), which comprises contribution from subsidiaries of HK\$1,933 million (18-month period ended 31 December 2009 : HK\$2,621 million), contribution from associates of HK\$444 million (18-month period ended 31 December 2009 : HK\$653 million) and contribution from jointly controlled entities of HK\$1,005 million (18-month period ended 31 December 2009 : HK\$1,266 million). Nevertheless, when compared with the contribution from subsidiaries, associates and jointly controlled entities for the corresponding period of 12 months ended 31 December 2009 which amounted to HK\$1,725 million, HK\$472 million and HK\$881 million, respectively, the contribution from subsidiaries, associates and jointly controlled entities of HK\$1,933 million, HK\$444 million and HK\$1,005 million, respectively, for the year ended 31 December 2010 represents an increase of 12%, a decrease of 6% and an increase of 14%, respectively. In this regard, the aforementioned decrease of 6% in the contribution of pre-tax net rental income from associates for the year ended 31 December 2010 is attributable to the fact that the contribution of pre-tax net rental income from associates of HK\$472 million for the corresponding period of 12 months ended 31 December 2009 included the Group's share of pre-tax net rental income from Miramar Hotel and Investment Company, Limited ("Miramar"), a listed associate of the Group, for the period of 15 months from 1 October 2008 to 31 December 2009 due to the change in Miramar's financial year end date from 31 March to 31 December. Had the Group's share of pre-tax net rental income from Miramar for the corresponding period of 12 months ended 31 December 2009 been adopted for comparison purpose, the contribution of pre-tax net rental income from associates for the corresponding period of 12 months ended 31 December 2009 would be reduced from HK\$472 million to HK\$419 million. On such basis, the contribution of pre-tax net rental income from associates of HK\$444 million for the year ended 31 December 2010 represents an increase of HK\$25 million, or 6%, over and above that for the corresponding period of 12 months ended 31 December 2009.

### ***Construction***

The Group principally engages in construction contracts for property development projects in which the Group participates, including property development projects undertaken by the Group's associates and jointly controlled entities. During the year ended 31 December 2010, turnover from construction activities amounted to HK\$37 million (18-month period ended 31 December 2009: HK\$400 million). Nevertheless, when compared with the turnover from construction activities of HK\$296 million for the corresponding period of 12 months ended 31 December 2009, turnover from construction activities for the year decreased by HK\$259 million, or 88%, as a result of the fact that the construction contracts for two major projects, namely Shining Heights and The Spectacle held by HK Ferry which were actively undertaken by the Group during the corresponding period of 12 months ended 31 December 2009, were completed during the year ended 31 December 2010.

The construction segment reported a loss from operations of HK\$30 million during the year ended 31 December 2010 (18-month period ended 31 December 2009 : HK\$20 million). Nevertheless, when compared with the loss from operations of the construction segment for the corresponding period of 12 months ended 31 December 2009 which amounted to HK\$6 million, there was an increase in the loss from operations of HK\$24 million for the year ended 31 December 2010 mainly for the reasons that (i) the gross profits of construction contracts undertaken by the construction segment decreased by HK\$9 million during the year when compared with the corresponding period of 12 months ended 31 December 2009 due to the completion of the two major projects, namely Shining Heights and The Spectacle held by HK Ferry during the year; and (ii) the construction segment recorded an additional depreciation charge of HK\$4 million during the year when compared with the corresponding period of 12 months ended 31 December 2009 due to the Group's acquisition of additional construction plant and machinery during the year to undertake forthcoming construction activities of the Group's property development projects; (iii) there was an increase in salaries during the year of HK\$5 million due to the increase in staff headcount of the construction segment; and (iv) there was an impairment on inventory of HK\$4 million during the year which did not occur during the corresponding period of 12 months ended 31 December 2009.

### ***Infrastructure***

Infrastructure projects in mainland China reported a turnover of HK\$317 million for the year ended 31 December 2010 (18-month period ended 31 December 2009 : HK\$441 million). Nevertheless, when compared with the turnover from the infrastructure segment for the corresponding period of 12 months ended 31 December 2009 which amounted to HK\$285 million, the turnover from the infrastructure segment of HK\$317 million for the year ended 31 December 2010 represents an increase of HK\$32 million, or 11%. The increase was primarily attributable to the increase in traffic volume of the toll bridge in Hangzhou, mainland China during the year ended 31 December 2010.

