



九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

Stock Code 股份代號: 34

A Passion For Excellence

Annual Report 2012 年報 渴求卓越





KOWLOON DEVELOPMENT COMPANY LIMITED 九龍建業有限公司

Kowloon Development Company Limited (Stock Code: 34) has been pursuing a three-tier development strategy in the Greater China region, with its core property business in the Hong Kong and Mainland China markets, and carrying out its Macau property business through its 73.4%-owned listed subsidiary, Polytec Asset Holdings Limited (Stock Code: 208). The Group is now well positioned in all three markets, with its attributable landbank of approximately 5 million sq m. It is committed to enhance its competitive advantages and to become one of the few listed companies in Hong Kong to have capacity to grow significantly in all three markets.

九龍建業有限公司(股份代號：34)在大中華地區奉行三線發展策略，核心業務為香港及中國內地市場之地產業務，並通過其擁有73.4%權益之上市附屬公司保利達資產控股有限公司(股份代號：208)經營澳門地產業務。本集團目前在區內三大市場作出卓越部署，其應佔土地儲備約五百萬平方米，並致力提升本身之競爭優勢，目標成為少數能夠在三大市場取得顯著增長之香港上市公司之一。

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Corporate Information

BOARD OF DIRECTORS AND COMMITTEES

Board of Directors

Executive Directors

Or Wai Sheun (*Chairman*)

Ng Chi Man

Lai Ka Fai

Or Pui Kwan

Non-executive Directors

Keith Alan Holman (*Deputy Chairman*)

Yeung Kwok Kwong

Independent Non-executive Directors

Li Kwok Sing, Aubrey

Lok Kung Chin, Hardy

Seto Gin Chung, John

David John Shaw

Committees

Executive Committee

Or Wai Sheun (*Chairman*)

Ng Chi Man

Lai Ka Fai

Or Pui Kwan

Yeung Kwok Kwong

Audit Committee

Li Kwok Sing, Aubrey (*Chairman*)

Lok Kung Chin, Hardy

Seto Gin Chung, John

Yeung Kwok Kwong

Remuneration Committee

Seto Gin Chung, John (*Chairman*)

Lai Ka Fai

Li Kwok Sing, Aubrey

Lok Kung Chin, Hardy

Nomination Committee

Or Wai Sheun (*Chairman*)

Lok Kung Chin, Hardy

David John Shaw

CORPORATE AND SHAREHOLDERS' INFORMATION

Company Secretary

Lee Kuen Chiu

Independent Auditors

KPMG

Certified Public Accountants

Authorised Representatives

Lai Ka Fai

Lee Kuen Chiu

Legal Advisers

Sidley Austin

Share Registrars

Computershare Hong Kong Investor Services Limited

Rooms 1712–1716, 17th Floor, Hopewell Centre,

183 Queen's Road East, Wanchai, Hong Kong

Registered Office

23rd Floor, Pioneer Centre, 750 Nathan Road,

Kowloon, Hong Kong

Telephone : (852) 2396 2112

Facsimile : (852) 2789 1370

Website : www.kdc.com.hk

E-mail : enquiry@kdc.com.hk

CORPORATE AND SHAREHOLDERS' INFORMATION *(Continued)*

Stock Code

The Stock Exchange of Hong Kong Limited: 34

Principal Bankers

ANZ Bank
Bank of China
Bank of Communications
Bank of East Asia
China Citic Bank
Chong Hing Bank
Dah Sing Bank
Hang Seng Bank
Industrial and Commercial Bank of China
Standard Chartered Bank

Financial Calendar for 2012

Interim results announcement	28 August 2012
Interim dividend paid	12 October 2012
Annual results announcement	27 March 2013
Annual general meeting	26 June 2013
Ex-dividend date for final dividend	4 July 2013
Closure of register of members	8 July 2013 – 9 July 2013 (both days inclusive)
Final dividend payable	17 July 2013



Highlights

- Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2012 amounts to HK\$968 million, an increase of 19.9% over 2011. The underlying earnings per share are HK\$0.84 for 2012 compared to HK\$0.70 in 2011.
- Full year dividend per share for 2012 amounts to HK\$0.57, an increase of 5.6% over 2011, with a final dividend per share of HK\$0.36.
- In 2012, the Group achieved substantial presales well exceeding HK\$10 billion from its various development projects in Hong Kong, Macau and Mainland China.

Group's major property projects currently for sale

CADOGAN

UW
UPPER WEST
奥城·西岸

海一居
PEARL HORIZON
MACAU MARINA

江湾城
LE COVE CITY
中環核心 大灣之心

星际豪庭
GALAXY HEIGHTS

保利达 翠堤湾
POLINA CRUISE BAY

THE Lake
山湾湖

Group's Business Structure



Five-Year Financial Summary

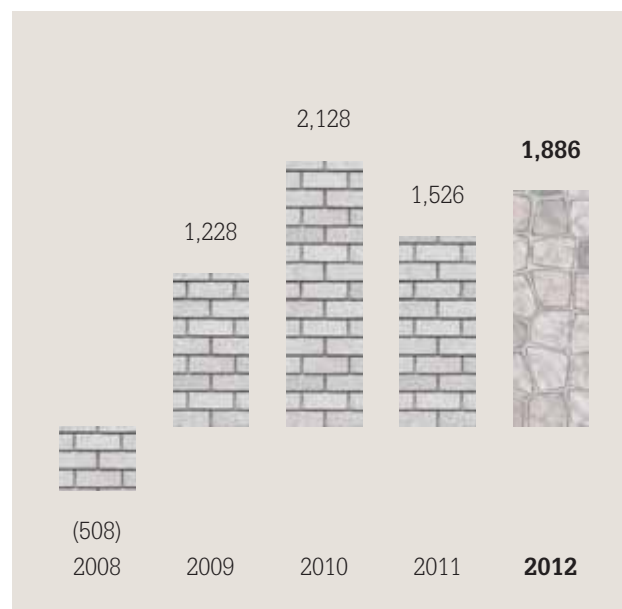
Shareholders' Equity

(HK\$ million)



Profit/(Loss) Attributable to Shareholders

(HK\$ million)



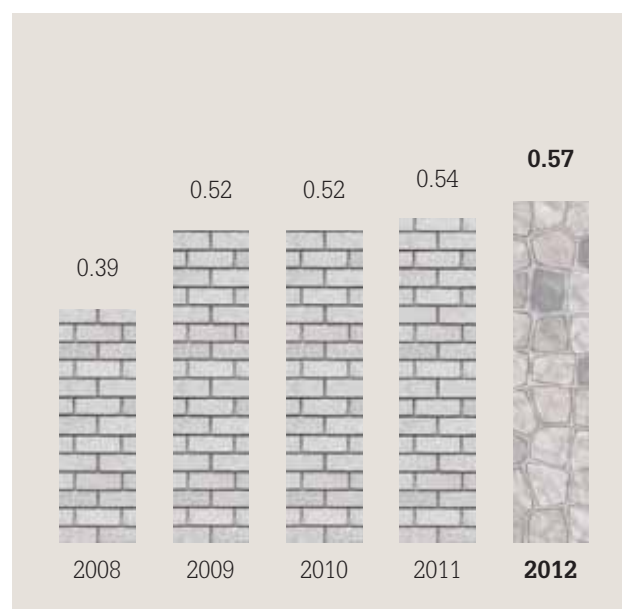
Net Asset Value per Share

(HK\$)



Dividends per Share

(HK\$)



KEY CONSOLIDATED INCOME STATEMENT DATA

(HK\$ million)	2008	2009	2010	2011	2012
Turnover	8,793	1,985	1,269	1,755	2,556
Profit/(Loss) from Operations	(1,944)	1,550	2,072	1,499	1,906
Profit/(Loss) Attributable To Shareholders	(508)	1,228	2,128	1,526	1,886
Earnings/(Loss) per Share (HK\$)	(0.44)	1.07	1.85	1.33	1.64
Underlying Profit/(Loss) Attributable to Shareholders (Note 2)	(1,381)	1,160	691	807	968
Underlying Earnings/(Loss) per Share (HK\$) (Note 2)	(1.21)	1.01	0.60	0.70	0.84
Dividends	449	598	598	621	656
Dividends per Share (HK\$)	0.39	0.52	0.52	0.54	0.57

KEY CONSOLIDATED BALANCE SHEET DATA

(HK\$ million)	2008	2009	2010	2011	2012
Non-Current Assets	17,914	19,156	22,311	24,706	26,149
Current Assets	11,881	8,157	8,686	13,343	15,128
Total Assets	29,795	27,313	30,997	38,049	41,277
Current Liabilities	(4,749)	(5,220)	(5,982)	(4,064)	(5,453)
Non-Current Liabilities	(5,212)	(2,264)	(3,535)	(11,169)	(11,683)
Net Assets	19,834	19,829	21,480	22,816	24,141
Share Capital	115	115	115	115	115
Reserves	16,623	16,757	18,473	19,657	20,940
Shareholders' Equity	16,738	16,872	18,588	19,772	21,055
Non-controlling Interests	3,096	2,957	2,892	3,044	3,086
Total Equity	19,834	19,829	21,480	22,816	24,141
Net Asset Value per Share (HK\$)	14.55	14.66	16.15	17.18	18.30
Gearing Ratio (%) (Note 3)	31.19	30.97	34.00	55.44	56.11

Notes:

- The financial information in this summary is extracted from the published accounts for the last five years, restated where appropriate to be in accordance with the current accounting policies of the Group.
- Underlying profit/(loss) excludes revaluation gain/(loss) of investment properties.
- Gearing ratio represents bank borrowings, loan from and amount payable to ultimate holding company and net of cash and cash equivalents over equity attributable to shareholders of the Company.

Chairman's Statement

GROUP RESULTS AND DIVIDENDS

For the year ended 31 December 2012, net profit attributable to shareholders of the Company amounted to HK\$1,886 million compared to HK\$1,526 million in 2011, an increase of 23.6% over 2011. Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2012 amounted to HK\$968 million, an increase of 19.9% over 2011. The underlying net earnings per share for 2012 were HK\$0.84 compared to HK\$0.70 in 2011.

The Board of Directors has recommended the payment of a final dividend of HK\$0.36 per share (2011: HK\$0.33) for the year ended 31 December 2012. Together with the 2012 interim dividend of HK\$0.21 per share (2011: HK\$0.21), the full year dividend for 2012 amounts to HK\$0.57 per share (2011: HK\$0.54).

The final dividend will be payable on Wednesday, 17 July 2013 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 9 July 2013, subject to the approval of shareholders at the Annual General Meeting.

BUSINESS REVIEW

The three property markets of Hong Kong, Macau and Mainland China have gradually adapted to the various governmental measures, which have remained in place throughout 2012 and home-buying appetite picked up steadily in all three property markets in the second half of 2012 amid prevailing low interest rates and ample global liquidity created by major central banks around the globe to buoy their respective economies. The Group's property business has benefited from these favorable market conditions and it achieved substantial presales from its various property development projects, particularly in Hong Kong and Macau.

Property Sales

In Hong Kong, since May 2012, the Group has successfully launched a total of three new development projects for presale, namely Gardenia, Cadogan and Upper West, with total presale proceeds for these projects having so far exceeded HK\$3 billion. The Group has sold all residential units at Gardenia, its wholly-owned residential project in Kowloon, with total recognised sales in 2012 of HK\$1,035 million. The Group also sold almost all residential units at Mount East, its 100% owned luxury residential and commercial project in North Point, with total recognised sales in 2012 of HK\$163 million.

In July 2012, the Group launched Cadogan, its wholly-owned luxury residential and commercial project in Kennedy Town and it has pre-sold over 50% of the residential units so far and these sales are expected to be recognised in 2013. In early February 2013, the Group has launched the presale for Upper West, its 100% owned luxury residential and commercial project in Tai Kok Tsui, West Kowloon, and a majority of the residential portion has been pre-sold so far. The project is expected to be completed in the first half of 2016.

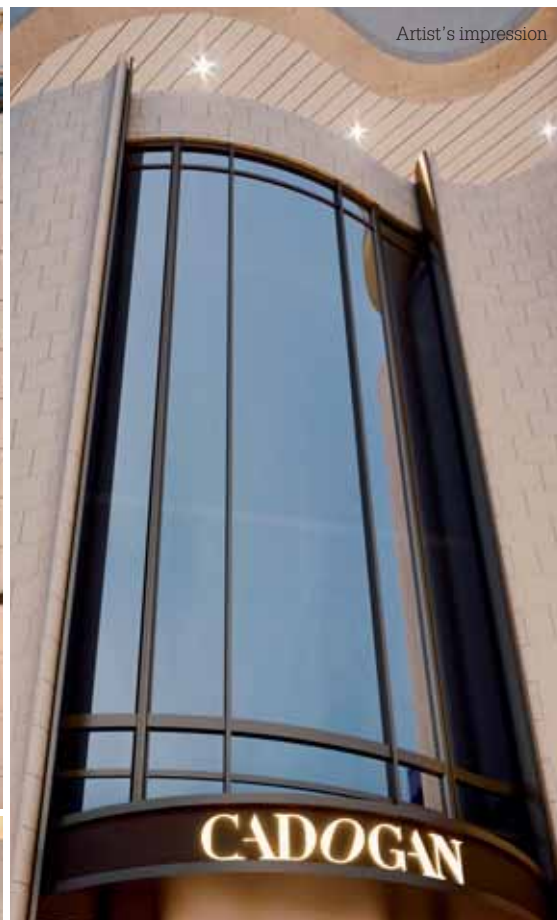
In Mainland China, total property sales/presales amounted to approximately HK\$2 billion in 2012. The Group has sold almost all residential units and a portion of the retail shops and carparking spaces of the first phase of Le Cove City (Shenyang), its wholly-owned residential and commercial development project, with total sales of HK\$304 million recognised in 2012. The Group has pre-sold over 70% of the residential units of the second phase of Le Cove City (Shenyang). For The Lake, the Group's 50%-owned project in Foshan, total sales of HK\$1.75 billion were recognised in 2012.

In Macau, the Group launched new phases of the Pearl Horizon project for the presale in the middle of 2012. These have been well received by the market, with almost all residential units offered being pre-sold and total presales amounting to over HK\$10 billion. This mega residential and commercial development project is expected to be completed in 2016/2017.

Property Development

For the year under review, the Group continued to explore additional development projects to replenish its landbank in all three property markets in order to further strengthen its future growth.

In Hong Kong, the Group has replenished our landbank over the past few years mainly through acquisition of old residential units in urban areas for redevelopment. As of end-December 2012, the Group completed the acquisition of approximately 91.4% ownership of a residential and commercial redevelopment site in Hung Hom, with total gross floor area ("GFA") for redevelopment of 33,900 sq m. The Group is still in process of acquiring the remaining stake and it may take 12 to 18 months to obtain 100% ownership. In addition, in early January this year, the Group successfully completed the expansion of its residential redevelopment project in Pok Fu Lam Road by acquiring the adjacent site, thus increasing the GFA for redevelopment to 11,100 sq m from 9,300 sq m.



For the year under review, the Group acquired a 100% redevelopment project (now being named as Upper West) in Kowloon, Hong Kong from a wholly-owned subsidiary of its ultimate holding company for a total consideration of approximately HK\$375 million. The redevelopment site is located in Tai Kok Tsui, West Kowloon, covering a total site area of approximately 781 sq m and will be redeveloped into a luxury residential tower with a couple of retail shops, with GFA of 6,600 sq m.

Property Investment

The Group disposed of a number of retail units at New Mandarin Plaza and Sino Centre in Hong Kong, with total recognised sales of HK\$209 million for the year under review. The Group sold the remaining units at New Mandarin Plaza in the second half of 2012, with total sales of HK\$655 million and these transactions should be completed in the first half of 2013.

The Group's gross rental income from its property investment portfolio for 2012 rose to HK\$300 million, an increase of 2.4% over 2011. The relatively slower rate of growth in rental income for 2012 was mainly attributable to the disposal of the above non-core investment properties. Total rental income from Pioneer Centre, the Group's flagship and core investment property in Hong Kong, continued to rise to HK\$250 million in 2012, or at a growth rate of 4.2%, with almost all retail spaces and offices being let as of 31 December 2012.

Oil and Gas Business

For the year ended 31 December 2012, total revenue generated from the oil segment amounted to HK\$641 million. The segment recorded an operating profit of HK\$113 million in 2012 compared to an operating loss of HK\$41 million in 2011. The significant improvement in this segment profit was mainly due to the positive results generated from the Group's drilling program over the past couple of years. New wells have been put into production during 2012 and the overall production rate reached an average of over 3,000 barrels per day in December 2012 compared to an average of 1,300 barrels during the same period in 2011.

Further to two announcements made by the Company on 3 January 2013 and 1 February 2013, the Group's oil production has temporarily suspended since 1 January 2013, pending approval of a gas flaring permit for the Group's South Alibek Oilfield in Kazakhstan from the government. The management has been taking all necessary steps to obtain the permit for the oilfield as soon as possible. However, the temporary disruption in oil production may affect the Group's earnings from this segment in 2013.

The Group's exposure in the oil and gas business is through its 73.4%-owned listed subsidiary, Polytec Asset Holdings Limited.

BUSINESS STRATEGY

The Group has been pursuing a three-tier development strategy with exposure in the three major property markets in the Greater China region, Hong Kong, Macau and Mainland China. Over the past ten years, it has built a sizeable and quality development landbank across these three markets, at a relatively competitive cost, with the GFA attributable to the Group approximately 5 million sq m as of end-December 2012. We strive to expedite the development of our landbank, aiming to achieve sustainable earnings growth in the long term.

PROSPECTS

In the US, it appears that a sustainable but moderate economic recovery this year is underway, with recent data showing some positive signs of revival in both housing and labor markets. In Europe, following the sovereign debt crisis, a majority of member countries of the European Union (EU) have started implementing austerity programs to narrow down their respective fiscal deficits, which will likely dampen the economic recovery in 2013. In Japan, if the depreciation of its currency persists, it will likely improve the country's deflation situation and stimulate the economy. In China, it is expected that real gross domestic product will continue to grow at a range of 7.5% to 8.0% in 2013.

In summary, the Group believes that low interest rates and ample liquidity will remain for the rest of 2013 and therefore the property markets in the Greater China region will continue to be benefited. However, we expect that housing prices may not rise much further in the three property markets, Hong Kong, Macau and Mainland China during 2013 as any noticeable surge in prices may trigger further restrictive measures by the respective governments.

In 2012, with prevailing low interest rates and excessive liquidity created by the world's major central banks, the Group's core property business has benefited from these favorable market conditions. The sales and presales from various property development projects in all three markets have well exceeded HK\$10 billion. The Group is optimistic about its property sales outlook for the coming year. In 2013, the Group's earnings will be mainly generated from property sales in Hong Kong, including two development projects namely Cadogan and MacPherson Place. In 2014, the development projects in Mainland China should contribute a more substantial portion to the Group's earnings.

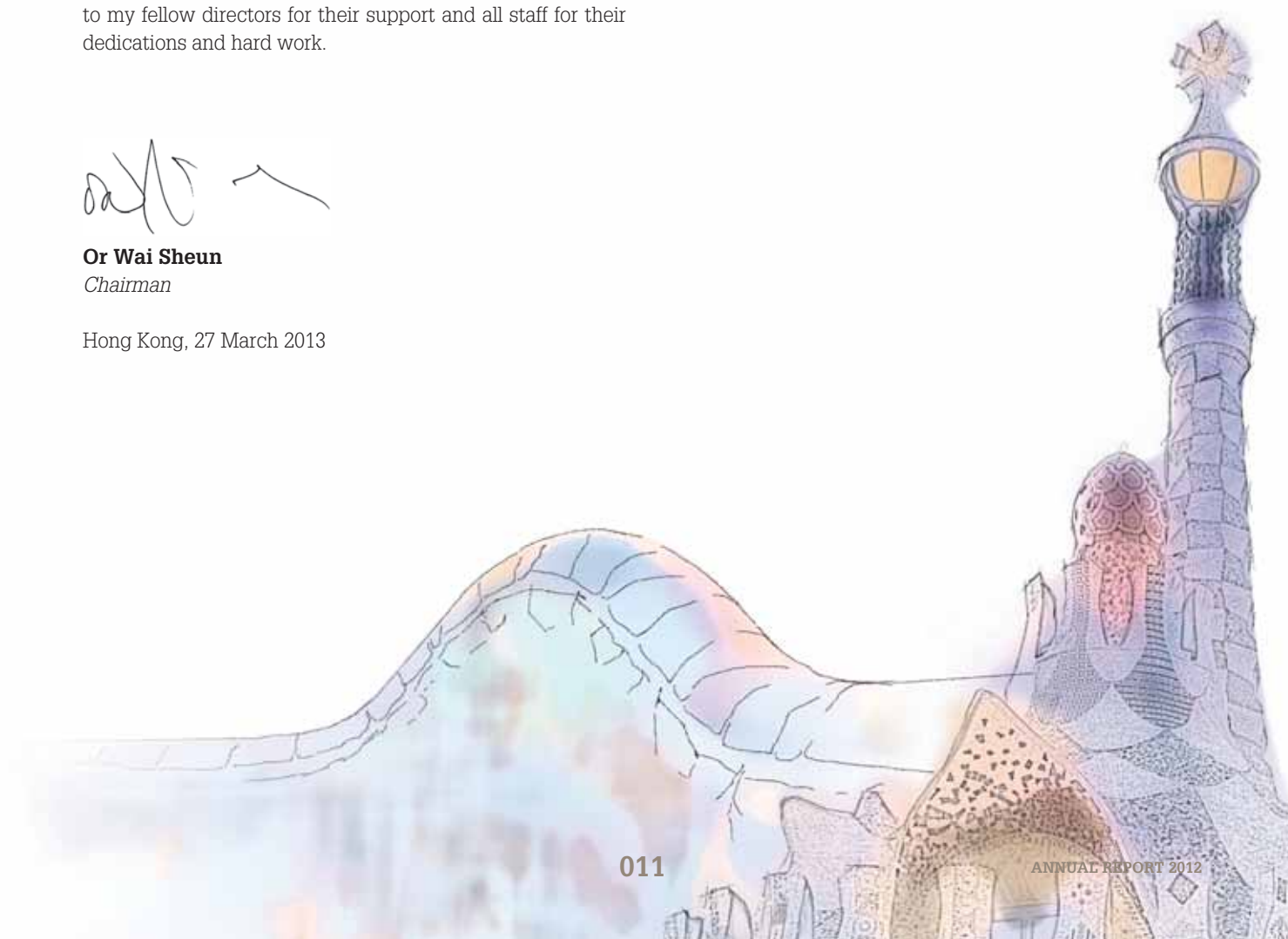
With successful sale and presale of various development projects over the past year, the Group will continue to replenish and expand our landbank across the Greater China region in order to achieve sustainable earnings growth for the Group. Barring unforeseen circumstances, it is expected that the Group's operating results for 2013 may continue to improve.

