2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)
Foreign currencies (Continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in the statement of profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of all subsidiaries and joint operations operating in Mainland China are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of all subsidiaries and joint operations operating in Mainland China which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group’s financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group’s accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

*Operating lease commitments – Group as lessor*

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

*Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.
3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Classification between investment properties and properties held for sale

The Group develops properties held for sale and properties held to earn rentals and/or for capital appreciation or both. Judgement is made by management in determining whether a property is designated as an investment property or a property held for sale. The Group considers its intention for holding the properties at the early development stage of the related properties. During the course of construction, the related properties under construction are accounted for as properties under development if the properties are intended for sale after completion. Upon completion of construction, properties under development are transferred to completed properties held for sale and are stated at cost. Properties under construction are accounted for as investment properties if the properties are intended to be held to earn rentals and/or for capital appreciation after completion.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment of trade and other receivables

The provision policy for impairment of trade and other receivables of the Group is based on the ongoing evaluation of the collectability, aged analysis of the outstanding receivables and management's judgement. A considerable amount of judgement is required in assessing the ultimate realisation of these receivables, including creditworthiness and the past collection history of each customer. If the financial conditions of the customers of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences;

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

The carrying amount of investment properties at 31 December 2013 was HK$22,018,464,000 (2012: HK$16,574,733,000). Further details, including the key assumptions used for the fair value measurement, are given in note 18 to the financial statements.
3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Carrying amount of land under development

The Group’s land under development is stated at the lower of cost and net realisable value. Based on the Group’s recent experience and the nature of the subject land development, the Group makes estimates of cost allocated to each parcel of land under development, and its net realisable value, i.e., the revenue to be derived from the land under development for sale by government authorities, less costs to completion and the costs to be incurred in realising the revenue from the sale of land under development based on prevailing market conditions.

If the cost is higher than the estimated net realisable value, provision for the excess of cost of land under development over its net realisable value should be made. Such provision would require the use of judgement and estimates. Where the expectation is different from the original estimate, the carrying value and provision for land under development in the periods in which such estimate is changed will be adjusted accordingly. The carrying amount of land under development at 31 December 2013 was HK$9,711,609,000 (2012: HK$12,103,662,000). Further details are given in note 16 to the financial statements.

Measurement of cost from land development

Development costs of land are recorded as land under development during the construction stage and an apportionment of these costs will be recognised in the statement of profit or loss upon the recognition of the revenue of the land under development. Before the final settlement of the development costs and other costs relating to the land under development, these costs are accrued by the Group based on management’s best estimate.

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years.

Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm’s length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Further details, including a sensitivity analysis of key assumption, are given in note 46 to the financial statements.
3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Deferred tax assets
Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2013 was HK$193,695,000 (2012: HK$67,238,000). The amount of unrecognised tax losses at 31 December 2013 was HK$342,685,000 (2012: HK$305,967,000). Further details are given in note 34 to the financial statements.

Recognition and allocation of construction cost on properties under development
Development costs of properties are recorded as properties under development during the construction stage and will be transferred to completed properties held for sale upon completion. An apportionment of these costs will be recognised in the statement of profit or loss upon the recognition of the sale of the properties. Before the final settlement of the development costs and other costs relating to the sale of the properties, these costs are accrued by the Group based on management’s best estimate.

When developing properties, the Group may divide the development projects into phases. Specific costs directly related to the development of a particular phase are recorded as the cost of such phase. Common costs are allocated to individual phases based on the estimated saleable area of the entire development project.

Where the final settlement of costs and the related cost allocation is different from the initial estimates, any increase or decrease in the development costs and other costs would affect the profit or loss in future years. The carrying amount of properties under development at 31 December 2013 was HK$44,031,911,000 (2012: HK$23,431,260,000). Further details are given in note 15 to the financial statements.

PRC corporate income tax
The Group is subject to income taxes in the PRC. As a result of the fact that certain matters relating to the income taxes have not been confirmed by the local tax bureau, objective estimate and judgement based on currently enacted tax laws, regulations and other related policies are required in determining the provision for income taxes to be made. Where the final tax outcome of these matters is different from the amounts originally recorded, the differences will impact on the income tax and tax provisions in the period in which the differences realise. The carrying amount of income tax payable at 31 December 2013 was HK$1,575,317,000 (2012: HK$1,160,869,000).

PRC land appreciation tax (“LAT”)
The Group is subject to LAT in the PRC. The provision for LAT is based on management’s best estimates according to the understanding of the requirements set forth in the relevant PRC tax laws and regulations. The actual LAT liabilities are subject to the determination by the local tax authorities upon the completion of the Group’s property development projects. The Group has not finalised its LAT tax returns and payments with the local tax authorities for its property development projects. When the final outcome is determined, it may be different from the amounts that were initially recorded, and any differences will affect the current income tax expense and LAT provision in the period which LAT is ascertained. The carrying amount of provision for LAT at 31 December 2013 was HK$2,193,118,000 (2012: HK$1,045,194,000). Further details are given in note 33 to the financial statements.
3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Estimation uncertainty (Continued)

Estimation of net realisable value for properties held for sale and inventories

Properties held for sale and inventories are stated at the lower of cost and net realisable value. The net realisable value is assessed with reference to market conditions and prices existing at the end of the reporting period and is determined by the Group having taken suitable external advice and in light of recent market transactions. The carrying amounts of properties held for sale and inventories at 31 December 2013 were HK$5,915,469,000 (2012: HK$3,078,117,000) and HK$31,577,000 (2012: HK$29,555,000), respectively.

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on the products and services they provide and has four reportable operating segments as follows:

(a) the property and land development segment develops and sells properties and develops land;

(b) the property leasing segment leases office and commercial premises;

(c) the hotel operations segment provides hotel accommodation services, food and beverage; and

(d) the “others” segment mainly comprises the provision of property management, design and decoration services, the operation of an observation deck, the trading of goods, and the provision of export agency services.

Management monitors the results of the Group’s operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group’s profit before tax except that interest income, other investment income, gain on bargain purchase and finance costs as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, prepaid tax, pledged deposits, restricted bank balances, cash and cash equivalents, certain other financial assets and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings and related interest payables, tax payable, provision for land appreciation tax, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted in accordance with the terms and conditions mutually agreed by the parties involved.

The Group’s operations are mainly conducted in Mainland China. Management considered there is one reportable geographic segment as all revenues from external customers are generated in Mainland China and the Group’s significant non-current assets are located in Mainland China.