Profit contribution from the infrastructure segment for the year ended 31 December 2010 amounted to HK\$271 million (18-month period ended 31 December 2009 : HK\$335 million). Nevertheless, when compared with the profit contribution from the infrastructure segment for the corresponding period of 12 months ended 31 December 2009 which amounted to HK\$221 million, the profit contribution from the infrastructure segment of HK\$271 million for the year ended 31 December 2010 represents an increase of HK\$50 million, or 23%.

### ***Hotel operation***

Revenue from hotel operation for the year ended 31 December 2010 amounted to HK\$184 million (18-month period ended 31 December 2009 : HK\$248 million). Nevertheless, when compared with the revenue from hotel operation for the corresponding period of 12 months ended 31 December 2009 which amounted to HK\$144 million, the revenue from hotel operation of HK\$184 million for the year ended 31 December 2010 represents an increase of HK\$40 million, or 28%, for the reasons that the H1N1 pandemic which occurred in the second quarter of 2009 did not prevail during the year ended 31 December 2010 as well as the increase in visitor arrivals to Hong Kong during the year ended 31 December 2010, which together resulted in an increase in room occupancy during the year then ended.

Profit contribution from the hotel operation segment for the year ended 31 December 2010 amounted to HK\$35 million (18-month period ended 31 December 2009 : HK\$32 million). Nevertheless, when compared with the corresponding period of 12 months ended 31 December 2009 which amounted to a loss of HK\$3 million, the profit contribution from the hotel operation segment of HK\$35 million for the year ended 31 December 2010 represents an increase of HK\$38 million, or 1,267%.

### ***Department store operation***

The Group operates five department stores under the name of “Citistore” and two specialty stores in Hong Kong. Revenue from department store operation for the year ended 31 December 2010 amounted to HK\$307 million (18-month period ended 31 December 2009: HK\$406 million). Nevertheless, when compared with the revenue from department store operation for the corresponding period of 12 months ended 31 December 2009 which amounted to HK\$266 million, the revenue from department store operation of HK\$307 million for the year ended 31 December 2010 represents an increase of HK\$41 million, or 15%, for the reasons of the improvement in the market sentiment of Hong Kong’s retail sector during the year when compared with that of the corresponding period of 12 months ended 31 December 2009, as well as the increased turnover under the marketing programme associated with the launch of Citistore’s 20<sup>th</sup> Anniversary campaign in May 2010 and the Super Sales Promotion in October 2010.

Profit contribution from department store operation for the year ended 31 December 2010 amounted to HK\$54 million (18-month period ended 31 December 2009 : HK\$64 million). Nevertheless, when compared with the profit contribution from department store operation for the corresponding period of 12 months ended 31 December 2009 which amounted to HK\$42 million, the profit contribution from department store operation of HK\$54 million for the year ended 31 December 2010 represents an increase of HK\$12 million, or 29% for the same reasons as mentioned in the preceding paragraph.

### ***Other businesses***

Other businesses comprise mainly provision of finance, investment holding, project management, property management, agency services, cleaning and security guard services, which altogether reported a turnover of HK\$568 million for the year ended 31 December 2010 (18-month period ended 31 December 2009: HK\$884 million). Nevertheless, when compared with the turnover from other businesses for the corresponding period of 12 months ended 31 December 2009 which amounted to HK\$577 million, the turnover from other businesses of HK\$568 million for the year ended 31 December 2010 represents a decrease of HK\$9 million, or 2%, mainly for the reasons of (i) the increase in revenue from the trading operations of building materials by HK\$42 million during the year; and (ii) the aggregate net increase in revenue from the provision of property management and cleaning and security guard services by HK\$4 million during the year, which were nevertheless offset by the decrease in revenue from the sale of leasehold land by HK\$52 million during the year.