I would like to take this opportunity to express my gratitude to my fellow directors for their support and all staff for their dedications and hard work.



Or Wai Sheun
Chairman

Hong Kong, 27 March 2013



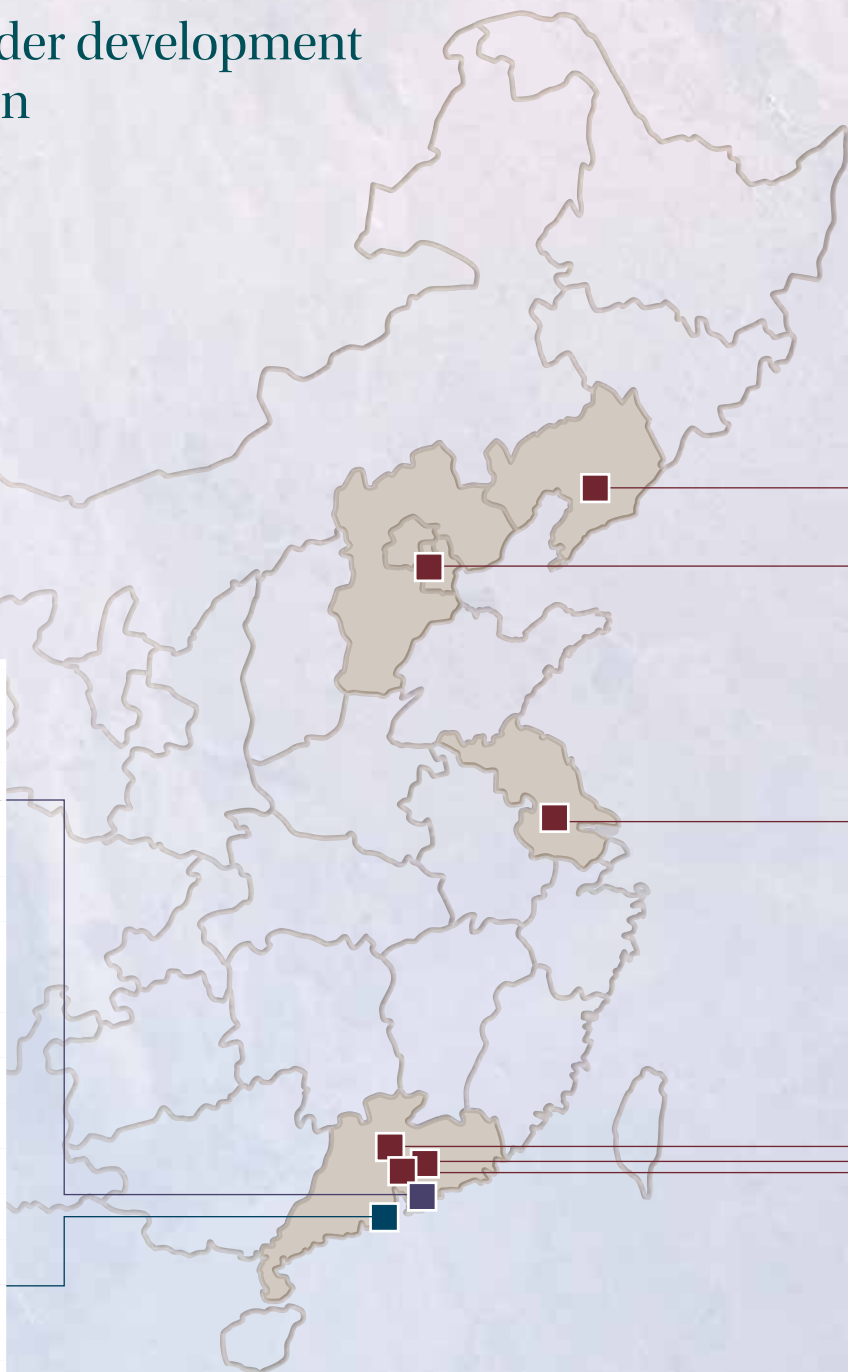
Review of Operations

Group's major projects under development in the Greater China Region

■ HONG KONG
■ MAINLAND CHINA
■ MACAU

Coverage of the Group	
Project Name	Total GFA* (sq m)
HONG KONG	
Cadogan	13,200
Upper West	6,600
MacPherson Place	24,800
Pok Fu Lam Road Project	11,100
Hung Hom Project	33,900
Clear Water Bay Road Project	196,400
Total	286,000
MACAU	
Pearl Horizon	699,700
Lotes T+T1	195,600
Total	895,300

* representing 100% project coverage



Coverage of the Group

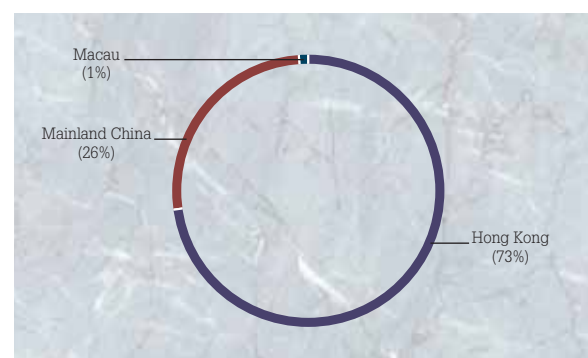
Project Name	Total GFA* (sq m)
MAINLAND CHINA	
Shenyang	
Le Cove City (江灣城) Hun Nan Xin District	712,000
The Gardenia (翠堤灣) Shenhe District	2,000,000
Tianjin	
Hedong Project (河東項目) Hedong District	930,000
Wuxi	
Le Cove City (江灣城) Chong An District	404,400
Foshan	
The Lake (山語湖) Nanhai District	1,600,000
Dongguan	
Jun Tai Garden (君珩花園) Nancheng District	79,700
Zhongshan	
Galaxy Heights (星際豪庭) Shiqi District	129,000
Total	5,855,100

* representing 100% project coverage

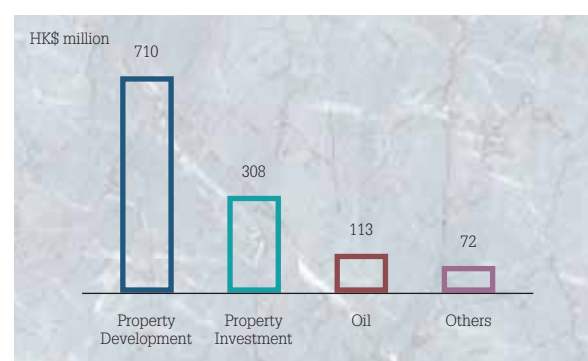
Key Operating Results for 2012

Total operating profit in the property development segment amounted to HK\$710 million, which was mainly generated from total sales recognised from four development projects in Hong Kong and Mainland China.

Operating Profit – Property Development Geographic Distribution for 2012



Operating Profit by Segment for 2012



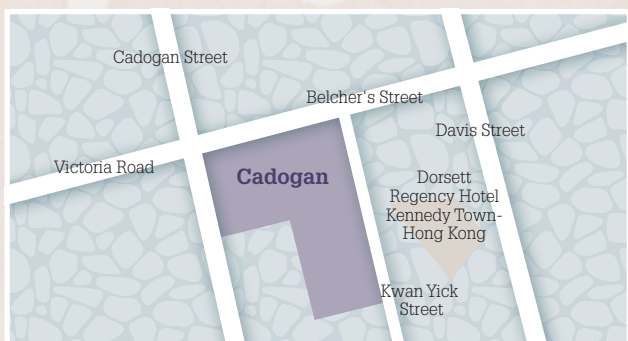
PROPERTY DEVELOPMENT

As of 31 December 2012, the Group's landbank for development amounted to approximately 5 million sq m of attributable gross floor area. Details of the major property projects are set out as follows:

Hong Kong

Cadogan

This site is located at 37A Cadogan Street, which is close to a proposed Kennedy Town MTR station exit. Presale of its residential units has been started in July 2012.



Location

37A Cadogan Street,
Kennedy Town, Hong Kong

Usage

Residential and Commercial

Group's Interest

100%

Approx. Gross Floor Area

13,200 sq m

Status

Superstructural work in progress

Expected Date of Completion

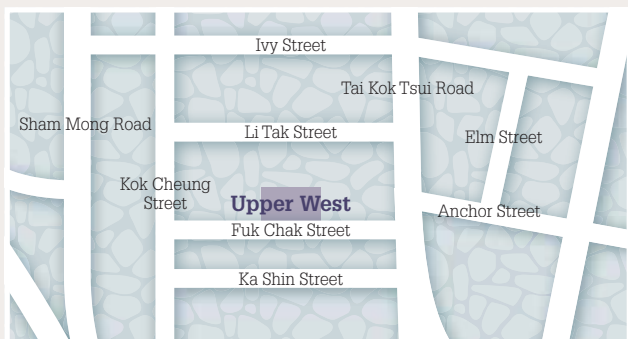
2013/2014





Upper West

This site is located at 18 Fuk Chak Street in Tai Kok Tsui. This residential and commercial project is wholly-owned by the Group, with a gross floor area of approximately 6,600 sq m. Presale of its residential units has been started in February 2013.



Location

18 Fuk Chak Street, Tai Kok Tsui, Kowloon, Hong Kong

Usage

Residential and Commercial

Group's Interest

100%

Approx. Gross Floor Area

6,600 sq m

Status

Foundation work in progress

Expected Date of Completion

March 2016





Artist's Impression



MacPherson Place

This site is located in a prime location of Mongkok. This is a joint venture residential and commercial redevelopment project with Urban Renewal Authority and Hong Kong Playground Association, with a gross floor area of approximately 24,800 sq m. It is being developed as a luxury residential and commercial complex with club house, parking facilities, retail spaces, a multi-purpose sports stadium and a youth centre. Excluding the multi-purpose sports stadium and youth centre, the gross floor area for the residential and commercial portion is approximately 18,100 sq m. Presale of its residential units will be started within 2013.



Location

38 Nelson Street, Mongkok,
Kowloon, Hong Kong

Usage

Stadium, Youth Centre, Residential
and Commercial

Group's Interest

Joint venture with Urban Renewal
Authority and Hong Kong
Playground Association

Approx. Gross Floor Area

24,800 sq m

Status

Superstructural work topped out and
fitting-out work in progress

Expected Date of Completion

Obtained Occupation Permit on
31 December 2012





Pok Fu Lam Road Project

This site is located at 45-65A Pok Fu Lam Road in Sai Ying Pun. The Group has successfully expanded the site by acquiring adjacent site in early January 2013, with gross floor area for redevelopment rising from 9,300 sq m to approximately 11,100 sq m. The project is at the planning stage.



Location

45-65A Pok Fu Lam Road,
Sai Ying Pun, Hong Kong

Usage

Residential

Group's Interest

Held 100% ownership
in January 2013

Approx. Gross Floor Area

11,100 sq m

Status

Seeking Building Department's
approval on development proposal

Expected Date of Completion

To be determined

Hung Hom Project

This site is located at Wan On Street in Hung Hom. This residential and commercial redevelopment site consists of 14 aging buildings with each aged over 50 years, covering a total site area of approximately 4,000 sq m and a gross floor area for redevelopment of 33,900 sq m. The Group is still in process of acquiring the remaining stake and it may take 12 to 18 months to obtain 100% ownership.



Location

Wan On Street, Hung Hom,
Kowloon, Hong Kong

Usage

Residential and Commercial

Group's Interest

91.4%

Approx. Gross Floor Area

33,900 sq m

Status

Acquisition of the remaining
units in progress

Expected Date of Completion

To be determined

Clear Water Bay Road Project

This site is located at 35 Clear Water Bay Road in Ngau Chi Wan and is wholly-owned by the Group. General Building Plan has been approved for a residential and commercial development with a gross floor area of approximately 196,400 sq m, including a shopping arcade, club house and parking facilities.



Location

35 Clear Water Bay Road,
Ngau Chi Wan, Kowloon,
Hong Kong

Usage

Residential and Commercial

Group's Interest

100%

Approx. Gross Floor Area

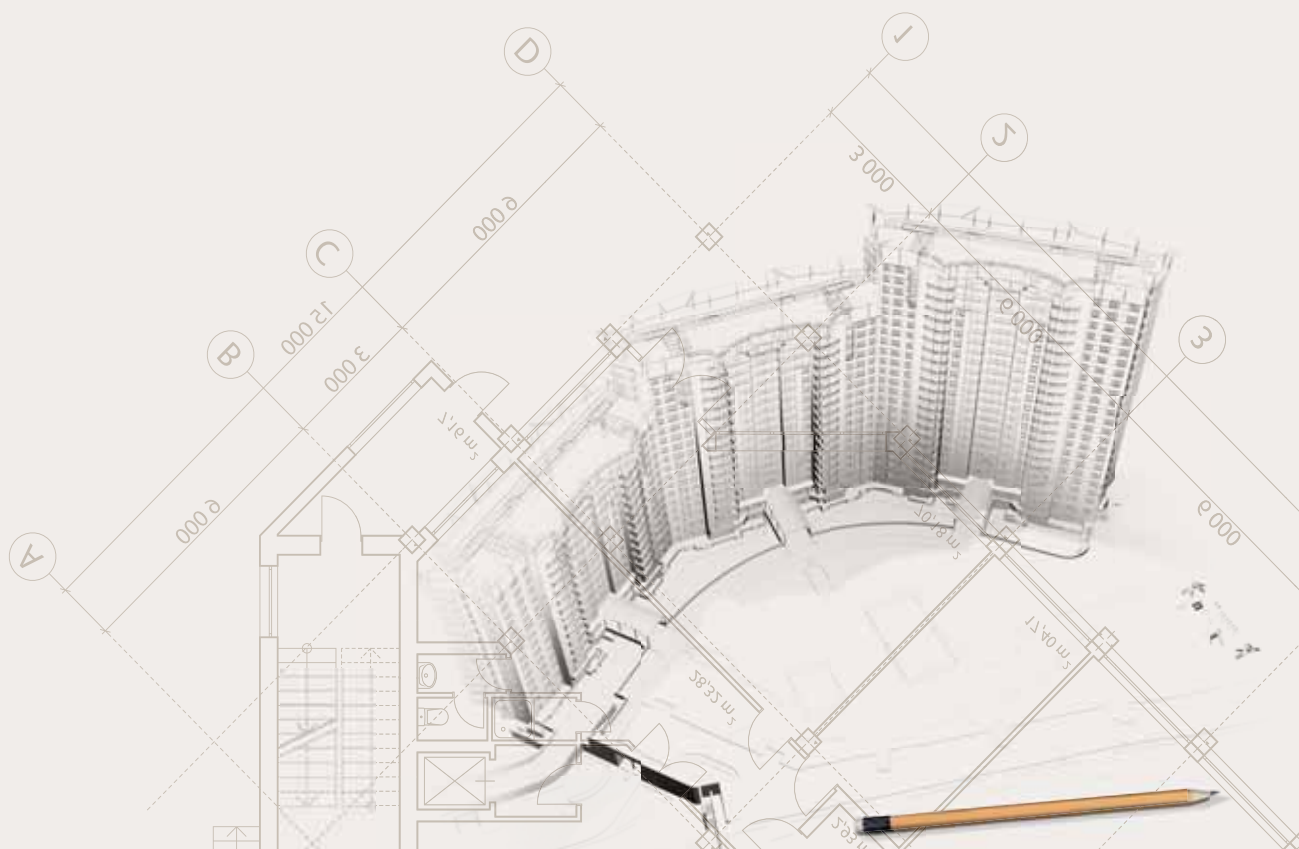
196,400 sq m

Status

Foundation work in progress

Expected Date of Completion

To be determined



Mainland China

Le Cove City (Shenyang) 江灣城(瀋陽)

This site is located along the Hun River at 6 Hun Nan Er Road of the Hun Nan Xin District in Shenyang. This residential and commercial development project is wholly-owned by the Group, with a planned gross floor area of approximately 712,000 sq m. According to the overall planning and development strategy of the local municipal government, the Hun Nan Xin District will be developed as a modern technological new district with a high-tech industrial development zone, a high-grade commercial and business centre, a residential area, a university town and a Hun River tourism zone. First phase has been completed and delivered to the end users. Fitting-out work for second phase is in progress.

Location

6 Hun Nan Er Road,
Hun Nan Xin District,
Shenyang, China

Usage

Residential and Commercial

Group's Interest

100%

Approx. Gross Floor Area

712,000 sq m

Status

Fitting-out work for second phase
in progress

Expected Date of Completion

By phases from 2011 onwards





The Gardenia (Shenyang) 翠堤灣(瀋陽)

This site is located on the west side of Daba Road of the Shenhe District, which is one of the five main central districts in Shenyang. Previously the site was situated in the Dongling District, which was integrated into the Shenhe District in March 2010. This residential and commercial project is wholly-owned by the Group, with a planned gross floor area of approximately 2,000,000 sq m. It will be developed into low- and medium-rise residential units by phases. Fitting-out work for first phase is in progress.



Location

West of Daba Road,
Shenhe District,
Shenyang, China

Usage

Residential and Commercial

Group's Interest

100%

Approx. Gross Floor Area

2,000,000 sq m

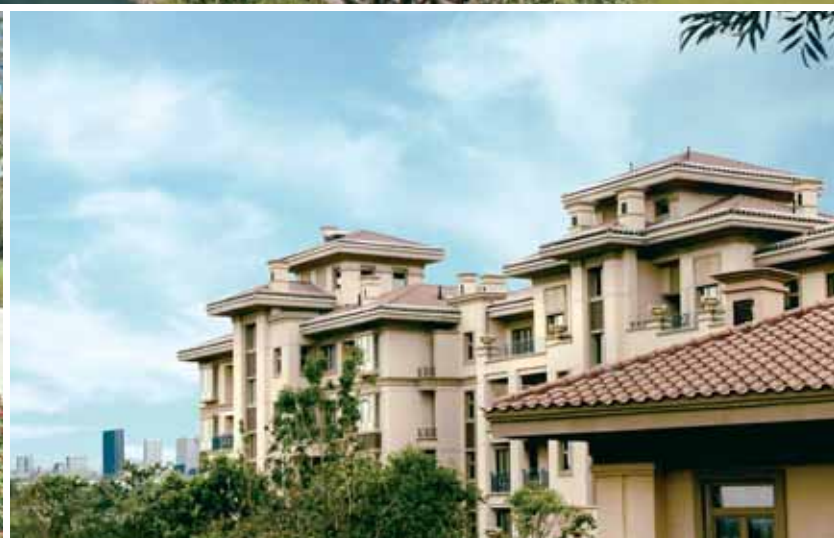
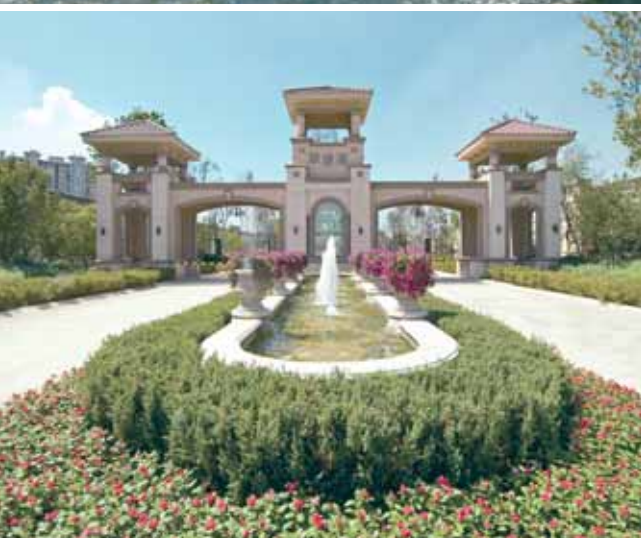
Status

Fitting-out work for first phase
in progress

Expected Date of Completion

By phases from 2013 onwards





Le Cove City (Wuxi) 江灣城(無錫)

This site is located in the Chong An District, a central business district of Wuxi, with total site area amounting to approximately 68,800 sq m. The Group has 80% in this project which is intended to be developed by phases into a residential, commercial, hotel and office complex, with a gross floor area of 404,400 sq m. There is additional underground gross floor area of approximately 15,000 sq m for the commercial portion and over 2,300 carparking spaces. Fitting-out work for first phase is in progress.



Location

Tongyun Road and Gongyun Road,
Chong An District,
Wuxi, China

Usage

Residential and Commercial

Group's Interest

80%

Approx. Gross Floor Area

404,400 sq m

Status

Fitting-out work for first phase
in progress

Expected Date of Completion

By phases from 2014 onwards





Galaxy Heights (Zhongshan) 星際豪庭(中山)

This site is located in the Shiqi District, the city centre of Zhongshan (Guangdong Province). This residential and commercial project is 70%-owned by the Group, with a gross floor area of approximately 129,000 sq m. The development comprises 7 high-end towers with 1,135 residential units, 5 units of contemporary style town house, a club house and retail shops. Fitting-out work is in progress and the project is expected to be completed by 2013.

Location

8 Xueyuan Road,
Shiqi District,
Zhongshan, China

Usage

Residential and Commercial

Group's Interest

70%

Approx. Gross Floor Area

129,000 sq m

Status

Fitting-out work in progress

Expected Date of Completion

2013



Artist's Impression



Jun Tai Garden (Dongguan) 君珩花園(東莞)

This site is located in Nancheng District of Dongguan City with total site area amounting to approximately 32,500 sq m. This residential and commercial development project is 40%-owned by the Group, and has a gross floor area of approximately 79,700 sq m. Foundation work is in progress.



Location

East of Hongwei Road,
Xi Ping She Qu, Nancheng District,
Dongguan, China

Usage

Residential and Commercial

Group's Interest

40%

Approx. Gross Floor Area

79,700 sq m

Status

Foundation work in progress

Expected Date of Completion

2014

Artist's Impression



Artist's Impression

The Lake (Foshan) 山語湖 (佛山)

This site is located in the Nanhai District of Foshan (Guangdong Province), with a sizeable site area of approximately 4,000,000 sq m. This is a 50:50 joint venture residential and commercial development project with CITIC Property Group. The site is endowed with unique geographical advantages, surrounded by lakes, wetland nature reserve zone and woods. It is being developed as one of the most emblematic residential communities in Foshan, with a gross floor area of approximately 1,600,000 sq m. The first phase of development mainly comprises luxury low-rise residential houses. The second phase development comprises low-rise residential houses and medium-rise apartments.

Location

Heshun Meijing Shuiku Sector,
Lishui Town, Nanhai District,
Foshan, China

Usage

Residential and Commercial

Group's Interest

50%

Approx. Gross Floor Area

1,600,000 sq m

Status

Construction work in progress

Expected Date of Completion

By phases from 2009 onwards



Hedong Project (Tianjin) 河東項目(天津)

This site is located in a new commercial and business area of the Hedong District, Tianjin. This residential and commercial development project is 49%-owned by the Group, and has a gross floor area of approximately 930,000 sq m. It will be developed into a modern residential and commercial complex with luxury residential towers, office buildings, a five-star hotel and a first-class shopping arcade. The master layout plan has been submitted to the local authority and construction work will be commenced once we have obtained necessary approvals.



Location

Lot No. Jin Dong Liu 2004-066, intersection of Shiyijing Road and Liuwei Road, Hedong District, Tianjin, China

Usage

Residential and Commercial

Group's Interest

49%

Approx. Gross Floor Area

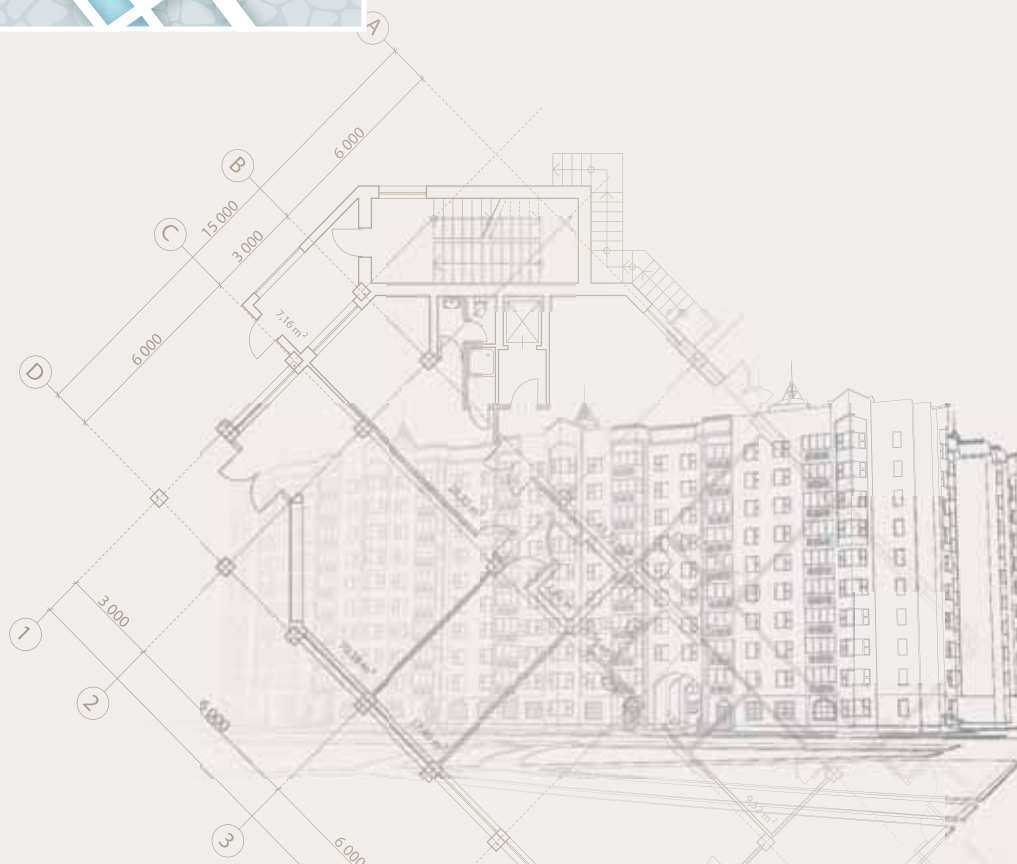
930,000 sq m

Status

Master layout plan submitted for approval

Expected Date of Completion

To be determined



Macau

The Group's property interests in Macau are held through its listed subsidiary, Polytec Asset Holdings Limited ("Polytec Asset"), 73.4%-owned by the Company. Details of the development projects are as follows:

Pearl Horizon

Pearl Horizon is located in the Orient Pearl District, adjacent to the future Hong Kong-Zhuhai-Macau Bridge, with an aggregate site area of approximately 68,000 sq m. Polytec Asset has an 80% interest in this project. It will be developed into various luxury residential towers, together with a large shopping arcade, a five-star club house and numerous carparking spaces, with a gross floor area of approximately 699,700 sq m. The architectural plan was approved and construction work is expected to be commenced in the first half of 2013 once we have obtained the necessary approval from the relevant government authority. Presale of its residential units has been started in the middle of 2012.

Location

Lote P, The Orient Pearl District, Novos Aterros da Areia Preta, Macau

Usage

Residential and Commercial

Group's Interest

58.8%

Approx. Gross Floor Area

699,700 sq m

Status

Architectural plan approved

Expected Date of Completion

2016/2017



Lotes T + T1

Lotes T + T1 are also located in the Orient Pearl District, adjacent to the future Hong Kong-Zhuhai-Macau Bridge, with combined aggregate site area of approximately 17,900 sq m. Polytec Asset has an 80% interest in this project which will be developed into a number of high-end residential blocks with retail shops and carparking spaces, with a gross floor area of approximately 195,600 sq m. The architectural plan was approved but some amendments have been made to accommodate certain design modifications which is required to be published in the Official Gazette of Macau before the commencement of the foundation work. It is expected that the foundation work will be commenced within this year.

Location

Lotes T + T1,
The Orient Pearl District,
Novos Aterros da Areia Preta, Macau

Usage

Residential and Commercial

Group's Interest

58.8%

Approx. Gross Floor Area

195,600 sq m

Status

Architectural plan approved

Expected Date of Completion

To be determined





Pioneer Centre (Hong Kong)



The Macau Square (Macau)

PROPERTY INVESTMENT

The Group's gross rental income from its property investment portfolio for 2012 rose to HK\$300 million, an increase of 2.4% over 2011. Total rental income from Pioneer Centre, the Group's flagship and core investment property in Hong Kong, continued to rise to HK\$250 million in 2012, or at a growth rate of 4.2%, with almost all retail spaces and offices being let as of 31 December 2012.

The Group disposed of a number of retail units at New Mandarin Plaza and Sino Centre in Hong Kong, with total recognised sales of HK\$209 million for the year under review. The Group sold the remaining units at New Mandarin Plaza in the second half of 2012, with total sales of HK\$655 million and these transactions should be completed in the first half of 2013.

PROPERTY MANAGEMENT

The Group offers a full range of high quality property management services to our clients. Our client base includes not only self-developed luxury residential buildings, serviced apartments and medium scale commercial buildings, but also public housing estates. As at 31 December 2012, the total area of properties under management was maintained at approximately 1,283,000 sq m (2011: 1,198,000 sq m).

HUMAN RESOURCES

As of 31 December 2012, the Group had a total of 796 employees (2011: 734 employees), of which 456 were Hong Kong staff, 134 were PRC staff and 206 were staff in other regions, with the increase in headcount mainly due to matching business growth. During the year, total staff costs increased to HK\$203 million (2011: HK\$162 million) due to salary revision in July 2012 and an increase in headcount. Salary levels of employees are competitive. Discretionary bonuses are granted based on performance of the Group as well as performance of individual to attract, motivate and retain talented people.

The Group believes that the quality of its human resources is critical for it to maintain strong competitive edge. The Group has conducted a range of training programs through external institutions to strengthen employees' all-round skills and knowledge, aiming to well equip them to cope with its development in the ever-changing economy.

Besides, the Group established a recreation club and held annual dinner, Christmas party and monthly working lunch for employees during the year to promote team spirit and loyalty and to share information between departments.



Financial Review

FINANCIAL RESOURCES AND BANK BORROWINGS

As at 31 December 2012, the Group's total bank borrowings were HK\$5,870 million, with HK\$1,604 million repayable within one year and HK\$4,266 million repayable after more than one year, showed a slight decrease comparing with 2011 year end. After taking into account cash and cash equivalents of HK\$565 million, the Group's net borrowings position as at 31 December 2012 was HK\$5,305 million, an increase of HK\$122 million as compared with HK\$5,183 million as at 31 December 2011. Loan from/amount payable to the ultimate holding company amounted to HK\$6,509 million as at year end 2012 which showed an increase of HK\$731 million from HK\$5,778 million as at year end 2011.

The Group's gearing ratio (calculated on the basis of net bank borrowings and payables to the ultimate holding company over equity attributable to shareholders of the Company) stayed steady at 56.1% as at 31 December 2012 (2011: 55.4%).

During 2012, the Group realised substantial cash inflow from sale/presale proceeds from various development projects in Hong Kong (HK\$1,148 million) and Mainland China (HK\$870 million). The disposal of certain non-core investment properties in Hong Kong contributed a further HK\$209 million cash inflow in 2012.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of HK\$1,771 million of construction cost during the year. Furthermore, the Group acquired certain properties for redevelopment in Hong Kong in the amount of HK\$523 million, further expanding the landbank of the Group.

Furthermore, approximately HK\$180 million was invested by the Group in the Tianjin project for the balance payment of land title and land use right which was successfully obtained in May 2012.

All the Group's borrowings are arranged on a floating rate basis. The Group will closely monitor and manage its exposure to interest rate fluctuations and will consider engaging relevant hedging arrangement when appropriate.

With the investments in Mainland China, the Group is exposed to exchange fluctuations in Renminbi ("RMB"). By using external borrowings in RMB together with revenue and cash generated from the development projects in Mainland China, this can serve as a natural hedge against the exchange rate risk of RMB.

In view of the Group's oil business in Kazakhstan owned by our listed subsidiary Polytec Asset, the Group has been exposed to the exchange fluctuations in the Kazakhstan Tenge ("KZT"), the local currency of Kazakhstan. While the majority of the operating expenses, as well as capital expenditure, of the Group's oil business is denominated in the KZT, over 80% of its revenue is denominated in the USD. Due to the currency mismatch between its revenues and expenditures in Kazakhstan, the Group is closely monitoring the fluctuation in the KZT and evaluating the impact on its financial position. The Group will use appropriate currency hedging to minimise the currency risks associated with this business if considered necessary.

With the financing facilities in place, recurrent rental income from investment properties, cash inflow from sale/presale of the Group's development projects, and the financial support from the ultimate holding company, the Group has sufficient financial resources to satisfy its commitments and future funding requirements.

CAPITAL COMMITMENTS

As at 31 December 2012, the Group had commitments in connection with the Group's fixed assets amounted to HK\$5 million.

PLEDGE OF ASSETS

As at 31 December 2012, properties having a value of HK\$11,392 million and bank deposits of HK\$35 million were pledged to financial institutions mainly to secure credit facilities extended to the Group.

CONTINGENT LIABILITIES

The Group has given several guarantees in respect of banking facilities granted to a jointly controlled entity in Mainland China. Guarantees have been provided to the jointly controlled entity amounting to RMB647 million, representing a 50% proportional guarantee in respect of RMB1,294 million term loan facilities. The facilities were utilised to the extent of RMB1,184 million as at 31 December 2012.

Profile of Directors

BOARD OF DIRECTORS

Executive Directors

OR Wai Sheun, aged 61, is the *Chairman* of the Company. He has been an Executive Director since January 2002 and is responsible for the development of corporate strategies, corporate planning and general management of the Company. Mr Or is also the chairman of Polytec Asset Holdings Limited, a separately listed subsidiary of the Company. He is the chairman of both Polytec Holdings International Limited and Intellinsight Holdings Limited, all being the substantial shareholders of the Company. Mr Or has over 30 years of experience in property development, industrial and financial investment business in Hong Kong, Macau and Mainland China. He is the husband of Ms Ng Chi Man and the father of Mr Or Pui Kwan.

NG Chi Man, aged 60, has been an *Executive Director* of the Company since January 2002. Ms Ng is responsible for the development of corporate strategies, corporate planning and general management of the Company. She is also a director of both Polytec Holdings International Limited and Intellinsight Holdings Limited, all being the substantial shareholders of the Company. Ms Ng has over 30 years of experience in property development, industrial and financial investment business in Hong Kong, Macau and Mainland China. She is the wife of Mr Or Wai Sheun and the mother of Mr Or Pui Kwan. Ms Ng will be re-designated as a Non-executive Director of the Company with effect from 1 April 2013.

LAI Ka Fai, aged 48, has been an *Executive Director* of the Company since January 2002. He is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company. Mr Lai is also a non-executive director of Polytec Asset Holdings Limited, a separately listed subsidiary of the Company, and a director of Intellinsight Holdings Limited. He has over 20 years of experience in finance, accounting, financial and operational management and corporate planning. Mr Lai graduated from the University of East Anglia in the United Kingdom with a Bachelor's degree in Science. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

OR Pui Kwan, aged 34, has been an *Executive Director* of the Company since September 2005. He is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company. Mr Or joined the Company in May 2003 and has attained solid working experience in various companies engaged in property development, securities investment, information technology, product research and development. He holds a Bachelor of Combined Science degree from the University College London. He is the son of Mr Or Wai Sheun and Ms Ng Chi Man.

Non-executive Directors

Keith Alan HOLMAN, aged 68, is the *Deputy Chairman* of the Company. He has been a Non-executive Director since January 2002. He is a founding partner of the Lantern Group which invests in United Kingdom property and shares. Prior to his resignation with effect from 31 December 2012, he has also acted as a director of Warner Estates Holdings PLC, a company listed on the London Stock Exchange. Mr Holman has an aggregate of over 35 years of experience in corporate finance, investment banking and property investment. He graduated from Oxford University and has a professional qualification as a solicitor.

YEUNG Kwok Kwong, aged 54, has been a *Non-executive Director* of the Company since January 2002. He is also the managing director of Polytec Asset Holdings Limited, a separately listed subsidiary of the Company. Mr Yeung has over 25 years of experience in finance, accounting, financial and operational management and corporate planning. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

Independent Non-executive Directors

LI Kwok Sing, Aubrey, aged 63, has been an *Independent Non-executive Director* of the Company since January 2002. Mr Li is the chairman of MCL Partners Limited, a Hong Kong based financial advisory and investment firm, and has over 35 years of experience in merchant banking and commercial banking. He is also a non-executive director of The Bank of East Asia, Limited (listed on the Stock Exchange of Hong Kong) and an independent non-executive director of Café de Coral Holdings Limited, China Everbright International Limited, Kunlun Energy Company Limited, Pokfulam Development Company Limited and Tai Ping Carpets International Limited (each of them is listed on the Stock Exchange of Hong Kong). Mr Li holds a Master's degree in Business Administration from Columbia University and a Bachelor of Science degree in Civil Engineering from Brown University.

LOK Kung Chin, Hardy, aged 63, has been an *Independent Non-executive Director* of the Company since January 2002. He is the managing director of The Sun Company, Limited and has over 35 years of experience in building and engineering construction work. Mr Lok graduated in Civil Engineering from the University of Manchester Institute of Science & Technology. He is a member of both the Institution of Civil Engineers and the Hong Kong Institution of Engineers, and a fellow member of the Hong Kong Institute of Construction Managers.

SETO Gin Chung, John, aged 64, has been an *Independent Non-executive Director* of the Company since January 2002. He is a director of Pacific Eagle Asset Management Limited. He is also a non-executive director of Sateri Holdings Limited (listed on the Stock Exchange of Hong Kong) and an independent non-executive director of both China Everbright Limited and Hop Hing Group Holdings Limited (both are listed on the Stock Exchange of Hong Kong). He was a non-executive director of Hong Kong Exchanges and Clearing Limited from 2000 to 2003 and was the chief executive officer of HSBC Broking Services (Asia) Limited from 1982 to 2001. Mr Seto was a council member of The Stock Exchange of Hong Kong Limited from 1994 to 2000 and was the first vice chairman from 1997 to 2000. Mr Seto holds a Master of Business Administration degree from New York University and has over 35 years of experience in the securities and futures industry.

David John SHAW, aged 66, has been an *Independent Non-executive Director* of the Company since June 2007. He is employed by the HSBC Group as Adviser to the Board of HSBC Holdings plc, a London based appointment which he took up in June 1998. Mr Shaw is a non-executive director of HSBC Bank Bermuda Limited (formerly known as The Bank of Bermuda Limited), which is a company within the HSBC Group. He is also an independent non-executive director of Shui On Land Limited (listed on the Stock Exchange of Hong Kong). Mr Shaw is a solicitor, admitted in England and Wales and in Hong Kong. He was a partner of Norton Rose from 1973 to 1998 and during that period spent approximately 20 years working in Hong Kong. Mr Shaw obtained a law degree from Cambridge University.

The Executive Directors of the Company are also members of senior management of the Group.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Board is accountable to the Company's shareholders for good corporate governance. Accordingly, the Board has considered carefully the requirements of the Code on Corporate Governance Practices (effective until 31 March 2012) (the "CG Code") and Corporate Governance Code (effective from 1 April 2012) (the "New CG Code") set out in Appendix 14 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules") and, as described below, has taken actions to further enhance corporate transparency and accountability.

We believe good corporate governance is also one of the critical factors for achieving sustainable long-term success. The corporate governance principles of the Company emphasise on the importance of a quality Board and accountability to shareholders. We will regularly review our corporate governance practices from time to time to ensure and maintain the long-term health of the Company.

Throughout the year ended 31 December 2012, the Company has complied with the code provisions of the CG Code and the code provisions of the New CG Code (collectively, the "Code Provisions") except Code Provisions A.2.1 (which recommends the roles of the chairman and chief executive should be separate) and A.6.7 (which recommends all non-executive directors should attend general meetings) as explained below.

BOARD OF DIRECTORS

As at 31 December 2012, the Board comprises 10 members: 4 Executive Directors, being Mr Or Wai Sheun (Chairman), Ms Ng Chi Man, Mr Lai Ka Fai and Mr Or Pui Kwan; 2 Non-executive Directors, being Mr Keith Alan Holman (Deputy Chairman) and Mr Yeung Kwok Kwong; and 4 Independent Non-executive Directors, being Mr Li Kwok Sing, Aubrey, Mr Lok Kung Chin, Hardy, Mr Seto Gin Chung, John and Mr David John Shaw. More than one-third of the Board is Independent Non-executive Directors. Their biographical details which include relationships among members of the Board are set out on pages 38 to 39 of this annual report. In accordance with the Listing Rules, every Independent Non-executive Director has provided an annual confirmation of his independence to the Company. The Company considers that they satisfy the independence requirements.

There was a change in the composition of the Board during the year. Mr Tam Hee Chung retired as a Non-executive Director of the Company with effect from the conclusion of the 2012 annual general meeting ("2012 AGM").

The Board is governed by the Companies Ordinance, the Listing Rules and the Memorandum and Articles of Association of the Company. The role of the Board is to provide strong guidance and oversight to management in formulation of the overall strategic direction, monitor the performance of management, and assure the best interests of the Company are being served. The day-to-day operational duties of the Board are delegated to management to carry out but the Board takes ultimate responsibility.

The Company has arranged insurance cover in respect of legal action against its Directors. The insurance coverage is reviewed at least annually for ensuring that the Directors and officers are adequately protected against potential liabilities.