Profit contribution from other businesses for the year ended 31 December 2010 amounted to HK\$514 million (18-month period ended 31 December 2009 : HK\$394 million). Nevertheless, when compared with the profit contribution from other businesses for the corresponding period of 12 months ended 31 December 2009 which amounted to HK\$336 million, the profit contribution from other businesses of HK\$514 million for the year ended 31 December 2010 represents an increase of HK\$178 million, or 53%, mainly for the reasons of (i) the increase in the gain on disposal of available-for-sale equity securities by HK\$51 million during the year; and (ii) the increase in the net gain on disposal of investment properties and other land and buildings of HK\$212 million during the year, which were partially offset by (iii) the decrease in profit

contribution from the sale of leasehold land by HK\$42 million during the year; and (iv) the decrease in profit contribution from the provision of project management services by HK\$36 million due to the decrease in sales revenue of property projects held by the Group's associates (namely Grand Promenade held by HKCG, and Shining Heights and The Spectacle held by HK Ferry) which were handled by the Group during the year.

### **Associates**

The Group's share of post-tax profits less losses of associates during the year ended 31 December 2010 amounted to HK\$2,908 million (18-month period ended 31 December 2009 (restated) : HK\$3,175 million). Excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the associates of HK\$659 million during the year ended 31 December 2010 (18-month period ended 31 December 2009 (restated) : HK\$568 million), the Group's share of the underlying post-tax profits less losses of associates for the year ended 31 December 2010 amounted to HK\$2,249 million (18-month period ended 31 December 2009 (restated) : HK\$2,607 million).

Nevertheless, when compared with the Group's share of post-tax profits less losses of associates for the corresponding period of 12 months ended 31 December 2009 which amounted to HK\$2,601 million, the Group's share of post-tax profits less losses of associates of HK\$2,908 million for the year ended 31 December 2010 represents an increase of HK\$307 million, or 12%. Excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the associates of HK\$335 million for the corresponding period of 12 months ended 31 December 2009, the Group's share of the underlying post-tax profits less losses of associates for the corresponding period of 12 months ended 31 December 2009 amounted to HK\$2,266 million. The Group's share of the underlying post-tax profits less losses of associates of HK\$2,249 million for the year ended 31 December 2010 represents a decrease of HK\$17 million, or 1%, from that for the corresponding period of 12 months ended 31 December 2009.

In respect of the Group's three listed associates (namely, HKCG, Miramar and HK Ferry), the Group's aggregate share of their post-tax profits for the year ended 31 December 2010 amounted to HK\$2,696 million (18-month period ended 31 December 2009 (restated) : HK\$3,110 million). Excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by these three listed associates of HK\$512 million during the year ended 31 December 2010 (18-month period ended 31 December 2009 (restated) : HK\$579 million), the Group's aggregate share of the underlying post-tax profits of these three listed associates amounted to HK\$2,184 million for the year ended 31 December 2010 (18-month period ended 31 December 2009 (restated) : HK\$2,531 million).

Nevertheless, when compared with the Group's aggregate share of the post-tax profits of the three listed associates for the corresponding period of 12 months ended 31 December 2009 which amounted to HK\$2,457 million, the Group's aggregate share of the post-tax profits of the three listed associates of HK\$2,696 million for the year ended 31 December 2010 represents an increase of HK\$239 million, or 10%. Excluding the Group's attributable share of changes in fair value of investment properties (net of deferred taxation) held by the three listed associates of HK\$245 million for the corresponding period of 12 months ended 31 December 2009, the Group's aggregate share of the underlying post-tax profits of the three listed associates for the corresponding period of 12 months ended 31 December 2009 amounted to HK\$2,212 million. The Group's aggregate share of the underlying post-tax profits of the three listed associates of HK\$2,184 million for the year ended 31 December 2010 represents a decrease of HK\$28 million, or 1%, from that for the corresponding period of 12 months ended 31 December 2009. In this regard, during the year ended

31 December 2010 and when compared with the corresponding period of 12 months ended 31 December 2009, the Group recorded the following :-

- (i) An increase in the share of underlying post-tax profit from HKCG of HK\$124 million, mainly due to the Group's share of increase in profit contribution from the gas operation businesses in Hong Kong and mainland China in the aggregate amount of HK\$230 million and the Group's share of increase in profit contribution from the property leasing and hotel operation of the IFC Complex in the amount of HK\$29 million (for reasons as referred to in the paragraph headed "Jointly controlled entities" below), which were partially offset by the Group's share of decrease in profit contribution from property sales (mainly relating to Grand Promenade) of HK\$31 million, the Group's share of decrease in net investment gain of HK\$20 million and the absence of the Group's share of an aggregate one-off gain of HK\$89 million attributable to the acquisition of a subsidiary in mainland China and the deemed disposal of an associate in mainland China during the corresponding period of 12 months ended 31 December 2009 but which did not recur during the year ended 31 December 2010;
- (ii) an increase in the share of underlying post-tax profit from Miramar of HK\$46 million, mainly due to the Group's share of increase in profit contribution from hotel operation of The Mira Hong Kong (following the completion of its remodelling and refitting programme of guestrooms) in the amount of HK\$40 million, the Group's share of increase in profit contribution from travel operations and food and beverage businesses of HK\$11 million, the Group's share of increase in the gain on securities investment of HK\$8 million, the Group's share of gain of HK\$10 million relating to the write back of provision on certain completed properties held for sale in Guangzhou, mainland China during the year and the Group's share of savings in administrative, finance and other expenses of HK\$13 million during the year, which were partially offset by the Group's share of decrease in profit contribution from the property leasing business of HK\$41 million. Such comparison is made between the Group's share of underlying post-tax profit from Miramar for the year ended 31 December 2010 and that for the period of 15 months from 1 October 2008 to 31 December 2009 due to the change in Miramar's financial year end date from 31 March to 31 December.

Had the Group's share of the underlying post-tax profit from Miramar for the corresponding period of 12 months ended 31 December 2009 been adopted for comparison purpose, the Group would have recorded an increase in the share of underlying post-tax profit from Miramar of HK\$73 million, mainly due to the Group's share of increase in profit contribution from hotel operation of The Mira Hong Kong (following the completion of its remodelling and refitting programme of guestrooms) in the amount of HK\$39 million, the Group's share of increase in profit contribution from travel operations and food and beverage businesses of HK\$13 million, the Group's share of increase in the gain on securities investment of HK\$8 million and the Group's share of gain of HK\$10 million relating to the write back of provision on certain completed properties held for sale in Guangzhou, mainland China during the year; and

- (iii) a decrease in the share of underlying post-tax profit from HK Ferry of HK\$198 million, mainly for the reasons of the Group's share of decrease in profit contribution from property sales (mainly relating to Shining Heights) in the amount of HK\$118 million and the Group's share of decrease in the gain on securities investment of HK\$90 million, which were partially offset by the Group's share of the one-off gain on disposal of investment properties of Metro Regalia of HK\$11 million during the year ended 31 December 2010.

### ***Jointly controlled entities***

The Group's share of post-tax profits less losses of jointly controlled entities which are mainly engaged in property development and property investment activities amounted to HK\$2,916 million during the year ended 31 December 2010 (18-month period ended 31 December 2009 (restated) : HK\$4,919 million). Excluding the Group's attributable share of changes in fair value of investment properties held by the jointly controlled entities of HK\$1,742 million during the year ended 31 December 2010 (18-month period ended 31 December 2009 (restated) : HK\$3,556 million), the Group's share of the underlying post-tax profits less losses of jointly controlled entities for the year ended 31 December 2010 amounted to HK\$1,174 million (18-month period ended 31 December 2009 (restated) : HK\$1,363 million).