CHAIRMAN OF THE BOARD AND CHIEF EXECUTIVE

Mr Or Wai Sheun, the Chairman, has performed the combined role as the chairman and the chief executive taking charge of overall operation of the Group. He is also responsible for leading the Board. Directors with different views are encouraged to voice their concern. This combining of the roles enables the Company to make prompt and effective decisions. The Board will reassess the applicability of Code Provision A.2.1 if the existing approach cannot provide an optimal result given the particular structure of the Company.

SELECTION, APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Board shall have power to appoint any person as a Director either to fill a vacancy or for expansion of the Board. The Company has set up a Nomination Committee for formulating nomination policy for consideration of the Board and making recommendations to the Board on the selection, appointment and re-appointment of Directors.

Every existing Non-executive Director was provided with a letter of appointment setting out his terms of appointment. The Company will adhere to this practice when a person is invited to be a Non-executive Director. In accordance with the Articles of Association, any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall be eligible for re-election. Other existing Directors shall be elected for a term of not more than three years since last election or re-election. Retiring Directors shall be eligible for re-election at the annual general meeting of the Company. The Company has also complied with the requirement of the New CG Code on considering the independency of an Independent Non-executive Director who has served more than 9 years for his further appointment. Mr Li Kwok Sing Aubrey, who has served on the Board for more than 9 years, was re-elected as an Independent Non-executive Director at the 2012 AGM by passing a separate resolution at the 2012 AGM. The Board's view on Mr Li's independent status was set out in the 2012 AGM circular. The re-election of Mr Lok Kung Chin, Hardy and Mr Seto Gin Chung, John, Independent Non-executive Directors who have served the Board for more than 9 years, will be considered to vote on separate resolutions in the forthcoming 2013 annual general meeting.

OPERATION OF THE BOARD

The Board is committed to ensuring appropriate corporate governance practices are in place. In ensuring proper ethical and responsible decision making, the Board has established a mechanism for formal review of particular aspect of the Company's affairs. Important decisions, including those may be expected to affect the long-term shareholder interest, are made by the Board and applicable Board committees. Matters relating to remuneration of Directors and senior management, financial reporting and internal control are regularly reviewed by applicable Board committees (comprised of a substantial majority of independent Directors) which make recommendations to the Board.

The Board meets regularly. Five physical meetings were held during the year. Each Director is provided with the notice of meeting of not less than fourteen days, related Board papers and explanatory material for preview at least three days before the meeting. Draft minutes are to be sent out to Directors who are eligible to be counted in the quorum of a meeting for review prior to signing off by the Chairman. Copies of the signed minutes are to be sent to all Directors for records.

Directors have access to the Company Secretary and through him to such legal advice they may require. The Company Secretary has kept all the minutes of the Board and committee meetings.

BOARD COMMITTEES

There are four Board committees. They adopt formal terms of reference, which has included those specific duties in line with Code Provision D.3.1 (Executive Committee), Code Provision C.3.3 (Audit Committee), Code Provision B.1.2 (Remuneration Committee) and Code Provision A.5.2 (Nomination Committee) under the New CG Code. These are available from the websites of the Company (www.kdc.com.hk) and Hong Kong Exchanges and Clearing Limited or the Company Secretary upon request.

Executive Committee	
Members:	Mr Or Wai Sheun (Chairman), Ms Ng Chi Man*, Mr Lai Ka Fai, Mr Or Pui Kwan and Mr Yeung Kwok Kwong
Key responsibility:	Exercise all general powers of the Board, save and except for reserved matters
Audit Committee	
Members:	Mr Li Kwok Sing, Aubrey [#] (Chairman), Mr Lok Kung Chin, Hardy [#] , Mr Seto Gin Chung, John [#] and Mr Yeung Kwok Kwong
Key responsibility:	Assist the Board in considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's external auditors
Remuneration Committee	
Members:	Mr Seto Gin Chung, John [#] (Chairman), Mr Lai Ka Fai, Mr Li Kwok Sing, Aubrey [#] and Mr Lok Kung Chin, Hardy [#]
Key responsibility:	Assist the Board in providing appropriate input into the formulation of remuneration policy and reviewing the implementation of the remuneration policy
Nomination Committee	
Members:	Mr Or Wai Sheun (Chairman), Mr Lok Kung Chin, Hardy [#] and Mr David John Shaw [#]
Key responsibility:	Assist the Board in reviewing the composition of the Board and make recommendation on appointment and re-appointment of Directors

[#] Independent Non-executive Director

* Ms Ng Chi Man will resign as a member of the Executive Committee with effect from 1 April 2013.

Executive Committee

The Executive Committee comprises all Executive Directors and a Non-executive Director. The committee has been delegated powers to exercise all the general powers save and except for the matters reserved to the Board. The committee meets frequently to manage the Company's business and review corporate policies and strategies.

With the requirement on the New CG Code in respect of the responsibilities for performing the corporate governance duties, the Board has delegated its following responsibilities to the Executive Committee:

- (i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- (ii) to review and monitor the training and continuous professional development of Directors and senior management;
- (iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

- (iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- (v) to review the Company's compliance with the New CG Code contained in Appendix 14 of the Listing Rules and disclosure in the Corporate Governance Report of the Company.

During the year, the following corporate governance matters were considered by the Executive Committee:

- adopted corporate governance duties under the New CG Code;
- established the Nomination Committee;
- reviewed the compliance issues of the Company on legal and regulatory requirements through the Audit Committee;
- developed various Company's policies on compliance with legal and regulatory requirements; and
- reviewed the Company's compliance with the New CG Code under the Listing Rules and disclosure in this corporate governance report.

Audit Committee

The Audit Committee meets at least two times per annum. Its responsibilities include reviewing, assessing and making recommendations to the Board on financial reporting, auditing and internal control matters and discussing with the auditors and management on issues arising from the annual audit and/or interim review of accounts.

Three out of four Audit Committee members are Independent Non-executive Directors. The chairman of the committee possesses the relevant financial management expertise or experience. The committee members held two meetings and met the external auditors twice during 2012. At the meetings held during the year, the work performed by Audit Committee included:

- performed reviews on the half yearly and annual results;
- performed reviews on financial and accounting policies and practices of the Group;
- performed reviews on the relationships with external auditors, including remuneration, independence, objectivity, effectiveness of the audit process and non-audit services;
- performed reviews on the effectiveness of internal control system including risk management of investment activities, internal audit plan, adequacy of resources of Internal Audit Department and its Charter; and
- established whistleblowing policy and system for employees and independent third parties who deal with the Company to raise concerns about any suspected impropriety, misconduct or malpractice within the Group.

Remuneration Committee

The Remuneration Committee comprises four members, three of whom are Independent Non-executive Directors. The committee meets at least once per annum. In discharging their duties, they are required to review, assess and make recommendations to the Board on the remuneration policy and structure for all Directors and senior management and to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management. They met three times during 2012. At the meetings held during the year, the work performed by Remuneration Committee included:

- performed reviews on remuneration policy, organisational structure and human resources deployment;
- performed an annual review on remuneration of Executive Directors and senior management; and
- performed a review on directors' fees proposal submitted by management.

Nomination Committee

The Nomination Committee was established on 29 March 2012 comprising three members, two of whom are Independent Non-executive Directors. The committee meets at least once per annum. Its responsibilities include reviewing the composition of the Board, identifying suitable Board members, assessing independence of the independent Directors and making recommendation to the Board on appointments and re-appointments of directors. The committee has also developed selection procedures for candidates and will consider the suitability of a candidate for various criteria including the perceived needs and the extent to which the interplay within the Board for particular skill, background and business experience; the nominee's reputation, character and integrity; the nominee's background with regard to executive compensation; and the independence requirements and legal consideration.

They met twice during 2012 and the work performed by the Nomination Committee included:

- performed reviews on the structure, size and composition of the Board;
- performed assessment on the independence of independent Directors;
- performed review on the nomination policy; and
- made recommendations to the Board on the re-appointment of Directors and succession planning for Directors.

Time Commitment

The Board has regularly reviewed the contribution required from the Directors and is satisfied that all of them have committed sufficient time during 2012 for the fulfillment of their duties as directors of the Company. The number of Board and committee meetings eligible for attendance and attended by each of the Directors during the year is set out below:

Board Members	Number of meetings attended/Number of meetings held during the Directors' term of office in 2012				
	Board Meetings	Remuneration Committee Meetings	Audit Committee Meetings	Nomination Committee Meetings	Annual General Meeting
<i>Executive Directors</i>					
Mr Or Wai Sheun (<i>Chairman</i>)	4/5	–	–	2/2	1/1
Ms Ng Chi Man*	4/5	–	–	–	1/1
Mr Lai Ka Fai	5/5	3/3	–	–	1/1
Mr Or Pui Kwan*	5/5	–	–	–	1/1
<i>Non-executive Directors</i>					
Mr Keith Alan Holman (<i>Deputy Chairman</i>)	4/5	–	–	–	0/1 [#]
Mr Tam Hee Chung**	1/2	–	–	–	1/1
Mr Yeung Kwok Kwong	4/5	–	2/2	–	1/1
<i>Independent Non-executive Directors</i>					
Mr Li Kwok Sing, Aubrey	4/5	3/3	2/2	–	1/1
Mr Lok Kung Chin, Hardy	5/5	3/3	2/2	2/2	1/1
Mr Seto Gin Chung, John	5/5	3/3	2/2	–	1/1
Mr David John Shaw	4/5	–	–	2/2	0/1 [#]
Total meetings held	5	3	2	2	1
Average Attendance Rate	87%	100%	100%	100%	82%

* Family members of Mr Or Wai Sheun.

** Mr Tam Hee Chung retired as a Non-executive Director with effect from the conclusion of 2012 AGM.

[#] Mr Keith Alan Holman and Mr David John Shaw were unable to attend the 2012 AGM as they were overseas at the time. This explained for the deviation of Code Provision A.6.7 which recommends all non-executive directors to attend general meetings.

During 2012, independent Directors had also played vital monitoring roles in corporate transactions including:

- (i) the acquisition of two properties located at Nos 49–51 Pok Fu Lam Road, Western District, Hong Kong from the companies indirectly owned by Mr Or Wai Sheun and his family, in July;
- (ii) the disposal of a commercial unit located at Mount East, No 26 Ming Yuen Western Street, North Point, Hong Kong to the company indirectly owned by Mr Or Wai Sheun and his family, in July; and

- (iii) the acquisition of the entire issued share capital of Mass Ventures International Limited which has interest in the site at 12-22 Fuk Chak Street, Tai Kok Tsui, Kowloon, Hong Kong, together with assignment of the related shareholder's loan from a company indirectly owned by Mr Or Wai Sheun and his family, in July.

Further details of the above transactions are set out in the section headed "Directors' Interests in Contracts and Connected Transactions" of the Report of the Directors.

The Board considers that independent Directors contributed significantly to the deliberations of the Board by virtue of independent judgement, expertise and experience.

Training and Support for Directors

The Company provides briefings and organises in-house trainings to develop and refresh the Directors' knowledge and skills on a regular basis. To ensure Directors' compliance with the Listing Rules and strengthen the Directors' awareness of good corporate governance, the Company continuously updates Directors on the latest developments of the Listing Rules and other applicable regulatory requirements by issuing to them circulars, guidance notes and reading materials. During the year, the Company has organized 10 hours in-house training program for the Directors.

Besides, each newly appointed Director is provided with necessary induction and information to ensure that he/she has a proper understanding of the Company's businesses and operations as well as his/her responsibilities under relevant laws, rules and regulations.

During the period from 1 April 2012 to 31 December 2012, the Directors had participated in the following trainings as per their records provided to the Company:

Directors	Type of trainings (Note)
<i>Executive Directors</i>	
Or Wai Sheun (<i>Chairman</i>)	A, B
Ng Chi Man	A, B
Lai Ka Fai	A, B
Or Pui Kwan	A, B
<i>Non-executive Directors</i>	
Keith Alan Holman (<i>Deputy Chairman</i>)	B
Yeung Kwok Kwong	A, B
<i>Independent Non-executive Directors</i>	
Li Kwok Sing, Aubrey	A, B
Lok Kung Chin, Hardy	A, B
Seto Gin Chung, John	A, B
David John Shaw	A, B

Notes:

A: attending in-house trainings and/or seminars and/or conferences and/or forums

B: reading newspapers, journals, newsletters and updates relating to the economy, general business, real estate, corporate governance or director's duties and responsibilities, etc

PROMOTE ETHICAL DECISION MAKING

Each Director and employee is expected to adhere to high standard of ethical conduct and to be guided by two main principles: no insider dealing and avoid conflict of interests.

Securities Trading Policy

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (Appendix 10 to the Listing Rules) as a code of conduct regarding directors' securities transactions (the "Model Code"). All Directors confirmed in writing that they have complied with the Model Code throughout the year. The Company has also established written guidelines on employees' securities transactions. Relevant employees are required to obtain written preclearance before initiating a securities transaction during the black out period.

Act in the best interests of the Company

In connection with the actual or potential conflict of interests, each Director is required to disclose to the Board the existence of his financial interest and all material facts before a vote on the transaction. A Director having a material interest in the transaction shall not vote on that matter (or be counted in the quorum of that meeting) in accordance with the Company's Articles of Association. Each Director is also required to disclose to the Board if he has any business or interest in a business which competes with the business of the Company.

Polytec Holdings International Limited, a company ultimately wholly-owned by a discretionary trust of which Mr Or Wai Sheun is the founder and the discretionary objects of the trust include his family members, is engaged in property investment and development business in Hong Kong, Macau and Mainland China. A right of first refusal in respect of properties or property projects that will be made available to it to acquire or participate in development in these regions has been granted in favour of the Group.

REMUNERATION REVIEW

The Board is ultimately responsible for the Company's remuneration policy. The Remuneration Committee has been delegated powers to recommend the remuneration policy and structure of all Directors and senior management whilst ensuring no Director is involved in deciding his own remuneration.

In determining remuneration packages of Executive Directors and senior management, the committee is required to follow the remuneration policy of the Company that, among others, the remuneration should reflect performance and achievements with a view to attracting, motivating and retaining high performing individuals.

The Non-executive Directors shall be entitled to receive directors' fees as shall from time to time be determined by the Company in general meeting or, if authorised by shareholders, by the Board. The directors' fees for the year were determined after reviewing the pay levels of their peers in corporations of similar size and industry and having taken into account the prevailing market practice, workload, scale and complexity of the Company's business and the responsibility involved.

The emoluments of Directors and management for the year are set out in note 5 on the accounts.

ACCOUNTABILITY AND AUDIT

The Board leads and maintains effective control over the Company's activities, with executive responsibility for the running of the Company's business being delegated to management. The management provides all members of the Board with monthly updates in order to give a balanced and understandable assessment of the Company's performance, position and prospects to enable them to discharge their duties. The internal control system of the Company includes a defined management structure with authority limits, which help to ensure good practice and governance thereby aligning corporate objectives and safeguarding company assets.

Internal Controls

The Internal Audit Department is responsible to assess the effectiveness of the system of internal controls of all major projects and activities of the Group to ensure accuracy of financial reporting, compliance with laws and regulations and effective and efficient operations. The internal audit team has submitted to the Audit Committee its audit plan and is committed to review by stages of all material controls, including financial, operational and compliance controls and risk management functions. During the year, the Audit Committee members had two meetings with the Head of Internal Audit Department to discuss about the role, objectives, scope and job progress of internal audit functions.

The Board, through the Audit Committee and with the assessment performed by the Internal Audit Department, reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget at the Board meeting held in March 2013 and noted that the Company has been in compliance with the Code Provision for the year 2012.

Financial Reporting

The Directors acknowledge their responsibilities for keeping proper accounting records and prepare accounts for each financial year/period which give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year/period and of the profit and loss for the year/period. In preparing the accounts, the Directors have adopted all applicable Hong Kong Financial Reporting Standards in all material aspects, selected appropriate accounting policies and then applied them consistently, made judgements and estimates that are fair and reasonable. The Directors use a going concern basis in preparing the accounts unless this is inappropriate.

The Company recognises that a clear, balanced and timely presentation of financial report is crucial in maintaining the confidence of stakeholders. Reasonable disclosure of Company's financial position and prospects are provided in the report. Annual and interim results are published within three and two months after the end of the relevant financial year/period respectively.

A statement of the Company's external auditors, about their reporting responsibilities is included in the Independent Auditor's Report on page 124 of the Annual Report.

EXTERNAL AUDITORS

External auditors performed some non-audit services during the year. Breakdown of their remuneration is set out below:

	2012 HK\$'000
Audit services	4,996
Non-audit services	845
Tax and business advisory services	2
Other services	843

During the year, the Audit Committee met with the external auditors twice to discuss matters about their independence status to ensure they performed objectively and any issues arising from the audit. External auditors confirmed in writing of their independence.

SHAREHOLDER RELATIONS

The Board has established the shareholders communication policy and dedicated to maintain an on-going dialogue with the shareholders and the investment community. The policy is subject to review regularly to ensure its effectiveness. It aims to ensure the shareholders and the investment community are provided with ready and timely access to all publicly available information about the Company so as to enable the shareholders to exercise their rights in an informed manner and to allow the shareholders and investment community to engage actively with the Company. Information is communicated to them mainly through the Company's financial reports (interim and annual reports), annual general meetings and other general meetings, as well as disclosure on the websites of Hong Kong Exchanges and Clearing Limited and the Company.

The general meeting of the Company provides a forum for effective communication with shareholders. The Chairmen of the Board and its committees or, if he cannot present, fellow Directors are available to answer questions at the general meetings.

During the year, members of the Board met and communicated with shareholders at the 2012 AGM and the notice of which was distributed to all shareholders not less than 20 clear business days before the meeting. At the meeting, the Chairman demanded for a poll and the Company's Share Registrars was appointed as scrutineer for the vote-taking. The external auditor has also attended the annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

The Company's website (www.kdc.com.hk) serves as a communication tool, in which company's announcements, circulars to shareholders, notices of general meetings and financial reports are posted on the "Investor Relations" section. Corporate profile and development of corporate governance of the Company are also provided on the Company's website. Information on the website of the Company is updated on a regular basis.

Shareholders can direct their questions about their shareholdings to the Company's Share Registrars. They can request for publicly available information of the Company from the Company Secretary.

The Company recognises the importance of shareholders' privacy and will not disclose the shareholders' information without their consents unless required by law to do so.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to propose a person for election as a director

If a shareholder of the Company who is duly qualified to attend and vote at the general meeting convened to deal with the appointment or election of director(s), intends to propose a person for election as a director of the Company, the shareholder concerned shall lodge a written notice at the Company's registered office for the attention of the Company Secretary stating (i) his/her intention to propose such person for election as a director; and (ii) the biographical details of the nominated candidate. Such written notice should be signed by the shareholder concerned and the person who has been proposed indicating his/her willingness to be elected. The period for lodgment shall commence no earlier than the day after the dispatch of the notice of general meeting appointed for such election of director(s) and end no later than seven days prior to the date of such meeting. Detailed procedures can be found on the Company's website.

Procedures for shareholders to convene an Extraordinary General Meeting ("EGM")

- Shareholders holding not less than one-twentieth (1/20) of the paid-up capital of the Company can deposit a written requisition to convene an EGM at the registered office of the Company for the attention of the Company Secretary.
- The written requisition must state the objects of the meeting, signed by the shareholders making the request (the "Requisitionists") and may consist of several documents in like form, each signed by one or more Requisitionists.
- The requisition will be verified with the Company's Share Registrars and upon their confirmation that the requisition is in order, the Company Secretary will arrange the Board of Directors to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders.

- If the requisition is verified to be not in order, the Requisitionists will be advised of the result and accordingly, an EGM will not be convened as requested.
- If the Board of Directors does not within 21 days from the date of the deposit of the requisition proceed to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the Requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, but any meeting so convened shall not be held after the expiration of 3 months from the date of the deposit of the requisition.

Procedures for shareholders to put forward proposals at general meetings

- Shareholders may propose resolution at general meetings by submitting a written requisition. The number of shareholders shall be (i) not less than one-fortieth (1/40) of the total voting rights of all members or (ii) not less than 50 shareholders holding shares in the Company on which there has been paid up an average sum, per member, of not less than HK\$2,000.
- The written requisition must state the proposed resolution, along with a statement of not more than 1,000 words with respect to the matter referred to in the resolution or the business to be dealt with at the general meeting. It must also be signed by the requisitionists and deposited at the Company's registered office for the attention of the Company Secretary not less than 6 weeks before the meeting in the case of a requisition requiring notice of a resolution and not less than 1 week in the case of any other requisition.
- The requisition will be verified with the Company's share registrars and upon their confirmation that the requisition is in order, the Company will give notice of the resolution or circulate the statement provided that the requisitionists have deposited a sum reasonably sufficient to meet the Company's expenses in regard thereto.
- If the requisition is verified to be not in order or the requisitionists have failed to deposit sufficient money to meet the Company's expenses for the said purpose, the requisitionists will be advised of the result and accordingly, no action will be taken by the Company in that regard.

Procedures for shareholders to send enquiries to the Board

Shareholders may make enquiries or direct concerns to the Board in writing by addressing to the Company Secretary by mail at 23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong or by email to enquiry@kdc.com.hk.

OTHER INFORMATION

Corporate Citizenship

The Company is committed to enhance corporate citizenship and has become a corporate member of WWF-Hong Kong since 2007 and continues to support their conservation and education work.

Besides making charitable donations, we have also taken part in the programmes held by WWF-Hong Kong such as "Earth Hour 2012", and The Community Chest such as "Dress Casual Day" and "Corporate Volunteer Matching Scheme".



In addition, the Company was awarded "Caring Company" Logo 2011/12 by The Hong Kong Council of Social Service in recognition of our achievement in corporate social responsibility.

Report of the Directors

The Directors have pleasure in submitting their annual report together with the audited statement of accounts for the year ended 31 December 2012.

PRINCIPAL PLACE OF BUSINESS

The Company is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activities of the Company are property development and investment and the holding of investments. The principal activities and particulars of its principal subsidiaries are set out in note 30 on the accounts.

ACCOUNTS

The profit of the Group for the year ended 31 December 2012 and the state of affairs of the Company and of the Group at that date are set out in the accounts on pages 60 to 123.

DIVIDENDS

An interim dividend of HK\$0.21 per share (2011: HK\$0.21 per share) was paid on 12 October 2012. The Directors now recommend that a final dividend of HK\$0.36 per share (2011: HK\$0.33 per share) be paid in respect of the year ended 31 December 2012.

SHARE CAPITAL

Movements in share capital during the year are set out in note 25(b) on the accounts.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2012.

RESERVES

Movements in reserves during the year are set out in the Consolidated Statement of Changes in Equity.

FIXED ASSETS

Movements in fixed assets during the year are set out in note 11 on the accounts.

OIL RESERVE

Saved as the production during the year under review, there is no material change in the oil reserve of the Group.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and of the Group as at 31 December 2012 are set out in notes 12, 22, 23 and 24 on the accounts.

FINANCE COSTS CAPITALISED

The amount of finance costs capitalised by the Group during the year is set out in note 4(b) on the accounts.

DONATIONS

Charitable donations made by the Group during the year amounted to HK\$285,035 (2011: HK\$3,863,959).

PROPERTIES

Particulars of major properties and property interests of the Group are shown on pages 125 to 128 of the Annual Report.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 6 and 7 of the Annual Report.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS

The Directors during the year and up to the date of this report are:

Mr Or Wai Sheun, *Chairman*

Mr Keith Alan Holman, *Deputy Chairman*

Ms Ng Chi Man*, *Executive Director*

Mr Lai Ka Fai, *Executive Director*

Mr Or Pui Kwan, *Executive Director*

Mr Tam Hee Chung, *Non-executive Director*

(retired with effect from the conclusion of the Annual General Meeting held on 28 June 2012)

Mr Yeung Kwok Kwong, *Non-executive Director*

Mr Li Kwok Sing, Aubrey, *Independent Non-executive Director*

Mr Lok Kung Chin, Hardy, *Independent Non-executive Director*

Mr Seto Gin Chung, John, *Independent Non-executive Director*

Mr David John Shaw, *Independent Non-executive Director*

* Re-designation from an Executive Director to a Non-executive Director of the Company with effect from 1 April 2013.

In accordance with Article 105 of the Articles of Association of the Company, Mr Or Wai Sheun, Mr Yeung Kwok Kwong, Mr Lok Kung Chin, Hardy and Mr Seto Gin Chung, John, will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Particulars of the Directors' emoluments, disclosed pursuant to Section 161 of the Companies Ordinance and Appendix 16 of the Rules Governing the Listing of Securities of The Stock Exchange of Hong Kong Limited (the "Listing Rules"), are set out in note 5(a) on the accounts.

Brief biographical particulars of all Directors are given on pages 38 to 39 of the Annual Report.

DIRECTOR'S SERVICE CONTRACTS

None of the Directors seeking re-election at the forthcoming Annual General Meeting has a service contract with any member of the Group which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 31 December 2012, the interests of the Directors in the shares of the Company and Polytec Asset Holdings Limited ("Polytec Asset") as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), are set out below:

1. Long positions in the shares of the Company

Name	Nature of interests	Number of shares	Percentage of shareholding (Note 1)	Note
Or Wai Sheun	Founder and beneficiary of a trust	830,770,124		2
	Corporate	277,500		3
		831,047,624	72.22%	
Ng Chi Man	Beneficiary of a trust	830,770,124	72.20%	2
Or Pui Kwan	Beneficiary of a trust	830,770,124		2
	Personal	43,500		
		830,813,624	72.20%	
Lok Kung Chin, Hardy	Founder and beneficiary of trusts	1,425,000	0.12%	4
Lai Ka Fai	Personal	751,000	0.07%	
Keith Alan Holman	Personal	665,000	0.06%	
David John Shaw	Personal	133,500		
	Family	67,000		5
		200,500	0.02%	
Yeung Kwok Kwong	Personal	180,000	0.02%	

2. Long positions in the shares of Polytec Asset

Name	Nature of interests	Number of ordinary shares	Percentage of shareholding (Note 6)	Note
Or Wai Sheun	Founder and beneficiary of a trust	3,260,004,812	73.44%	7
Ng Chi Man	Beneficiary of a trust	3,260,004,812	73.44%	7
Or Pui Kwan	Beneficiary of a trust	3,260,004,812	73.44%	7
Yeung Kwok Kwong	Personal	2,000,000	0.05%	
Keith Alan Holman	Personal	722,000	0.02%	
Lai Ka Fai	Personal	430,000	0.01%	

Notes:

- (1) The percentage of shareholding is calculated based on 1,150,681,275 shares, being the total number of issued shares of the Company as at 31 December 2012.
- (2) Such interest in shares is held by Intellinsight Holdings Limited ("Intellinsight"), a wholly-owned subsidiary of Polytec Holdings International Limited ("Polytec Holdings") which is wholly-owned by Ors Holdings Limited ("OHL"). OHL is in turn wholly-owned by a discretionary trust, the trustee of which is HSBC International Trustee Limited.
As Mr Or Wai Sheun is the founder of the trust and the discretionary objects of the trust include Mr Or Wai Sheun, Ms Ng Chi Man (his wife) and Mr Or Pui Kwan (his son), they are taken to be interested in the same block of shares held by the trust.
- (3) Such interest in shares is held by China Dragon Limited which is wholly-owned by Mr Or Wai Sheun.
- (4) Such interest in shares is owned by discretionary trusts of which Mr Lok Kung Chin, Hardy is the founder and a beneficiary respectively.
- (5) Such interest in shares is held by the spouse of Mr David John Shaw.
- (6) The percentage of shareholding is calculated based on 4,438,967,838 shares, being the total number of issued ordinary shares of Polytec Asset as at 31 December 2012. Polytec Asset is an associated corporation of the Company.
- (7) The three references to 3,260,004,812 shares in Polytec Asset relate to the same block of shares beneficially held by Marble King International Limited, a wholly-owned subsidiary of the Company. By virtue of the deemed interest in the shares of the Company as described in note (2) above, Mr Or Wai Sheun, Ms Ng Chi Man and Mr Or Pui Kwan are taken to be interested in the shares of Polytec Asset.

Save as disclosed above, as at 31 December 2012, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2012, shareholders (other than Directors and the chief executive of the Company) who had interests or short positions in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO are set out below:

Name	Nature of interests	Number of shares	Percentage of shareholding (Note 1)	Note
HSBC International Trustee Limited	Trustee	832,016,474	72.30%	2
Ors Holdings Limited	Corporate	830,770,124	72.19%	3

Notes:

- (1) The percentage of shareholding is calculated based on 1,150,681,275 shares, being the total number of issued shares of the Company as at 31 December 2012.
- (2) Based on information available to the Company and subsequent to the recording in the register as required by SFO set out in the table above, there were share movements which were not required to disclose under SFO as at 31 December 2012. HSBC International Trustee Limited was then taken to be interested in 831,906,474 shares of the Company. Such interest included the shares owned by a company as explained in note (2) under the section headed "Directors' Interests and Short Positions".
- (3) Such interest in shares is held by Intellinsight as explained in note (2) under the section headed "Directors' Interests and Short Positions".

All the interests disclosed above represent long positions in the shares of the Company.

Save as disclosed above, as at 31 December 2012, the Company had not been notified by any persons (other than the Directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year ended 31 December 2012 and up to the date of this report, the Group conducted the following transactions which constituted connected transactions for the Company under the Listing Rules:

- (1) On 18 July 2012, Ever Cheer Investment Limited ("Ever Cheer"), a wholly-owned subsidiary of the Company, entered into an agreement for sale and purchase with Bold Team Investments Limited ("Bold Team") pursuant to which Ever Cheer agreed to purchase one residential unit at Flat A on 4th Floor, Nos 49-51 Pok Fu Lam Road, Western District, Hong Kong from Bold Team for a consideration of HK\$4,900,000 (the "First Acquisition").
- (2) On 18 July 2012, Ever Cheer entered into another agreement for sale and purchase with Expert View Holdings Limited ("Expert View") pursuant to which Ever Cheer agreed to purchase one residential unit at Flat B on 3rd Floor, Nos 49-51 Pok Fu Lam Road, Western District, Hong Kong from Expert View for a consideration of HK\$4,250,000 (the "Second Acquisition").
- (3) On 18 July 2012, Bond Star Development Limited ("Bond Star"), an indirect wholly-owned subsidiary of the Company, entered into an agreement for sale and purchase with Kromriver Limited ("Kromriver") pursuant to which Bond Star agreed to sell one commercial unit at Ground Floor, Mount East, No 26 Ming Yuen Western Street, North Point, Hong Kong to Kromriver for a consideration of HK\$9,400,000 (the "Disposal").
- (4) On 18 July 2012, Brilliant Idea Investments Limited ("Brilliant Idea"), a wholly-owned subsidiary of the Company, entered into an agreement with Partner Talent Limited ("Partner Talent") pursuant to which Brilliant Idea agreed to acquire the entire issued capital of Mass Ventures International Limited together with the assignment of the related shareholder's loan for an aggregate consideration of HK\$374,830,981 (the "Third Acquisition").

Each of Bold Team, Expert View, Kromriver and Partner Talent is beneficially wholly-owned by Polytec Holdings. As at 18 July 2012, Polytec Holdings through its wholly-owned subsidiary, Intellinsight, held 72.20% interest of the Company and Polytec Holdings is ultimately wholly-owned by a discretionary trust of which Mr Or Wai Sheun (the Chairman of the Company) is the founder and the discretionary objects of the trust include Mr Or Wai Sheun, Ms Ng Chi Man (an Executive Director) and Mr Or Pui Kwan (an Executive Director).

Given that each of Bold Team, Expert View, Kromriver and Partner Talent is indirectly owned by Mr Or Wai Sheun and his family members (of which Ms Ng Chi Man and Mr Or Pui Kwan are also Directors of the Company), they are connected persons of the Company. Accordingly, the First Acquisition, the Second Acquisition, the Disposal and the Third Acquisition constituted connected transactions for the Company under the Listing Rules. Details of the transactions were disclosed in the announcement dated 18 July 2012 of the Company.

The Company has complied with the disclosure requirements for the above connected transactions in accordance with Chapter 14A of the Listing Rules. Save as disclosed above and the section headed "Material Related Party Transactions" as set out in note 32 on the accounts, none of the Directors of the Company was materially interested in any contract or arrangement entered into by the Company, its subsidiaries or holding companies or its fellow subsidiaries which contract or arrangement subsisted at the balance sheet date or at any time during the year and which was significant in relation to the business of the Company and its subsidiaries.

CHANGES IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors of the Company required to be disclosed are set out below:

1. Mr Keith Alan Holman, the Deputy Chairman and a Non-executive Director of the Company, has resigned as an independent non-executive director of Warner Estates Holdings PLC, a company listed on the London Stock Exchange, with effect from 31 December 2012.
2. Ms Ng Chi Man, an Executive Director of the Company, will be re-designated as a Non-executive Director of the Company and will resign as a member of the Executive Committee of the Company with effect from 1 April 2013.

Save for the information disclosed above and the Directors' emoluments which set out in note 5 on the accounts, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

During the year ended 31 December 2012, the Company had no disclosure obligation pursuant to Rule 13.21 of the Listing Rules.

SHARE OPTION SCHEME

On 21 May 2003 (the "Adoption Date"), a Share Option Scheme of the Company was adopted. The Share Option Scheme has a life of 10 years until 20 May 2013. No share options were granted following the Adoption Date. The total number of shares available for issue thereunder is 48,376,785 shares, representing 10% of the total number of shares of the Company in issue as at the Adoption Date or 4.2% of the total number of shares of the Company in issue as at the date of this report.

Persons who are eligible for joining the Share Option Scheme include employees, directors, suppliers, customers, business partners, business associates, trading agents, consultants, advisers, and holders of any securities (issued by any member of the Group or its invested entities) of any member of the Group and its invested entities who, in the discretion of the Directors, has contributed or will contribute to the growth and development of the Group or its invested entities. Under the Share Option Scheme, the Board may grant options to the selected eligible persons to subscribe for shares of the Company for the purposes of providing incentives and rewards to them for the long-term success of the Group.

Unless otherwise approved by the Company's shareholders in a general meeting, the maximum number of shares issued and to be issued upon exercise of share options granted to an eligible person in any 12-month period up to the date of grant shall not exceed 1% of the issued shares of the Company. Share options to be granted to a Director, the chief executive or a substantial shareholder of the Company (or any of their respective associates) are subject to approval by the dis-interested independent Directors. Besides, shareholders' approval is required if any grant of share options to an independent Director or a substantial shareholder of the Company (or their respective associates), when aggregated with all share options already granted to such person during the 12-month period up to the date of grant, in excess of 0.1% of the issued shares of the Company and with an aggregate value in excess of HK\$5 million. Share options, if granted, are exercisable during a period of not more than 10 years.

Upon acceptance of the share option, the grantee shall pay HK\$1 to the Company as a consideration for the grant. The exercise price for the shares in respect of option granted under the Share Option Scheme will be determined based on the higher of: (i) the closing price of the shares of the Company on the date of grant; (ii) the average of the closing prices of the shares of the Company for the 5 business days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

RETIREMENT SCHEMES

Particulars of the retirement schemes operated by the Group are set out in note 31 on the accounts.

ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangements which enabled any Directors of the Company to acquire benefits by means of acquisition of shares in, or debenture of, the Company or any other body corporate.

CORPORATE GOVERNANCE

Principal corporate governance practices of the Company are set out in the Corporate Governance Report on pages 40 to 49 of the Annual Report.

REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's consolidated accounts for the year ended 31 December 2012, including the accounting principles and practices adopted by the Group, in conjunction with the Company's auditors.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this report.

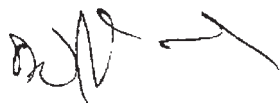
CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 8 July 2013 to Tuesday, 9 July 2013, both dates inclusive. During which period, no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, for registration not later than 4:30 pm on Friday, 5 July 2013.

AUDITORS

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By Order of the Board



Or Wai Sheun
Chairman

Hong Kong, 27 March 2013

Consolidated Income Statement

For the year ended 31 December 2012

(Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
Turnover	3	2,555,824	1,755,293
Cost of sales		(1,030,112)	(896,555)
Other revenue		31,048	19,729
Other net income	4(a)	138,103	287,792
Depreciation and amortisation		(15,638)	(12,831)
Staff costs		(184,488)	(152,568)
Selling, marketing and distribution expenses		(381,977)	(145,337)
Other operating expenses		(90,730)	(87,079)
Fair value changes on investment properties	11	883,550	730,178
Profit from operations		1,905,580	1,498,622
Finance costs	4(b)	(100,312)	(62,753)
Share of profits of associated companies	4(d)	2,089	1,950
Share of profits of jointly controlled entities	4(e)	340,214	321,765
Profit before taxation	4	2,147,571	1,759,584
Income tax	6(a)	(172,182)	(159,219)
Profit for the year		1,975,389	1,600,365
Attributable to:			
Shareholders of the Company	7	1,886,254	1,526,385
Non-controlling interests		89,135	73,980
Profit for the year		1,975,389	1,600,365
Earnings per share – Basic/Diluted	8	\$1.64	\$1.33

The notes on pages 67 to 123 form part of these accounts.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

(Expressed in Hong Kong dollars)

	2012 \$'000	2011 \$'000
Profit for the year	1,975,389	1,600,365
Other comprehensive income for the year		
Exchange differences on translation of accounts of overseas subsidiaries	(1,156)	152,887
Changes in fair value of available-for-sale investments	(5,282)	(1,084)
Changes in fair value of interests in property development	7,277	17,577
Share of other comprehensive income of jointly controlled entities and associated companies	374	132,534
Transfer to income statement upon disposal of a subsidiary	–	(481)
	1,213	301,433
Total comprehensive income for the year	1,976,602	1,901,798
Attributable to:		
Shareholders of the Company	1,904,194	1,793,444
Non-controlling interests	72,408	108,354
Total comprehensive income for the year	1,976,602	1,901,798

The notes on pages 67 to 123 form part of these accounts.

Consolidated Balance Sheet

at 31 December 2012


(Expressed in Hong Kong dollars)

	Note	At 31 December 2012		At 31 December 2011	
		\$'000	\$'000	\$'000	\$'000
Non-current assets					
Fixed assets					
– Investment properties			9,626,134		8,808,370
– Leasehold land held for own use			222,360		228,964
– Other property, plant and equipment			1,319,468		1,291,609
	11		11,167,962		10,328,943
Oil exploitation assets	13		109,014		120,785
Interests in property development	14		10,198,258		10,190,981
Interest in jointly controlled entities	15		2,247,554		1,907,547
Interest in associated companies	16		2,331,841		2,124,195
Financial investments	17		8,485		19,555
Loans and advances			32,069		3,088
Deferred tax assets	10(a)		53,233		10,314
			26,148,416		24,705,408
Current assets					
Inventories	18	13,236,301		11,736,445	
Trade and other receivables	19	1,093,506		593,515	
Loans and advances		16,925		22,252	
Amounts due from jointly controlled entities	15	86,524		131,662	
Financial investments	17	94,937		80,255	
Pledged bank deposits	29	35,396		15,000	
Cash and cash equivalents		564,889		764,144	
		15,128,478		13,343,273	
Current liabilities					
Trade and other payables	20	2,601,946		1,609,749	
Amounts due to non-controlling interests	21	200,000		200,000	
Amount due to a jointly controlled entity	15	762,368		581,200	
Bank loans	24	1,603,863		1,415,000	
Current taxation		285,117		257,856	
		5,453,294		4,063,805	
Net current assets			9,675,184		9,279,468
Total assets less current liabilities			35,823,600		33,984,876

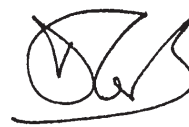
Consolidated Balance Sheet
at 31 December 2012
(Expressed in Hong Kong dollars)

	Note	At 31 December 2012		At 31 December 2011	
		\$'000	\$'000	\$'000	\$'000
Non-current liabilities					
Loan from ultimate holding company	22	5,666,253		5,097,532	
Amount payable to ultimate holding company	23	842,884		680,579	
Bank loans	24	4,265,660		4,531,779	
Other payables		48,732		46,637	
Deferred tax liabilities	10(a)	859,073		812,814	
			11,682,602		11,169,341
NET ASSETS			24,140,998		22,815,535
Capital and reserves					
Share capital	25(b)	115,068		115,068	
Reserves		20,939,664		19,656,838	
Total equity attributable to the shareholders of the Company			21,054,732		19,771,906
Non-controlling interests			3,086,266		3,043,629
TOTAL EQUITY			24,140,998		22,815,535

Approved and authorised for issue by the board of directors on 27 March 2013.



Or Wai Sheun
Director



Lai Ka Fai
Director

The notes on pages 67 to 123 form part of these accounts.

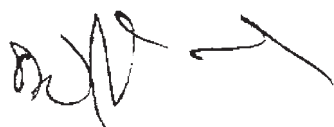
Balance Sheet

as at 31 December 2012

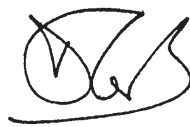
(Expressed in Hong Kong dollars)

	Note	At 31 December 2012 \$'000	At 31 December 2011 \$'000
Non-current assets			
Fixed assets			
– Investment properties		6,272,000	5,712,000
– Other property, plant and equipment		2,869	3,203
	11	6,274,869	5,715,203
Interest in subsidiaries	12	14,072,819	14,528,752
Interest in a jointly controlled entity	15	584,079	584,079
Interest in an associated company	16	1,942,225	1,761,914
		22,873,992	22,589,948
Current assets			
Loans to subsidiaries	12	1,679,624	439,011
Trade and other receivables	19	19,292	13,468
Cash and cash equivalents		155,326	270,379
		1,854,242	722,858
Current liabilities			
Trade and other payables	20	104,547	101,828
Amounts due to subsidiaries	12	269	85
Amount due to a jointly controlled entity	15	762,368	581,200
Loans from subsidiaries	12	233,807	197,602
Current taxation		16,827	19,666
		1,117,818	900,381
Net current assets/(liabilities)		736,424	(177,523)
Total assets less current liabilities		23,610,416	22,412,425
Non-current liabilities			
Loan from ultimate holding company	22	5,666,253	5,097,532
Loans from subsidiaries	12	48,877	27,705
Bank loan	24	3,480,000	3,480,000
Deferred tax liabilities	10(a)	35,189	32,778
		9,230,319	8,638,015
NET ASSETS		14,380,097	13,774,410
Capital and reserves			
Share capital		115,068	115,068
Reserves		14,265,029	13,659,342
TOTAL EQUITY	25	14,380,097	13,774,410

Approved and authorised for issue by the board of directors on 27 March 2013.