Nevertheless, when compared with the Group's share of post-tax profits less losses of jointly controlled entities for the corresponding period of 12 months ended 31 December 2009 which amounted to HK\$2,447 million, the Group's share of post-tax profits less losses of jointly controlled entities of HK\$2,916 million for the year ended 31 December 2010 represents an increase of HK\$469 million, or 19%. Excluding the Group's attributable share of changes in fair value of investment properties held by the jointly controlled entities of HK\$1,430 million for the corresponding period of 12 months ended 31 December 2009, the Group's share of the underlying post-tax profits less losses of jointly controlled entities for the corresponding period of 12 months ended 31 December 2009 amounted to HK\$1,017 million. The Group's share of the underlying post-tax profits less losses of jointly controlled entities of HK\$1,174 million for the year ended 31 December 2010 represents an increase of HK\$157 million, or 15%, over and above that for the corresponding period of 12 months ended 31 December 2009. Such increase was mainly attributable to the Group's share of increase in profit contributions during the year from (i) the property leasing of the IFC Complex in the amount of HK\$120 million due to favourable rental reversions upon lease renewals; and (ii) the hotel operation of the IFC Complex in the amount of HK\$38 million due to improved occupancy rates and average room rates of the Four Seasons Hotel.

### ***Finance costs***

Finance costs (comprising interest expense and other borrowing costs) recognised as expenses for the year ended 31 December 2010 were HK\$970 million (18-month period ended 31 December 2009 : HK\$1,341 million). Finance costs before interest capitalisation for the year ended 31 December 2010 were HK\$1,441 million (18-month period ended 31 December 2009 : HK\$1,912 million).

Nevertheless, when compared with the Group's finance costs (comprising interest expense and other borrowing costs) for the corresponding period of 12 months ended 31 December 2009 which amounted to HK\$901 million, the Group's finance costs (comprising interest expense and other borrowing costs) for the year of HK\$970 million represents an increase of HK\$69 million, or 8%, for the reason of an increase in the amount of the Group's Total debt (as such term is defined in and referred to in the section headed "Financial resources and liquidity" below). For the same reason, when compared with the Group's finance costs before interest capitalisation for the corresponding period of 12 months ended 31 December 2009 which amounted to HK\$1,172 million, the Group's finance costs before interest capitalisation for the year of HK\$1,441 million represents an increase of HK\$269 million, or 23%.

During the year ended 31 December 2010, the Group's effective borrowing rate was approximately 2.64% per annum (18-month period ended 31 December 2009 : approximately 3.11% per annum). By comparison, the Group's effective borrowing rate was approximately 2.79% per annum for the corresponding period of 12 months ended 31 December 2009.

### ***Revaluation of investment properties***

The Group recognised an increase in fair value on its investment properties (before deferred taxation and non-controlling interests) of HK\$9,538 million in the consolidated income statement for the year ended 31 December 2010 (18-month period ended 31 December 2009 : HK\$7,156 million).

By comparison, the Group recognised an increase in fair value on its investment properties (before deferred taxation and non-controlling interests) of HK\$9,802 million for the corresponding period of 12 months ended 31 December 2009. The increase in fair value on the Group's investment properties (before deferred taxation and non-controlling interests) of HK\$9,538 million during the year ended 31 December 2010 represents a decrease of HK\$264 million, or 3%, from that for the corresponding period of 12 months ended 31 December 2009.

### **Financial resources and liquidity**

#### ***Maturity profile and interest cover***

At 31 December 2010, the aggregate of the Group's bank and other borrowings and the amount due to a fellow subsidiary ("Total debt") amounted to approximately HK\$54,615 million (2009: HK\$38,241 million), the entire amount of which was unsecured (2009 : bank loans and overdrafts were unsecured except for an amount of HK\$22 million grouped under "Liabilities associated with assets classified as held for sale" which was secured by the Group's toll highway operating right). The maturity profile of the Total debt, the cash and bank balances and the gearing ratio of the Group were as follows:

|                                       | <b>2010</b><br><b>HK\$ million</b> | <b>2009</b><br><b>HK\$ million</b> |
|---------------------------------------|------------------------------------|------------------------------------|
| Bank and other borrowings repayable:  |                                    |                                    |
| - Within 1 year                       | <b>7,516</b>                       | 4,869                              |
| - After 1 year but within 2 years     | <b>16,407</b>                      | 5,646                              |
| - After 2 years but within 5 years    | <b>10,054</b>                      | 19,502                             |
| - After 5 years                       | <b>7,662</b>                       | 6,014                              |
| Amount due to a fellow subsidiary     |                                    |                                    |
| - Due after 1 year but within 2 years | <b>12,976</b>                      | 2,210                              |
| Total debt                            | <b>54,615</b>                      | 38,241                             |
| Less: Cash and bank balances          | <b>9,797</b>                       | 10,531                             |
| Net debt                              | <b>44,818</b>                      | 27,710                             |
| Shareholders' funds (2009 – restated) | <b>159,038</b>                     | 142,228                            |
| Gearing ratio (%) (2009 – restated)   | <b>28.2%</b>                       | 19.5%                              |

Gearing ratio is calculated based on the net debt (being the Total debt (as defined above) less cash and bank balances) and shareholders' funds of the Group at the balance sheet date. The Group's gearing ratio increased from 19.5% (as restated) at 31 December 2009 to 28.2% at 31 December 2010, which is mainly attributable to the combined effect of the increases, at the end of the year, in the Group's net debt and shareholders' funds.

The interest cover of the Group is calculated as follows:

|                                                                                                                                                                                                             | <i>Year ended</i><br><b>31 December 2010</b> | <i>12 months ended</i><br><i>31 December</i><br><b>2009</b> | <i>18 months ended</i><br><i>31 December</i><br><b>2009</b><br><i>(restated)</i> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------|-------------------------------------------------------------|----------------------------------------------------------------------------------|
|                                                                                                                                                                                                             | <b>HK\$ million</b>                          | HK\$ million                                                | HK\$ million                                                                     |
| Profit from operations (before changes in fair value of investment properties) plus the Group's share of the underlying profits less losses of associates and jointly controlled entities (before taxation) | <u><b>6,990</b></u>                          | <u>7,647</u>                                                | <u>9,973</u>                                                                     |
| Interest expense (before interest capitalisation)                                                                                                                                                           | <u><b>1,283</b></u>                          | <u>1,064</u>                                                | <u>1,782</u>                                                                     |
| Interest cover (times)                                                                                                                                                                                      | <u><b>5</b></u>                              | <u>7</u>                                                    | <u>6</u>                                                                         |

With abundant banking facilities in place and the recurrent income generation from its operations, the Group has adequate financial resources in meeting the funding requirements for its ongoing operations as well as its future expansion.

### **Treasury and financial management**

The Group is exposed to interest rate and foreign exchange risks. To efficiently and effectively manage these risks, the Group's financing and treasury activities were centrally co-ordinated at the corporate level. As a matter of policy, all transactions in derivative financial instruments are undertaken solely for risk management purposes and no derivative financial instruments were held by the Group at the balance sheet date for speculative purposes.

The Group conducts its business primarily in Hong Kong with the related cash flows, assets and liabilities being denominated mainly in Hong Kong dollars. The Group's primary foreign exchange exposure arises from its property developments and investments in mainland China which are denominated in Renminbi ("RMB"), the guaranteed notes ("Notes") which are denominated in United States dollars and Sterling, as well as certain bank borrowings ("USD borrowings") and the fixed coupon rate bond ("Bond") which are denominated in United States dollars.

In respect of the Group's operations in mainland China, apart from its capital contributions and, in some cases, loan contributions to projects which are denominated in RMB and are not hedged, the Group endeavours to establish a natural hedge by maintaining an appropriate level of external borrowings in RMB. In respect of the Notes, the Bond and the USD borrowings in the aggregate principal amounts of US\$972,500,000 and £50,000,000 at 31 December 2010 (2009: US\$1,023,520,408 and £50,000,000), there were interest rate swap contracts and cross currency swap contracts which were entered into between the Group and certain counterparty banks for hedging purpose as referred to below. Furthermore, in respect of certain of the Group's bank loans denominated in Hong Kong dollars in the aggregate principal amount of HK\$7,100,000,000 at 31 December 2010 (2009: HK\$5,500,000,000) which bear floating interest rates ("HKD borrowings"), there were interest rate swap contracts which were entered into between the Group and certain counterparty banks for hedging purpose as referred to below.