Or Wai Sheun
Director



Lai Ka Fai
Director

The notes on pages 67 to 123 form part of these accounts.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

(Expressed in Hong Kong dollars)

	Attributable to shareholders of the Company							Non-controlling interests \$'000	Total equity \$'000
	Share capital \$'000	Share premium \$'000	Capital reserve \$'000	Fair value reserves \$'000	Exchange reserves \$'000	Retained profits \$'000	Total \$'000		
At 1 January 2011	115,068	8,302,404	2,154	1,686,252	456,561	8,025,884	18,588,323	2,891,387	21,479,710
Changes in equity for 2011									
Profit for the year	-	-	-	-	-	1,526,385	1,526,385	73,980	1,600,365
Other comprehensive income	-	-	(481)	11,823	255,717	-	267,059	34,374	301,433
Total comprehensive income	-	-	(481)	11,823	255,717	1,526,385	1,793,444	108,354	1,901,798
Dividends approved in respect of the previous year	-	-	-	-	-	(368,218)	(368,218)	-	(368,218)
Dividends approved in respect of the current year	-	-	-	-	-	(241,643)	(241,643)	-	(241,643)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(33,015)	(33,015)
Decrease in loans from non-controlling interests	-	-	-	-	-	-	-	(50,400)	(50,400)
Increase in non-controlling interests upon acquisition of subsidiaries	-	-	-	-	-	-	-	127,303	127,303
At 31 December 2011	115,068	8,302,404	1,673	1,698,075	712,278	8,942,408	19,771,906	3,043,629	22,815,535
At 1 January 2012	115,068	8,302,404	1,673	1,698,075	712,278	8,942,408	19,771,906	3,043,629	22,815,535
Changes in equity for 2012									
Profit for the year	-	-	-	-	-	1,886,254	1,886,254	89,135	1,975,389
Other comprehensive income	-	-	-	62	17,878	-	17,940	(16,727)	1,213
Total comprehensive income	-	-	-	62	17,878	1,886,254	1,904,194	72,408	1,976,602
Dividends approved in respect of the previous year	-	-	-	-	-	(379,725)	(379,725)	-	(379,725)
Dividends approved in respect of the current year	-	-	-	-	-	(241,643)	(241,643)	-	(241,643)
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	(29,771)	(29,771)
At 31 December 2012	115,068	8,302,404	1,673	1,698,137	730,156	10,207,294	21,054,732	3,086,266	24,140,998

As at 31 December 2012, loans from non-controlling interests of \$2,603,000 (2011: \$2,603,000) are classified as equity being the capital contributions on subsidiaries by the non-controlling interests.

The notes on pages 67 to 123 form part of these accounts.

Consolidated Cash Flow Statement

For the year ended 31 December 2012

(Expressed in Hong Kong dollars)

	Note	2012 \$'000	2011 \$'000
Net cash from/(used in) operating activities	26(a)	408,647	(2,324,471)
Investing activities			
Sale of fixed assets		2,261	1,818
Sale of investment properties		207,902	304,646
Additions to fixed assets and properties		(221,279)	(221,574)
Increase in investment to an associated company		(9,866)	–
Increase in pledged bank deposits		(20,396)	–
Increase in loan to an associated company		(195,110)	(352,860)
Dividend received from an associated company		–	1,274
Acquisition of subsidiaries	26(b)	(100,360)	(118,997)
Acquisition of interest in an associated company		–	(4,934)
Disposal of interest in subsidiaries	26(c)	–	87,367
Net cash used in investing activities		(336,848)	(303,260)
Financing activities			
Drawdown of bank loans		263,069	1,837,874
Repayment of bank loans		(340,325)	(1,527,282)
Increase in loan from ultimate holding company		294,331	2,996,033
Decrease in loans from non-controlling interests		–	(50,536)
Increase in amount payable to ultimate holding company		162,305	52,678
Dividend paid to shareholders of the Company		(620,828)	(609,435)
Dividend paid to non-controlling interests		(29,771)	(33,015)
Net cash (used in)/from financing activities		(271,219)	2,666,317
Net (decrease)/increase in cash and cash equivalents		(199,420)	38,586
Cash and cash equivalents at 1 January		764,144	719,684
Effect of foreign exchange rate changes		165	5,874
Cash and cash equivalents at 31 December		564,889	764,144
Analysis of balances of cash and cash equivalents at 31 December			
Deposits with banks and other financial institutions		117,643	245
Cash at bank and in hand		447,246	763,899
		564,889	764,144

The notes on pages 67 to 123 form part of these accounts.

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) **Statement of compliance**

These accounts have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These 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 "Listing Rules"). A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(d) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these accounts.

(b) **Measurement basis**

The measurement basis used in the preparation of the accounts is the historical cost basis except for the investment properties, interests in property development and financial instruments classified as held for trading and available-for-sale investments, which are measured at fair values, as explained in the accounting policies set out below.

The preparation of the accounts in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the accounts, are disclosed in note 2.

(c) **Basis of consolidation**

The consolidated accounts include the accounts of Kowloon Development Company Limited and all of its subsidiaries made up to 31 December, together with the Group's share of the results for the year and net assets of its associated companies and jointly controlled entities. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from or to the date of their acquisition or disposal, as appropriate. All material intercompany transactions and balances are eliminated on consolidation.

(d) **Changes in accounting policies**

The HKICPA has issued several amendments to HKFRSs that are first effective for the current accounting period of the Group and the Company. Except for the amendments to HKAS 12, "Income taxes – Deferred tax: recovery of underlying assets", which the Group has already adopted in the prior period, none of other developments are relevant to Group's financial statements.

The Group and the Company have not applied any new standard or interpretation that is not yet effective for the current accounting period.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) **Goodwill**

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the net fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain from a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 1 (r)).

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

(f) **Interest in subsidiaries and non-controlling interests**

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

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

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at their proportionate share of the subsidiary's net identifiable assets. Non-controlling interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated income statement and the consolidated statement of comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) **Interest in subsidiaries and non-controlling interests** *(Continued)*

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in the income statement. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1(m)) or, when appropriate, the cost on initial recognition of an investment in an associated company or jointly controlled entity (see notes 1(g) and (h)).

In the Company's balance sheet, an investment in a subsidiary is stated at cost less any impairment losses, unless the investment is classified as held for sale. The results of the subsidiaries are included in the Company's income statement to the extent of dividends received and receivable.

(g) **Interest in associated companies**

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

An investment in an associated company is accounted for in the consolidated accounts under the equity method unless it is classified as held for sale. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the associated company's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition changes in the Group's share of the associated company's net assets and any impairment losses relating to the investment. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the associated company and any impairment losses for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the associated company's other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group ceases to have significant influence over an associated company, it is accounted for as a disposal of the entire interest in that associated company, with a resulting gain or loss being recognised in the income statement. Any interest retained in that former associated company at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1 (m)).

In the Company's balance sheet, an investment in an associated company is stated at cost less impairment losses, unless the investment is classified as held for sale. The results of associated companies are included in the Company's income statement to the extent of dividends received and receivable, providing the dividend is in respect of a period ending on or before that of the Company and the Company's right to receive the dividend is established as at the balance sheet date.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(h) **Interest in joint ventures**

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control.

Jointly controlled assets are assets of a joint venture over which the Group has joint control with other venturers in accordance with contractual arrangements and through the joint control of which the Group has control over its share of future economic benefits earned from the assets. The Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the balance sheet and classified according to their nature. Liabilities and expenses incurred directly in respect of its interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of the jointly controlled assets, together with its share of any expenses incurred by the joint ventures, are recognised in the income statement when it is probable that the economic benefits associated with the transactions will flow to or from the Group.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and other parties share joint control over the economic activity of the entity. An investment in a jointly controlled entity is accounted for in the consolidated accounts under the equity method, unless the interest in a jointly controlled entity is classified as held for sale. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the jointly controlled entity's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post-acquisition change in the Group's share of the jointly controlled entity's net assets and any impairment loss relating to the investment. Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the jointly controlled entities and any impairment loss for the year are recognised in the consolidated income statement, whereas the Group's share of the post-acquisition post-tax items of the jointly controlled entities' other comprehensive income is recognised in the consolidated statement of comprehensive income.

When the Group ceases to have joint control over a jointly controlled entity, it is accounted for as a disposal of the entire interest in that jointly controlled entity, with a resulting gain or loss being recognised in the income statement. Any interest retained in that former jointly controlled entity at the date when joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 1 (m)) or, when appropriate, the cost on initial recognition of an investment in an associated company (see note 1(g)).

In the Company's balance sheet, an investment in a jointly controlled entity is stated at cost less impairment losses, unless the investment is classified as held for sale. The results of jointly controlled entities are included in the Company's income statement to the extent of dividends received and receivable, providing the dividend is in respect of a period ending on or before that of the Company and the Company's right to receive the dividend is established as at the balance sheet date.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) **Properties**

(i) **Investment properties**

Investment properties are land and/or buildings held under leasehold interest to earn long-term rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property. They have been valued annually by an independent firm of professional valuers on a market value basis. Investment properties are stated in the balance sheet at fair value, unless they are still in the course of construction or development at the balance sheet date and their fair values cannot be reliably determined at that time. All changes in fair value of investment properties are recognised directly in the income statement.

(ii) **Land held for future development**

Land held for future development is stated at the lower of cost and the estimated net realisable value. Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

(iii) **Interests in property development**

Interests in property development are stated at fair value. Changes in fair value are recognised in the fair value reserve, unless there is objective evidence that the interests in property development have been impaired, any amount held in fair value reserve in respect of the interests in property development is transferred to the income statement for the period in which the impairment is identified. Any reversal of impairment losses are recognised in the income statement. The fair value of interests in property development is determined based on the estimated entitlement on the interests in property development. When the interests in property development are derecognised, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement.

(iv) **Properties under development**

Properties under development are stated at the lower of cost and the estimated net realisable value. The cost comprises the acquisition cost of land, borrowing costs capitalised, aggregate costs of development, materials and supplies, wages and other direct expenses. Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the properties.

(v) **Properties held for sale**

Properties held for sale are stated at the lower of cost and the estimated net realisable value. Net realisable value represents the estimated selling price less costs to be incurred in selling the properties.

(vi) **Leasehold land and buildings held for own use**

Leasehold land held for own use is stated at cost less accumulated depreciation and impairment losses.

Leasehold buildings held for own use which are situated on leasehold land classified as held under operating lease are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) **Oil exploitation assets**

Costs incurred for the acquisition and maintenance of the exploitation rights of the Group's oil exploration and production activities are capitalised as oil exploitation assets. Oil exploitation assets are stated at cost less accumulated amortisation and impairment losses. The amortisation is calculated on unit of production method based upon the estimated proved and probable oil reserves.

(k) **Inventories**

Inventories other than consumables are stated at the lower of cost and net realisable value. Consumables are stated at cost less any provision for obsolescence. Cost of inventories is determined using the weighted average method. Net realisable value is the estimated selling price less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) **Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts.

(m) **Financial assets**

The Group's and the Company's policies for financial assets, other than investments in subsidiaries, associated companies and jointly controlled entities, are as follows:

Financial assets are initially stated at fair value, which is their transaction price unless fair value can be more reliably estimated. These assets are subsequently accounted for as follows, depending on their classification:

Financial investments held for trading are classified as current assets. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in the income statement. The net gain or loss recognised in the income statement does not include any dividends or interest earned on these investments as they are recognised in accordance with the policies set out in note 1(t)(vi) and (vii).

Dated debt securities that the Group have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses.

Financial assets which do not fall into any of the above categories are classified as available-for-sale investments. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve, except for impairment losses. Income from these investments is recognised in the income statement in accordance with the policies set out in notes 1(t)(iii) and (vi) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in the income statement in accordance with the policy set out in note 1(t)(vii). When these investments are derecognised or impaired, the cumulative gain or loss is reclassified from equity to the income statement.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) **Trade and other payables**

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

(o) **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(p) **Borrowings**

Borrowings are recognised initially at fair value and subsequently stated at amortised cost. Any difference between the amount initially recognised and the redemption value is amortised to the income statement or cost of the qualifying assets over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

Borrowings costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to prepare for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred. The capitalisation rate is arrived at by reference to the actual rate payable on borrowings for development purposes or, with regard to that part of the development costs financed out of general working capital, to the average rate thereof.

(q) **Depreciation and amortisation**

(i) **Leasehold land and buildings**

Leasehold land and buildings are stated at cost less accumulated depreciation and impairment losses. Leasehold land is depreciated over the remaining term of the leases. Buildings and improvements thereto are depreciated over the shorter of their useful lives and the unexpired terms of the leases.

(ii) **Oil production assets**

Oil production assets included all the fixed assets arising from oil exploration and production activities. Depreciation of certain oil production assets is calculated on unit of production method based upon the estimated proved and probable oil reserves to write off the cost of each asset, less any estimated residual value.

(iii) **Other fixed assets**

Other fixed assets are stated at cost less accumulated depreciation and impairment losses. Future estimated dismantlement and restoration costs of other fixed assets are discounted at appropriate rates and are capitalised as part of the costs of other fixed assets, which are subsequently depreciated. Any subsequent change in the present value of the estimated costs, other than the change due to passage of time, is reflected as an adjustment to the costs.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) **Depreciation and amortisation** *(Continued)*

(iii) **Other fixed assets** *(Continued)*

Saved as certain oil production assets, depreciation is calculated on a straight line method to write off the assets over their estimated useful lives as follows:

- | | | |
|---|-----------------------------------------------------------------------------------------|---------------|
| – | Air conditioning plant, plant and machinery, lifts and escalators | 5 to 10 years |
| – | Furniture and fixtures, motor vehicles, electronic data processing equipment and others | 2 to 5 years |

(r) **Impairment of assets**

Internal and external sources of information are reviewed at each balance sheet date to identify indications that assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased.

An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (if any).

An impairment loss is charged to the income statement immediately unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment was recognised, the reversal of the impairment loss is recognised as follows:

(i) **Financial assets**

- For unquoted equity investments, impairment loss is not reversed in subsequent periods.
- For financial assets carried at amortised cost, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.
- For available-for-sale equity investments, an impairment loss is not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.
- For available-for-sale debt investments, reversal of an impairment loss is recognised in the income statement.

(ii) **Other assets**

- An impairment loss on goodwill is not reversed in subsequent periods.
- A reversal of an impairment loss on other assets is credited to the income statement immediately unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. A reversal of the impairment loss is limited to the asset's carrying value (net of accumulated amortisation or depreciation) that would have been determined had no impairment loss been recognised in prior years.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) **Impairment of assets** *(Continued)*

(iii) **Interim financial reporting and impairment**

Under the Listing Rules, the Group is required to prepare an interim financial report in compliance with HKAS 34, "Interim financial reporting", in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year.

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

(s) **Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in the income statement except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Apart from differences which arise on initial recognition of assets and liabilities, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised.

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(i)(i), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the balance sheet date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

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

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) **Recognition of revenue**

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) **Rental income from operating leases**

Rental income receivable under operating leases is recognised in the income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives granted are recognised in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(ii) **Sale of properties**

Revenue arising from sale of properties is recognised upon the later of the execution of a binding sale agreement and when the relevant occupation permit/completion certificate is issued by the respective building authority, which is taken to be the point in time when the risks and rewards of ownership of the property have passed to the buyer and is net of business tax. Payments received from the purchasers prior to this stage are recorded as deposits received on sale of properties in the balance sheet.

(iii) **Income from interests in property development**

Revenue from interests in property development is recognised when the distribution in respect of the investment is entitled.

(iv) **Sale of crude oil**

Revenue arising from the sale of crude oil is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither continuous managerial involvement to the degree usually associated with ownership, nor effective control over the crude oil sold.

(v) **Sale of financial investments**

Revenue from sale of financial investments is recognised when the buyer takes legal title to the financial investments.

(vi) **Dividend income**

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(vii) **Interest income**

Interest income is recognised on a time-apportionment basis throughout the life of the asset concerned.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in the income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the closing foreign exchange rates at the balance sheet date. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to the income statement when the profit or loss on disposal is recognised.

(v) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the "holder") for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee (being the transaction price, unless the fair value can otherwise be reliably estimated) is initially recognised as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in the income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and the amount of that claim on the Group is expected to exceed the amount currently carried in trade and other payables in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

(ii) Contingent liabilities assumed in business combinations

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 1(v)(iii). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 1(v)(iii).

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) **Financial guarantees issued, provisions and contingent liabilities** *(Continued)*

(iii) **Other provisions and contingent liabilities**

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

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

(w) **Related parties**

(i) A person, or a close member of that person's family, is related to the Group if that person:

- (1) has control or joint control over the Group;
- (2) has significant influence over the Group; or
- (3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

- (1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (3) Both entities are joint ventures of the same third party.
- (4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
- (6) The entity is controlled or jointly controlled by a person identified in (i).
- (7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) **Employee benefits**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

Contributions to Mandatory Provident Funds as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance, are recognised as an expense in profit or loss as incurred.

Contributions to retirement plans (defined contribution retirement plans) managed by respective local governments of the municipalities in which the Group operates in the Mainland China are charged to profit or loss as and when incurred, except to the extent that they are included in properties under development for sale not yet recognised as an expense.

(y) **Segment reporting**

Operating segments, and the amounts of each segment item reported in the accounts, are identified from the financial information provided regularly to the Group's top management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the entity's accounting policies (which are described in note 1), management has made the following judgements that have significant effect on the amounts recognised in the accounts.

(a) **Depreciation and amortisation**

The Group depreciates fixed assets other than properties on a straight-line basis over the estimated useful lives of 2 to 10 years, and after taking into account of their estimated residual value, using the straight-line method, commencing from the date the equipment is placed into productive use. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's assets.

Certain oil production assets and oil exploitation assets are depreciated and amortised on unit of production method based upon the estimated proved and probable oil reserves. The estimates of the Group's oil reserves are the best estimates based on the information currently available to the management and represent only approximate amounts because of the subjective judgements involved in developing such information. Oil reserve estimates are subject to revision, either upward or downward, based on new relevant information. Changes in oil reserves will affect unit of production depreciation, amortisation and depletion recorded in the Group's consolidated accounts for oil production assets and oil exploitation assets related to oil production activity. A reduction in oil reserves will increase depreciation, amortisation and depletion charges.

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Allowances for bad and doubtful debts

The policy for allowances for bad and doubtful debts of the Group is based on the evaluation of collectability, ageing analysis of accounts, realisable values of collateral and on management's judgement. A considerable amount of judgement is required in assessing the ultimate recoverability of receivables and loans and advances, including making references to the current creditworthiness and the past collection history of each customer.

(c) Estimation of fair value of investment properties

Investment properties are stated at market value based on the valuation performed by an independent firm of professional valuers at the balance sheet date. The fair value of investment properties is assessed annually by independent qualified valuers, by reference to market evidence of recent transaction and/or on the basis of discounted cash flow projections based on estimates of future rental income from properties using current market rentals and yields as inputs. The assumptions adopted in the property valuations are based on the market conditions existing at the balance sheet date, with reference to current market transactions and the appropriate capitalisation rate.

Investment properties under development are valued by independent qualified valuers, by estimating the fair value of such properties as if they were completed in accordance with the relevant development plan and then deducting the estimated cost to complete the construction.

(d) Estimation of provision for land held for future development and properties under development and held for sale

Management determines the net realisable value of land held for future development and properties under development and held for sale by using the prevailing market data such as most recent sale transactions and market survey reports available from independent property valuers.

Management's assessment of net realisable value of land held for future development and properties under development and held for sales requires judgement as to the anticipated sale prices with reference to the recent sale transaction in nearby locations, rate of new property sales, marketing costs and the expected costs to completion of properties and legal and regulatory framework and general market conditions.

(e) Estimation of fair value of interests in property development

Interests in property development are stated at their fair value at the balance sheet date. In determining the fair value of interests in property development, the Group estimates the future cash flows expected to arise from the interests in property development and a suitable discount rate in order to calculate the present value. Cash flow projections for the interests in property development are based on the past performance, current market conditions, development and building plans, sale and marketing plans and management's expectations for the market development and terms provided under the co-investment agreements.

(f) Impairment of interest in subsidiaries

In considering the impairment losses that may be required for the Company's interest in subsidiaries, recoverable amount of the assets needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to items such as level of turnover and amount of operating costs of the subsidiaries. The Company uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as turnover and operating costs of subsidiaries.

2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(g) **Estimated impairment of oil production assets and oil exploitation assets**

Oil production assets and oil exploitation assets are reviewed for possible impairments when events or changes in circumstances indicate that the carrying amount may not be recoverable. In determining the recoverable amounts, oil production assets and oil exploitation assets are allocated to the Group's oil segment as a cash generating unit based on the value in use. Determination as to whether and how much an asset is impaired involves management estimates and judgements such as the future crude oil price, discount rate used in discounting the projected cash flow and production profile. However, the impairment reviews and calculations are only based on assumptions that are consistent with the Group's business plan, including all relevant licences and permits obtained, but crude oil price is affected by a wide range of global and domestic factors which are beyond the control of the Group. Favourable changes to some assumptions may allow the Group to avoid the need to impair any assets in these years, whereas unfavourable changes may cause the assets to become impaired.

The crude oil production of the South Alibek Oilfield of Caspi Neft TME, a wholly-owned subsidiary of Polytec Asset Holdings Limited (73.4% owned by the Group), in Kazakhstan has been temporarily suspended since 1 January 2013, as the gas flaring permit for the South Alibek Oilfield expired on 31 December 2012. Caspi Neft TME applied to the Kazakhstan Government for the gas flaring permit for 2013 in October 2012. Up to the date of approval of these financial statements, the approval from the Kazakhstan Government has not yet been obtained. Based on advices from its technical experts and external legal advisor, the Group considers that there is no indication that the gas flaring permit will not be renewed. The production will be resumed as soon as practicable upon the permit is obtained.