The purpose of the abovementioned swap contracts is to enable the Group to (i) secure a fixed interest rate level in relation to the Hong Kong dollar funding resulting from the conversion of the principal amounts of the Notes, the Bond and the USD borrowings into Hong Kong dollars, and hence to hedge against the foreign exchange risk which may arise during the financial years

between the issuance date and the maturity date in respect of the entire amount of each tranche of the Notes and the entire amount of the Bond and between the drawdown dates and the repayment dates in respect of the entire amounts of the USD borrowings; and (ii) hedge against the interest rate risk by converting the floating interest rates into fixed interest rates during the financial years between the drawdown dates and the repayment dates in respect of the HKD borrowings to the extent of HK\$7,100,000,000 at 31 December 2010. As a result, the Group does not expect any significant interest rate risk and foreign exchange risk exposures in relation to the Notes, the Bond and the USD borrowings, and any significant interest rate risk exposure in relation to the Group's HKD borrowings to the extent of HK\$7,100,000,000 at 31 December 2010.

## **Material acquisitions and disposals**

### ***Material acquisitions***

On 20 April 2010, the Group acquired the entire issued share capitals and the shareholder's loans of three companies which are beneficially interested in certain leasehold land sites in the New Territories, Hong Kong, for a cash consideration (subject to adjustments) of HK\$600 million. The acquisition was completed on 20 May 2010.

In November 2010, the Group acquired the remaining equity interest in an associate which is engaged in property investment in mainland China, as a result of which such entity became a wholly-owned subsidiary of the Group. The consideration payable by the Group for such acquisition amounted to HK\$38 million and an income representing the excess of interest in fair values of the acquiree's identifiable assets over cost of business combination in the amount of HK\$22 million was recognized during the year ended 31 December 2010.

### ***Material disposals***

On 26 February 2010, an indirectly owned subsidiary of the Company completed the disposal of its entire 70% interest in Maanshan Huan Tong Highway Development Limited to 馬鞍山市過境公路建設開發有限公司 (Maanshan City Cross Border Highway Construction Development Company Limited). As a result of the disposal, the Group recognised a net gain on disposal attributable to equity shareholders of the Company of HK\$18 million during the year ended 31 December 2010.

On 11 October 2010, the Group disposed of the entire issued share capital of Sin Cheng Holdings Pte Ltd, an indirect wholly-owned subsidiary of the Company which owns 50% equity interest in Beijing Youyi Shopping City Co., Ltd. Beijing Lufthansa Centre, to Intime Department Store (Group) Company Limited ("Intime") for a consideration of HK\$1,612.5 million (subject to adjustment) which was satisfied by the issuance of 147,664,835 new shares of US\$0.00001 each in the capital of Intime. The disposal was completed on 22 December 2010 and as a result, the Group recognised a net gain on disposal of HK\$1,007 million during the year ended 31 December 2010.

Save as disclosed above, the Group did not undertake any other significant acquisitions or disposals of subsidiaries or assets during the year ended 31 December 2010.

## **Charge on assets**

Assets of the Group were not charged to any third parties at 31 December 2010 (2009 : certain project financing facilities extended by banks to a subsidiary of the Company engaged in infrastructure projects in mainland China, with an outstanding balance of HK\$22 million which was grouped under “Liabilities associated with assets classified as held for sale” at 31 December 2009, were secured by the Group’s toll highway operating right).

## **Capital commitments**

At 31 December 2010, capital commitments of the Group amounted to HK\$36,032 million (2009: HK\$33,801 million).

## **Contingent liabilities**

At 31 December 2010, the Group’s contingent liabilities amounted to HK\$65 million (2009: HK\$90 million).

## **Employees and remuneration policy**

At 31 December 2010, the Group had approximately 8,000 (2009: 7,700) full-time employees. The remuneration of the employees is in line with the market and commensurate with the level of pay in the industry. Discretionary year-end bonuses are payable to the employees based on individual performance. Other benefits to the employees include medical insurance, retirement scheme, training programmes and education subsidies.

Total staff costs for the year ended 31 December 2010 amounted to HK\$1,606 million (18-month period ended 31 December 2009 : HK\$2,239 million), which comprised (i) staff costs included under directors’ remuneration of HK\$149 million (18-month period ended 31 December 2009 : HK\$235 million); and (ii) staff costs (other than directors’ remuneration) of HK\$1,457 million (18-month period ended 31 December 2009 : HK\$2,004 million).

By comparison, total staff costs for the corresponding period of 12 months ended 31 December 2009 amounted to HK\$1,544 million, which comprised (i) staff costs included under directors’ remuneration of HK\$141 million; and (ii) staff costs (other than directors’ remuneration) of HK\$1,403 million. In this regard, compared with the corresponding period of 12 months ended 31 December 2009, the Group’s total staff costs for the year of HK\$1,606 million represents an increase of HK\$62 million or 4%.

## **OTHER INFORMATION**

### **Closure of Register of Members and Register of Warrantholders**

1. Book Close for determining the qualification for the proposed final dividend

The Register of Members and the Register of Warrantholders of the Company will be closed from Wednesday, 27 April 2011 to Friday, 29 April 2011, both days inclusive, during which period no transfers of shares or warrants (including the exercise of the subscription rights thereof) will be registered. In order to qualify for the proposed final dividend, (i) in the case of shareholders, all transfer documents accompanied by the relevant share certificates or (ii) in the case of warrant holders, all subscription forms accompanied by the relevant warrant certificates and exercise money, must be lodged for registration with the Company's Registrars, Computershare Hong Kong Investor Services Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 26 April 2011.

2. Book Close for determining the entitlement to attend and vote at the annual general meeting

The Register of Members of the Company will also be closed from Tuesday, 7 June 2011 to Thursday, 9 June 2011, both days inclusive, for the purpose of determining shareholders who are entitled to attend and vote at the forthcoming annual general meeting. In order to qualify for attending and voting at the forthcoming annual general meeting, all transfer documents accompanied by the relevant share certificates must be lodged for registration with the Company's Registrars, Computershare Hong Kong Investor Services Limited at the aforementioned address not later than 4:30 p.m. on Friday, 3 June 2011.

### **Purchase, Sale or Redemption of the Company's Listed Securities**

Except for the issue of shares regarding the scrip dividend schemes and bonus warrants, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

### **Audit Committee**

The Audit Committee met in March 2011 and reviewed the systems of internal control and compliance and the annual report for the year ended 31 December 2010.

### **Corporate Governance**

During the year ended 31 December 2010, the Company has complied with the Code on Corporate Governance Practices (the "CGP Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except that the roles of the chairman and the chief executive officer of the Company have not been segregated as required under code provision A.2.1 of the CGP Code. The Company is of the view that it is in the best interest of the Company that Dr. Lee Shau Kee, with his profound expertise in the property business, shall continue in his dual capacity as the Chairman and Managing Director.

## **Model Code for Securities Transactions by Directors**

The Company has adopted the Model Code of the Listing Rules as the code for dealing in securities of the Company by the Directors (the “Model Code”). Having made specific enquiry, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code.

## **Forward-Looking Statements**

This announcement contains certain statements that are forward-looking or which use certain forward-looking terminologies. These forward-looking statements are based on the current beliefs, assumptions and expectations of the Board of Directors of the Company regarding the industry and markets in which it operates. These forward-looking statements are subject to risks, uncertainties and other factors beyond the Company’s control which may cause actual results or performance to differ materially from those expressed or implied in such forward-looking statements.

By Order of the Board  
**Timon LIU Cheung Yuen**  
Company Secretary

Hong Kong, 17 March 2011

*As at the date of this announcement, the Board comprises: (1) executive directors: Lee Shau Kee (Chairman), Lee Ka Kit, Lam Ko Yin, Colin, Lee Ka Shing, Yip Ying Chee, John, Au Siu Kee, Alexander, Suen Kwok Lam, Lee King Yue, Fung Lee Woon King, Lau Yum Chuen, Eddie, Li Ning, Kwok Ping Ho, Patrick and Wong Ho Ming, Augustine; (2) non-executive directors: Woo Po Shing, Leung Hay Man, Lee Pui Ling, Angelina, Lee Tat Man and Woo Ka Biu, Jackson (as alternate to Woo Po Shing); and (3) independent non-executive directors: Kwong Che Keung, Gordon, Ko Ping Keung and Wu King Cheong.*