As at 31 December 2012, the Group assessed the value of the oil production assets and oil exploitation assets. As the calculated recoverable amounts of the oil production assets and of the oil exploitation assets exceeded their carrying value, no impairment loss is considered necessary.

(h) **Land appreciation tax ("LAT")**

LAT is levied at progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including cost of land use right, borrowing costs and all qualified property development expenditures. Significant judgement is required in determining the extent of LAT. The Group recognised LAT based on management's best estimates. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the consolidated income statement in the periods in which such tax is finalised with local tax authorities.

3 SEGMENT REPORTING

The Group manages its business by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's top management for the purposes of assessing segment performance and allocating resources between segments, the Group has identified the following six reportable segments.

- Property development segment (Hong Kong/Mainland China/Macau): the development and sales of properties. Given the importance of property development division to the Group, the Group's property development business is segregated further into three reportable segments on a geographical basis.
- Property investment segment: the leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term.
- Oil segment: oil exploration and production.
- Other businesses segment: mainly includes the financial investments, the provision of finance services, income from the sale of ice and the provision of cold storage services and treasury operations.

3 SEGMENT REPORTING *(Continued)*

Turnover comprises mainly rental income from properties, gross proceeds from sales of properties, crude oil, held for trading investments, dividend and interest income.

Reporting segment profit represents profit before tax by excluding fair value changes on investment properties, finance costs, exceptional items and head office and corporate income/expenses.

Segment assets include all tangible, intangible assets and current assets with the exception of deferred tax assets and other corporate assets.

(a) Segment results and assets

Information regarding the Group's reportable segments as provided to the Group's top management for the purposes of resource allocation and assessment of segment performance for the year is set out below.

	2012						
	Consolidated \$'000	Property development			Property investment \$'000	Oil \$'000	Others \$'000
		Hong Kong \$'000	Mainland China \$'000	Macau \$'000			
Turnover	2,555,824	1,199,493	287,333	2,940	300,388	641,255	124,415
Reportable segment profit	1,203,605	520,015	183,991	6,441	307,669	113,144	72,345
Other net income	123,421	-	-	21,805	101,616	-	-
Fair value changes on investment properties	883,550	-	-	-	883,550	-	-
Share of fair value changes on investment properties of a jointly controlled entity	120,120	-	-	-	120,120	-	-
Head office and corporate expenses	(82,813)						
Finance costs	(100,312)						
Profit before taxation	2,147,571						
Share of profits of associated companies	2,089	-	(2,495)	-	-	-	4,584
Share of profits of jointly controlled entities	340,214	-	183,012	-	157,202	-	-
Interest income	20,153	-	-	-	-	-	20,153
Depreciation and amortisation	(182,267)	-	-	-	-	(167,800)	(14,467)

3 SEGMENT REPORTING (Continued)

(a) Segment results and assets (Continued)

	2011						
	Consolidated \$'000	Property development			Property investment \$'000	Oil \$'000	Others \$'000
		Hong Kong \$'000	Mainland China \$'000	Macau \$'000			
Turnover	1,755,293	721,229	467,883	48,102	293,289	115,513	109,277
Reportable segment profit	918,275	348,030	168,653	35,240	308,249	(40,691)	98,794
Other net income	130,607	–	–	–	130,607	–	–
Fair value changes on investment properties	730,178	–	–	–	730,178	–	–
Share of fair value changes on investment properties of a jointly controlled entity	106,040	–	–	–	106,040	–	–
Head office and corporate expenses	(62,763)						
Finance costs	(62,753)						
Profit before taxation	1,759,584						
Share of profits of associated companies	1,950	–	(1,211)	–	–	–	3,161
Share of profits of jointly controlled entities	321,765	–	182,889	–	138,876	–	–
Interest income	22,319	–	–	–	–	–	22,319
Depreciation and amortisation	(36,080)	–	–	–	–	(23,512)	(12,568)
Gain from bargain purchase	23,928	–	23,928	–	–	–	–
Gain on disposal of subsidiaries	157,596	88,089	–	–	–	–	69,507

3 SEGMENT REPORTING (Continued)

(a) Segment results and assets (Continued)

	2012						
	Consolidated \$'000	Property development			Property investment \$'000	Oil \$'000	Others \$'000
		Hong Kong \$'000	Mainland China \$'000	Macau \$'000			
Reportable segment assets	40,607,612	7,496,960	10,468,146	10,313,502	10,443,309	1,432,869	452,826
Deferred tax assets	53,233						
Pledged bank deposits	35,396						
Cash and cash equivalents	564,889						
Head office and corporate assets	15,764						
Consolidated total assets	41,276,894						
Interest in associated companies	2,331,841	-	2,315,147	-	-	-	16,694
Interest in and amounts due from jointly controlled entities	2,334,078	-	1,525,602	-	808,476	-	-

	2011						
	Consolidated \$'000	Property development			Property investment \$'000	Oil \$'000	Others \$'000
		Hong Kong \$'000	Mainland China \$'000	Macau \$'000			
Reportable segment assets	37,245,110	5,949,174	9,676,050	10,280,052	9,506,796	1,414,643	418,395
Deferred tax assets	10,314						
Pledged bank deposits	15,000						
Cash and cash equivalents	764,144						
Head office and corporate assets	14,113						
Consolidated total assets	38,048,681						
Interest in associated companies	2,124,195	-	2,112,085	-	-	-	12,110
Interest in and amounts due from jointly controlled entities	2,039,209	-	1,350,459	-	688,750	-	-

3 SEGMENT REPORTING *(Continued)*

(b) Geographical information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets other than financial instruments and deferred assets. The geographical location of customers is based on the location at which the services were provided or the goods delivered. The geographical location of non-current assets is based on the physical location of the asset, in case of interests in associated companies and jointly controlled entities, the location of operations.

	Revenue		Non-current assets	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Hong Kong (place of domicile)	1,596,149	1,093,128	8,745,807	8,037,216
Mainland China	302,268	483,484	5,004,455	4,501,706
Macau	3,091	49,394	730,118	578,516
Kazakhstan	641,255	115,513	1,375,991	1,364,032
Others	13,061	13,774	–	–
	2,555,824	1,755,293	15,856,371	14,481,470

In addition to the above non-current assets, the Group has interests in property development of \$10,198,258,000 (2011: \$10,190,981,000) in Macau.

(c) Major customers and suppliers

During the year, the Group's customer base is diversified and includes only one customer in the oil segment whom the Group's sale are dealt with amounted to \$559,503,000 which exceeds 10% of the Group's sales. Less than 30% of the Group's purchases were attributable to the Group's five largest suppliers during the year.

4 PROFIT BEFORE TAXATION

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

- (a) Other net income represents a net gain on disposal of investment properties of \$101,616,000 (2011: \$130,607,000), an impairment loss on properties written back of \$21,805,000 (2011: \$Nil), gain on disposal of subsidiaries of \$Nil (2011: \$157,596,000) (note 26(c)), a gain from bargain purchase of \$Nil (2011: \$23,928,000) in relation to the acquisition of subsidiaries (note 26(b)) and fair value changes on held for trading listed investments of gain of \$14,682,000 (2011: loss of \$24,339,000).

4 PROFIT BEFORE TAXATION *(Continued)*

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

(b) Finance costs

	2012 \$'000	2011 \$'000
Interest on bank loans and overdrafts	113,299	91,337
Interest on loan from/amount payable to ultimate holding company	90,991	42,075
Less: Amount capitalised <i>(Remark)</i>	(99,004)	(66,189)
	105,286	67,223
Less: Interest expenses included as other operating expenses	(4,974)	(4,470)
	100,312	62,753

Remark: Borrowing costs were capitalised at rates of 1.19% – 2.36% (2011: 1.03% – 1.64%) per annum in Hong Kong and 6.15% – 8.00% (2011: 4.86% – 8.65%) per annum in Mainland China..

(c) Other items

	2012 \$'000	2011 \$'000
Auditors' remuneration	4,996	4,212
Amortisation of oil exploitation assets <i>(Remark)</i>	11,771	2,359
Depreciation and amortisation of fixed assets <i>(Remark)</i>	170,496	33,721
Staff costs <i>(Remark)</i>	203,105	161,758
Impairment loss for bad and doubtful debts	1,312	1,207
Rentals receivable under operating leases less outgoings	(276,659)	(276,078)
Rental income	(300,388)	(293,289)
Less: Outgoings	23,729	17,211
Interest income	(20,153)	(22,319)
Impairment loss for bad and doubtful debts written back	(1,922)	(688)

Remark: Cost of sales includes \$177,852,000 (2011: \$32,439,000) relating to staff costs and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above.

- (d) The Group's share of profits for the year, after non-controlling interests, dividend and taxation, retained by the associated companies was \$2,089,000 (2011: \$676,000).
- (e) The Group's share of profits for the year, after non-controlling interests, dividend and taxation, retained by the jointly controlled entities was \$298,460,000 (2011: \$284,881,000).

5 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

Directors' emoluments disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance are as follows:

	Directors' fees \$'000	Salaries and allowances \$'000	Performance related bonuses \$'000	Provident fund contributions \$'000	2012 Total \$'000
Executive directors					
Or Wai Sheun	-	-	-	-	-
Ng Chi Man	-	-	-	-	-
Lai Ka Fai	160	1,777	450	164	2,551
Or Pui Kwan	-	693	220	18	931
Non-executive directors					
Keith Alan Holman	240	-	-	-	240
Tam Hee Chung	117	-	-	-	117
Yeung Kwok Kwong	240	2,011	450	185	2,886
Independent non-executive directors					
Li Kwok Sing, Aubrey	240	-	-	-	240
Lok Kung Chin, Hardy	240	-	-	-	240
Seto Gin Chung, John	240	-	-	-	240
David John Shaw	240	-	-	-	240
	1,717	4,481	1,120	367	7,685

5 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

	Directors' fees \$'000	Salaries and allowances \$'000	Performance related bonuses \$'000	Provident fund contributions \$'000	2011 Total \$'000
Executive directors					
Or Wai Sheun	–	–	–	–	–
Ng Chi Man	–	–	–	–	–
Lai Ka Fai	140	1,676	420	154	2,390
Or Pui Kwan	–	640	200	18	858
Non-executive directors					
Keith Alan Holman	220	–	–	–	220
Tam Hee Chung	220	–	–	–	220
Yeung Kwok Kwong	220	1,900	420	175	2,715
Independent non-executive directors					
Li Kwok Sing, Aubrey	220	–	–	–	220
Lok Kung Chin, Hardy	220	–	–	–	220
Seto Gin Chung, John	220	–	–	–	220
David John Shaw	220	–	–	–	220
	1,680	4,216	1,040	347	7,283

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2011: two) are directors whose emoluments are disclosed in note 5(a). The aggregate of the emoluments in respect of the remaining three (2011: three) individuals are as follows:

	2012 \$'000	2011 \$'000
Salaries and allowances	6,748	6,204
Performance related bonuses	2,370	1,900
Provident fund contributions	54	54
	9,172	8,158

5 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS *(Continued)*(b) **Individuals with highest emoluments** *(Continued)*

The emoluments of the individuals with the highest emoluments are within the following bands:

	2012	2011
\$2,000,001 – \$2,500,000	–	2
\$2,500,001 – \$3,000,000	2	–
\$3,000,001 – \$3,500,000	–	–
\$3,500,001 – \$4,000,000	1	1

6 INCOME TAX

(a) **Taxation in the consolidated income statement represents:**

	2012 \$'000	2011 \$'000
Current tax – Hong Kong		
Provision for the year	126,609	77,280
Under/(Over) provision in respect of prior years	1,222	(551)
	127,831	76,729
Current tax – Outside Hong Kong		
Provision for the year	15,715	30,910
Overprovision in respect of prior years	(6,270)	(781)
	9,445	30,129
LAT	38,599	3,425
Deferred tax		
Change in fair value of investment properties	43,285	72,777
Origination and reversal of temporary differences	(46,978)	(23,841)
	(3,693)	48,936
	172,182	159,219

The provision for Hong Kong profits tax is calculated at 16.5% (2011: 16.5%) of the estimated assessable profits for the year.

6 INCOME TAX *(Continued)*

(a) **Taxation in the consolidated income statement represents:** *(Continued)*

Tax levied in jurisdictions outside Hong Kong is charged at the appropriate current rates of taxation ruling in relevant jurisdictions.

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

The China tax law also imposed a withholding tax at 10% unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside Mainland China for earnings generated beginning on 1 January 2008 and undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. Provision for withholding tax is recognised for the dividends that have been declared and deferred tax liability is recognised for those to be declared in the foreseeable future. The Group did not recognise any withholding tax for the year of 2012 and 2011.

(b) **Reconciliation between tax expense and accounting profit at applicable tax rates:**

	2012 \$'000	2011 \$'000
Profit before taxation	2,147,571	1,759,584
Tax at applicable tax rates	339,527	269,811
Non-deductible expenses	26,654	16,998
Non-taxable revenue	(197,882)	(174,528)
Overprovision in respect of prior years	(5,048)	(1,332)
Unrecognised tax losses	18,420	26,242
Previously unrecognised tax losses utilised	(62,477)	(10,737)
Previously unrecognised tax losses now recognised	(2,771)	(1,256)
LAT on properties sold	38,599	3,425
Deferred LAT on changes in fair value of investment properties	20,239	25,731
Others	(3,079)	4,865
Actual tax expense	172,182	159,219

7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders of the Company includes a profit of \$1,055,443,000 (2011: \$816,322,000) which has been dealt with in the accounts of the Company.

8 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of \$1,886,254,000 (2011: \$1,526,385,000) and weighted average number of ordinary shares in issue during the year of 1,150,681,275 (2011: 1,150,681,275).

(b) Diluted earnings per share

There are no dilutive potential shares in existence during the years ended 31 December 2012 and 2011.

9 DIVIDENDS

(a) Dividends attributable to the year

	2012 \$'000	2011 \$'000
Interim dividend declared and paid of \$0.21 (2011: \$0.21) per share	241,643	241,643
Final dividend proposed after the balance sheet date of \$0.36 (2011: \$0.33) per share	414,245	379,725
	655,888	621,368

The final dividend declared after the year end has not been recognised as a liability at 31 December.

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

	2012 \$'000	2011 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of \$0.33 (2011: \$0.32) per share	379,725	368,218

10 DEFERRED TAXATION

- (a) The components of deferred tax (liabilities)/assets recognised in the balance sheets and the movements during the year are as follows:

Group

	Future benefit of tax losses \$'000	Revaluation of properties \$'000	Accelerated depreciation allowances \$'000	Others \$'000	Total \$'000
At 1 January 2011	7,437	(272,095)	(49,017)	17,969	(295,706)
Through acquisition of a subsidiary	–	(457,858)	–	–	(457,858)
Credited/(Charged) to income statement	1,266	(47,045)	(2,549)	(608)	(48,936)
At 31 December 2011	8,703	(776,998)	(51,566)	17,361	(802,500)
At 1 January 2012	8,703	(776,998)	(51,566)	17,361	(802,500)
Exchange adjustments	–	14	–	–	14
Through acquisition of a subsidiary	–	(7,047)	–	–	(7,047)
Credited/(Charged) to income statement	6,385	(27,444)	17,647	7,105	3,693
At 31 December 2012	15,088	(811,475)	(33,919)	24,466	(805,840)

Company

	Accelerated depreciation allowances 2012 \$'000	2011 \$'000
At 1 January	(32,778)	(30,312)
Charged to income statement	(2,411)	(2,466)
At 31 December	(35,189)	(32,778)

10 DEFERRED TAXATION *(Continued)*

- (a) The components of deferred tax (liabilities)/assets recognised in the balance sheets and the movements during the year are as follows: *(Continued)*

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Net deferred tax asset recognised on the balance sheet	53,233	10,314	–	–
Net deferred tax liability recognised on the balance sheet	(859,073)	(812,814)	(35,189)	(32,778)
	(805,840)	(802,500)	(35,189)	(32,778)

(b) **Deferred tax assets not recognised**

The Group has not recognised deferred tax assets in respect of cumulative tax losses of \$2,892,763,000 (2011: \$3,168,626,000) as the probability of generating future taxable profits in order to utilise the tax losses is uncertain at this point of time. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from the operations in Mainland China expire five years after the relevant accounting year end date. The tax losses arising from the operations in Kazakhstan will be expired ten years after the relevant accounting year end date.

11 FIXED ASSETS

(a) Group

	Investment properties \$'000	Leasehold land held for own use \$'000	Other property, plant and equipment			Total \$'000
			Buildings \$'000	Oil production	Others \$'000	
				assets \$'000		
<i>Cost or valuation</i>						
At 1 January 2011	7,411,650	270,206	33,060	1,081,604	47,839	8,844,359
Exchange adjustments	–	–	–	–	222	222
Additions						
– Through acquisition of subsidiaries	–	–	–	–	879	879
– Reclassified from properties under development	833,847	–	–	–	–	833,847
– Others	7,575	–	–	197,199	16,632	221,406
Disposals	(174,880)	–	–	(3,096)	(744)	(178,720)
Revaluation surplus	730,178	–	–	–	–	730,178
At 31 December 2011	8,808,370	270,206	33,060	1,275,707	64,828	10,452,171
<i>Representing</i>						
Professional valuation	8,808,370	–	–	–	–	8,808,370
Cost	–	270,206	33,060	1,275,707	64,828	1,643,801
	8,808,370	270,206	33,060	1,275,707	64,828	10,452,171
At 1 January 2012	8,808,370	270,206	33,060	1,275,707	64,828	10,452,171
Exchange adjustments	(194)	–	–	–	(2)	(196)
Additions						
– Through acquisition of a subsidiary	380,000	–	–	–	–	380,000
– Reclassified to properties under development	(364,782)	–	–	–	–	(364,782)
– Others	25,440	–	–	182,474	13,082	220,996
Disposals	(106,250)	–	–	(2,756)	(1,309)	(110,315)
Revaluation surplus	883,550	–	–	–	–	883,550
At 31 December 2012	9,626,134	270,206	33,060	1,455,425	76,599	11,461,424
<i>Representing</i>						
Professional valuation	9,626,134	–	–	–	–	9,626,134
Cost	–	270,206	33,060	1,455,425	76,599	1,835,290
	9,626,134	270,206	33,060	1,455,425	76,599	11,461,424

11 FIXED ASSETS *(Continued)*(a) **Group** *(Continued)*

	Investment properties \$'000	Leasehold land held for own use \$'000	Other property, plant and equipment			Total \$'000
			Buildings \$'000	Oil production assets \$'000	Others \$'000	
<i>Aggregate depreciation and amortisation</i>						
At 1 January 2011	–	34,638	4,854	11,656	39,220	90,368
Exchange adjustments	–	–	–	–	122	122
Charge for the year	–	6,604	815	21,153	5,157	33,729
Written back on disposals	–	–	–	(349)	(642)	(991)
At 31 December 2011	–	41,242	5,669	32,460	43,857	123,228
At 1 January 2012	–	41,242	5,669	32,460	43,857	123,228
Exchange adjustments	–	–	–	–	7	7
Charge for the year	–	6,604	815	156,029	7,055	170,503
Written back on disposals	–	–	–	(41)	(235)	(276)
At 31 December 2012	–	47,846	6,484	188,448	50,684	293,462
<i>Carrying value</i>						
At 31 December 2012	9,626,134	222,360	26,576	1,266,977	25,915	11,167,962
At 31 December 2011	8,808,370	228,964	27,391	1,243,247	20,971	10,328,943

In 2012, an amount of \$7,000 (2011: \$8,000) included in depreciation and amortisation charge for the year was capitalised under inventories.

11 FIXED ASSETS *(Continued)*

(b) Company

	Investment properties \$'000	Other property, plant and equipment \$'000	Total \$'000
<i>Cost or valuation</i>			
At 1 January 2011	5,400,000	26,383	5,426,383
Additions	4,552	1,362	5,914
Disposals	–	(235)	(235)
Revaluation surplus	307,448	–	307,448
At 31 December 2011	5,712,000	27,510	5,739,510
<i>Representing</i>			
Professional valuation	5,712,000	–	5,712,000
Cost	–	27,510	27,510
	5,712,000	27,510	5,739,510
At 1 January 2012	5,712,000	27,510	5,739,510
Additions	4,912	1,093	6,005
Disposals	–	(134)	(134)
Revaluation surplus	555,088	–	555,088
At 31 December 2012	6,272,000	28,469	6,300,469
<i>Representing</i>			
Professional valuation	6,272,000	–	6,272,000
Cost	–	28,469	28,469
	6,272,000	28,469	6,300,469

11 FIXED ASSETS *(Continued)*(b) **Company** *(Continued)*

	Investment properties \$'000	Other property, plant and equipment \$'000	Total \$'000
<i>Aggregate depreciation and amortisation</i>			
At 1 January 2011	–	23,201	23,201
Charge for the year	–	1,326	1,326
Written back on disposals	–	(220)	(220)
At 31 December 2011	–	24,307	24,307
At 1 January 2012	–	24,307	24,307
Charge for the year	–	1,422	1,422
Written back on disposals	–	(129)	(129)
At 31 December 2012	–	25,600	25,600
<i>Carrying value</i>			
At 31 December 2012	6,272,000	2,869	6,274,869
At 31 December 2011	5,712,000	3,203	5,715,203

11 FIXED ASSETS (Continued)

(c) Analysis of carrying value of properties

	Group 2012 \$'000	2011 \$'000	Company 2012 \$'000	2011 \$'000
Investment properties				
In Hong Kong				
– Long leases	6,971,800	6,388,460	6,272,000	5,712,000
– Medium-term leases	1,490,000	1,368,300	–	–
Outside Hong Kong				
– Medium-term leases	1,164,334	1,051,610	–	–
	9,626,134	8,808,370	6,272,000	5,712,000
Other properties				
In Hong Kong				
– Long leases	926	936	–	–
– Medium-term leases	248,010	255,419	–	–
	248,936	256,355	–	–

- (d) The investment properties of the Group and of the Company were revalued at 31 December 2012 by Vigers Appraisal and Consulting Limited, an independent qualified professional valuer, who has appropriate qualifications and experiences in the valuation of similar properties in the relevant locations. The Group's investment properties were valued on a market value basis 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 relevant development plan and then deducting the estimated costs to complete the construction.

The Group's investment properties under development are stated at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. At 31 December 2012, investment properties under development stated at fair value amounted to \$2,247,634,000 (2011: \$1,978,010,000).

11 FIXED ASSETS *(Continued)*

(e) Fixed assets leased out under operating leases

The Group leases out investment properties and certain furniture and fixtures under operating leases. The leases typically run for an initial period of several months to six years. Some leases have provision of option to renew by which time all terms are renegotiated. Some leases have provision of turnover rent. Turnover rent of \$1,479,000 was recognised in 2012 (2011: \$784,000).

The gross carrying amounts of investment properties of the Group held for use in operating leases were \$7,378,500,000 (2011: \$6,830,360,000). The gross carrying amounts of other fixed assets of the Group held for use in operating leases were \$7,505,000 (2011: \$7,433,000) and the related accumulated depreciation charges were \$7,068,000 (2011: \$6,887,000).

The gross carrying amounts of investment properties of the Company held for use in operating leases were \$6,272,000,000 (2011: \$5,712,000,000). The gross carrying amounts of other fixed assets of the Company held for use in operating leases were \$1,401,000 (2011: \$1,399,000) and the related accumulated depreciation charges were \$1,075,000 (2011: \$983,000).

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

The total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Within 1 year	224,954	223,232	182,511	182,603
After 1 year but within 5 years	137,976	144,988	71,234	98,882
	362,930	368,220	253,745	281,485

12 INTEREST IN SUBSIDIARIES

	Company 2012 \$'000	2011 \$'000
Unlisted shares, at cost	2,249,262	2,249,262
Loans to subsidiaries		
– interest free	11,648,901	11,681,727
– interest bearing	1,776,657	2,221,619
Amounts due from subsidiaries	10,113	7,491
Less: Impairment losses	(1,612,114)	(1,631,347)
	14,072,819	14,528,752
Loans to subsidiaries		
– interest free	244,191	–
– interest bearing	1,435,433	439,011
Loans from subsidiaries		
– interest free	(255,044)	(197,602)
– interest bearing	(27,640)	(27,705)
Amounts due to subsidiaries	(269)	(85)
	15,469,490	14,742,371

Loans to subsidiaries are unsecured and not expected to repay within one year, except for the amount of \$1,679,624,000 (2011: \$439,011,000) which is repayable within one year. Interest is charged at Hong Kong Interbank Offer Rate (“HIBOR”) plus a margin per annum for interest bearing loans.

Loans from subsidiaries are unsecured and not expected to repay within one year, except for the amount of \$233,807,000 (2011: \$197,602,000) which is repayable within one year. Interest is charged at HIBOR plus a margin per annum for interest bearing loans.

Amounts due from/(to) subsidiaries are unsecured, interest free and repayable on demand.

Details of the principal subsidiaries are shown in note 30.

13 OIL EXPLOITATION ASSETS

	Group 2012 \$'000	2011 \$'000
Cost		
At 1 January and 31 December	129,060	129,060
Accumulated amortisation		
At 1 January	8,275	5,916
Amortisation during the year	11,771	2,359
At 31 December	20,046	8,275
Carrying value	109,014	120,785

14 INTERESTS IN PROPERTY DEVELOPMENT

Interests in property development represent the Group's interests in the development of various properties in Macau under the co-investment agreements with wholly owned subsidiaries of the ultimate holding company, Polytec Holdings International Ltd ("Polytec Holdings"). The basis and estimations for arriving at the fair value of the interests in property development are further described in note 2(e).

15 INTEREST IN JOINTLY CONTROLLED ENTITIES

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Unlisted shares, at cost	–	–	584,079	584,079
Share of net assets	2,028,054	1,688,047	–	–
Loan to a jointly controlled entity	219,500	219,500	–	–
	2,247,554	1,907,547	584,079	584,079
Amounts due from jointly controlled entities	86,524	131,662	–	–
Amount due to a jointly controlled entity	(762,368)	(581,200)	(762,368)	(581,200)
	1,571,710	1,458,009	(178,289)	2,879

Loan to a jointly controlled entity is unsecured, interest bearing at fixed rate with reference to bank lending rate and is not expected to repay within one year.

The amounts due from jointly controlled entities and the amount due to a jointly controlled entity are unsecured, interest free and repayable on demand.

15 INTEREST IN JOINTLY CONTROLLED ENTITIES *(Continued)*

Details of the jointly controlled entities as at 31 December 2012 are as follows:

Jointly controlled entity	Place of incorporation and operation	Proportion of nominal value of shares held			Principal activities
		Group's effective interest	held by the Company	held by a subsidiary	
CITIC Polytec Property (Foshan) Company Limited <i>(Remark)</i>	Mainland China	50.0%	50.0%	–	Property development
South Bay Centre Company Limited	Macau	36.7%	–	50.0%	Property investment and trading

Remarks:

CITIC Polytec Property (Foshan) Company Limited is an equity joint venture in Mainland China. It has wholly owned subsidiaries incorporated in Mainland China namely 佛山市南海區山語湖教育投資有限公司 and 佛山市山語湖酒店物業管理有限公司 whose principal business are provision of educational services and provision of property management services respectively. The Group's effective interest in that company is 50%.

The following are the financial information on jointly controlled entities at the Group's effective interest:

	2012 \$'000	2011 \$'000
Income Statement		
Revenue	1,034,429	1,157,080
Expenses	(735,969)	(872,200)
Balance Sheet		
Non-current assets	834,154	732,847
Current assets	3,568,163	4,074,223
Current liabilities	(1,434,633)	(2,291,202)
Non-current liabilities	(1,133,549)	(979,987)
Net assets	1,834,135	1,535,881

16 INTEREST IN ASSOCIATED COMPANIES

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Unlisted shares, at cost	–	–	151,063	151,063
Share of net assets	380,116	367,552	–	–
Loan to associated companies	1,954,842	1,759,760	1,791,162	1,610,851
Loan from an associated company	(3,117)	(3,117)	–	–
	2,331,841	2,124,195	1,942,225	1,761,914

Loan to and from associated companies are unsecured, interest free and not expected to repay within one year.

In 2011, the Group entered into an agreement with an independent third party to acquire 40% equity interest in an associated company, namely 東莞市嘉安達房地產開發有限公司, for RMB124,720,000. The assets held by the associated company are substantially a property development project in Dongguan, Mainland China.

Details of the associated companies as at 31 December 2012 are shown as follows:

Associated company	Place of incorporation/ operation	Proportion of nominal value of shares held		Principal activities
		Direct	Indirect	
CITIC Polytec Property (Tianjin) Co., Ltd	Mainland China	39.0% (Remark)	–	Property development
Easy Living Property Management Limited	Hong Kong	–	49.0%	Property management and security services
Jeeves (HK) Limited	Hong Kong	–	43.1%	Dry cleaning and laundry services
東莞市嘉安達房地產開發有限公司	Mainland China	–	40.0%	Property development
Asiasoft Hong Kong Limited	Hong Kong/Asia	–	26.0%	Provision of information system products and services

Remark:

In accordance with an agreement in relation to the acquisition of a property development site in Tianjin, Mainland China, 10% of the equity interest in the associated company will be transferred to the Group upon full payment of the acquisition consideration. As at 31 December 2012, the Group has 49% effective interest in the associated company.

16 INTEREST IN ASSOCIATED COMPANIES *(Continued)*

Summary of financial information on significant associated companies:

	Assets \$'000	Liabilities \$'000	Equity \$'000	Revenue \$'000	Profit \$'000
2012					
Aggregate on associated companies' accounts	5,530,652	4,743,087	787,565	173,041	5,864
Group's effective interest	2,671,268	2,291,152	380,116	83,771	2,089
2011					
Aggregate on associated companies' accounts	5,163,052	4,412,864	750,188	129,516	3,846
Group's effective interest	2,495,237	2,127,685	367,552	63,463	1,950

17 FINANCIAL INVESTMENTS

	Group 2012 \$'000	2011 \$'000
Non-current assets		
Available-for-sale investments		
– Investment fund, unlisted	8,485	19,555
Current assets		
Held for trading listed investments		
– Equity shares, listed in Hong Kong	22,925	20,090
– Bonds, listed outside Hong Kong	72,012	60,165
	94,937	80,255
	103,422	99,810
Market value of financial investments		
– Listed in Hong Kong	22,925	20,090
– Listed outside Hong Kong	72,012	60,165

The fair value of investments traded in active markets is based on quoted market prices at the balance sheet date.

18 INVENTORIES

	Group 2012 \$'000	2011 \$'000
Land held for future development	1,563,982	1,821,571
Properties under development	11,370,087	9,374,111
Properties held for sale	287,730	525,327
Trading goods and consumables	14,502	15,436
	13,236,301	11,736,445

The amount of properties held for future development and under development expected to be recovered after more than one year is \$1,423,349,000 (2011: \$1,821,571,000) and \$5,627,865,000 (2011: \$6,896,521,000) respectively. All of the other inventories are expected to be recovered within one year.

The analysis of carrying value of land under inventories is as follows:

	Group 2012 \$'000	2011 \$'000
In Hong Kong		
– Long leases	1,438,090	945,006
– Medium-term leases	3,947,543	4,012,902
	5,385,633	4,957,908
Outside Hong Kong		
– Freehold/Unspecified	57,876	57,876
– Long leases	2,232,274	2,240,286
– Medium-term leases	2,456,909	2,407,820
	4,747,059	4,705,982
	10,132,692	9,663,890

19 TRADE AND OTHER RECEIVABLES

- (a) The following is an ageing analysis of trade receivables at 31 December:

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Current	803,262	298,078	–	957
Less than 3 months past due	13,314	11,430	614	–
3 months to 6 months past due	1,496	756	5	–
More than 6 months past due	9,208	7,463	–	1
Amounts past due	24,018	19,649	619	1
Trade receivables	827,280	317,727	619	958
Utility and other deposits	57,271	41,743	1,965	1,968
Other receivables and prepayments	208,955	234,045	16,708	10,542
	1,093,506	593,515	19,292	13,468

Utility and other deposits of the Group and of the Company of \$5,289,000 (2011: \$8,791,000) and \$1,946,000 (2011: \$1,947,000) respectively are expected to be recovered after more than one year.

Receivables and prepayments of the Group of \$1,685,000 (2011: \$Nil) are expected to be recovered after more than one year.

(b) Allowance for doubtful debts

Impairment losses in respect of trade and other receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables directly.

At 31 December 2012, the Group's trade and other receivables of \$11,290,000 (2011: \$8,836,000) was individually determined to be impaired and specific allowances for doubtful debts of \$5,675,000 (2011: \$5,249,000) was recorded. Impairment loss of an amount of \$75,000 (2011: \$1,139,000) was recognised in the income statement during the year.

- (c) Trade and other receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade and other receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

20 TRADE AND OTHER PAYABLES

The following is an ageing analysis of trade payables at 31 December:

	Group		Company	
	2012	2011	2012	2011
	\$'000	\$'000	\$'000	\$'000
Not yet due or on demand	698,536	715,615	609	512
Within 3 months	133,986	37,903	1,872	2,171
3 months to 6 months	2,436	130	–	–
More than 6 months	28,393	34,057	–	–
Trade payables	863,351	787,705	2,481	2,683
Rental and other deposits	172,760	72,267	54,250	49,226
Other payables and accrued expenses	350,863	352,218	47,816	49,919
Deposits received on sale of properties	1,214,972	397,559	–	–
	2,601,946	1,609,749	104,547	101,828

Rental and other deposits of the Group and of the Company of \$61,796,000 (2011: \$63,584,000) and \$53,778,000 (2011: \$48,789,000) respectively are expected to be refunded after more than one year. Included in the balance, there were deposits received on sales of investment properties of the Group of \$98,250,000 (2011: \$Nil).

Other payables and accrued expenses of the Group and of the Company of \$198,151,000 (2011: \$66,124,000) and \$254,000 (2011: \$195,000) respectively are expected to be settled after more than one year.

Deposits received on sale of properties of the Group of \$703,402,000 (2011: \$397,559,000) are expected to be recognised as income within one year.

21 AMOUNTS DUE TO NON-CONTROLLING INTERESTS

Amounts due to non-controlling interests are unsecured, interest free and repayable on demand.

22 LOAN FROM ULTIMATE HOLDING COMPANY

Loan from ultimate holding company is unsecured, interest bearing at HIBOR plus a margin per annum and is not expected to repay within one year.

23 AMOUNT PAYABLE TO ULTIMATE HOLDING COMPANY

Amount payable to ultimate holding company is unsecured, interest bearing with interest charged at HIBOR plus a margin per annum and is not expected to settle within one year.

24 BANK LOANS

At 31 December, bank loans were secured and repayable as follows:

	Group 2012 \$'000	2011 \$'000	Company 2012 \$'000	2011 \$'000
Within 1 year or on demand	1,603,863	1,415,000	–	–
After 1 year but within 2 years	4,265,660	916,094	3,480,000	–
After 2 years but within 5 years	–	3,615,685	–	3,480,000
	4,265,660	4,531,779	3,480,000	3,480,000
	5,869,523	5,946,779	3,480,000	3,480,000

Interest on bank loans is charged at HIBOR plus a margin per annum in Hong Kong or by reference to interest rates for term loan published by the People's Bank of China.

Refinancing will be arranged for bank loans of the Group repayable within one year.

25 TOTAL EQUITY

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

Note	Share capital \$'000	Share premium \$'000	Retained profits \$'000	Total \$'000
At 1 January 2011	115,068	8,302,404	5,053,982	13,471,454
Final dividend declared and paid 9(b)	–	–	(368,218)	(368,218)
Interim dividend declared and paid 9(a)	–	–	(241,643)	(241,643)
Profit for the year	–	–	912,817	912,817
At 31 December 2011	115,068	8,302,404	5,356,938	13,774,410
At 1 January 2012	115,068	8,302,404	5,356,938	13,774,410
Final dividend declared and paid 9(b)	–	–	(379,725)	(379,725)
Interim dividend declared and paid 9(a)	–	–	(241,643)	(241,643)
Profit for the year	–	–	1,227,055	1,227,055
At 31 December 2012	115,068	8,302,404	5,962,625	14,380,097

25 TOTAL EQUITY *(Continued)*

(a) **Movements in components of equity** *(Continued)*

The Group's share of profits retained in the accounts of the associated companies at 31 December 2012 after non-controlling interests were \$6,251,000 (2011: \$4,035,000).

The Group's share of profits retained in the accounts of the jointly controlled entities at 31 December 2012 after non-controlling interests were \$820,104,000 (2011: \$521,639,000).

The application of the share premium and the capital reserve is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance. The fair value reserves set up in respect of available-for-sale investments and interests in property development are not available for distribution to shareholders because they do not constitute realised profits within the meaning of Section 79B(2) of the Hong Kong Companies Ordinance.

Reserves of the Company available for distribution to shareholders at 31 December 2012 amounted to \$512,812,000 (2011: \$462,213,000).

(b) **Share capital**

	2012		2011	
	No. of shares of \$0.1 each	Amount \$'000	No. of shares of \$0.1 each	Amount \$'000
Authorised	5,000,000,000	500,000	5,000,000,000	500,000
Issued and fully paid	1,150,681,275	115,068	1,150,681,275	115,068

(c) **Capital management**

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of bank borrowings, borrowings from ultimate holding company, cash and cash equivalents and equity attributable to shareholders of the Company, comprising issued share capital, reserves and retained profits.

The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital and maintains an appropriate gearing ratio determined as the Group's net borrowings (bank borrowings plus loan from/amount payable to ultimate holding company and net of cash and cash equivalents) over equity attributable to shareholders of the Company. In view of this, the Group will balance its overall capital structure through the payment of dividends, new shares issues as well as raising new debts or redemption of existing debts. The Group's overall strategy remains unchanged from prior year and the gearing ratio as at 31 December 2012 is 56.1% (2011: 55.4%).

26 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash from/(used in) operating activities:

	2012 \$'000	2011 \$'000
Profit before taxation	2,147,571	1,759,584
Adjustments for:		
Unclaimed dividend written back	(338)	(262)
Loss on disposal of other fixed assets	1,528	1,031
Gain on disposal of investment properties	(101,616)	(130,607)
Gain on disposal of interest in subsidiaries	–	(157,596)
Share of profits of associated companies	(2,089)	(1,950)
Share of profits of jointly controlled entities	(340,214)	(321,765)
Gain from bargain purchase	–	(23,928)
Impairment loss on properties written back	(21,805)	–
Impairment loss on an associated company written back	–	(1,967)
Fair value changes on investment properties	(883,550)	(730,178)
Interest income	(3,590)	(5,798)
Interest expenses	100,312	62,753
Depreciation and amortisation	182,267	36,080
Operating profit before working capital changes	1,078,476	485,397
(Increase)/Decrease in financial investments	(8,893)	33,046
Increase in loans and advances	(23,653)	(2,580)
Increase in inventories	(1,015,391)	(2,814,208)
Increase in trade and other receivables	(497,932)	(247,395)
Decrease in amounts due from jointly controlled entities	45,138	22,616
Increase in amount due to a jointly controlled entity	181,168	26,752
Increase in trade and other payables	994,118	382,062
Cash generated from/(used in) operations	753,031	(2,114,310)
Interest received	3,581	5,788
Interest paid	(199,351)	(129,639)
Profits tax paid	(149,314)	(86,310)
Profits tax refunded	700	–
Net cash from/(used in) operating activities	408,647	(2,324,471)

26 NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)***(b) Acquisition of subsidiaries**

	2012 \$'000	2011 \$'000
<i>Fair value of assets of subsidiaries acquired</i>		
Fixed assets	–	879
Investment properties	380,000	–
Inventories	–	2,108,038
Trade and other receivables	1,887	158,339
Cash and cash equivalents	81	13,654
Trade and other payables	(90)	(6,179)
Amounts due to non-controlling interests	–	(200,000)
Amounts due to holding/ultimate holding company	(274,390)	(17,929)
Bank loans	–	(120,240)
Current taxation	–	(7,822)
Deferred tax liabilities	(7,047)	(457,858)
Net assets acquired	100,441	1,470,882
Amount of net assets attributable to non-controlling interests	–	(127,303)
Gain from bargain purchase	–	(23,928)
Cash consideration on acquisition of subsidiaries	100,441	1,319,651
Cash and bank balances acquired	(81)	(13,654)
Loan from ultimate holding company	–	(1,187,000)
Cash outflow on acquisition of subsidiaries	100,360	118,997

In 2012, the Group entered into an agreement with a wholly owned subsidiary of Polytec Holdings for the acquisition of 100% equity interest of a wholly owned subsidiary of Polytec Holdings together with the assignment of related shareholder's loan for an aggregate consideration of \$374,831,000. The assets held by the subsidiary are substantially a development project located in Hong Kong.

In 2011, the Group entered into an agreement with a wholly owned subsidiary of Polytec Holdings for the acquisition of 80% equity interest of a 80% owned subsidiary of Polytec Holdings together with the assignment of related shareholder's loan at an aggregate consideration of \$1,319,651,000. The assets held by the subsidiary are substantially a development project located in Wuxi, Mainland China.

Acquisitions of the subsidiaries have been accounted for using the purchase method. Gain from bargain purchase arises from the excess of fair value of identifiable assets and liabilities of the acquired subsidiary over the cost of acquisitions. The total revenue of the acquired subsidiaries for the year was \$Nil (2011: \$203,000) which contributed \$Nil (2011: \$44,000) to the revenue of the Group. Profit of the acquired subsidiaries for the year was \$31,245,000 (2011: \$32,475,000). The profit attributable to the shareholders of the Company for the year included a loss of \$8,178,000 (2011: profit of \$55,958,000) which was related to the acquired subsidiaries.

26 NOTES TO CONSOLIDATED CASH FLOW STATEMENT *(Continued)*

(c) Disposal of interest in subsidiaries

	2011 \$'000
<i>Net assets disposed of</i>	
Inventories	53,059
Trade and other receivables	163
Cash and cash equivalents	5,684
Trade and other payables	(53,174)
Current taxation	(69,796)
	(64,064)
Release to capital reserve	(481)
Gain on disposal	157,596
Total sale proceeds	93,051
Cash and cash equivalents disposed of	(5,684)
Cash inflow on disposal	87,367

In 2011, the Group disposed the entire equity interest of a wholly owned subsidiary to a wholly owned subsidiary of Polytec Holdings at a total consideration of \$93,124,000 and recognised a gain on disposal of \$88,089,000.

27 CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December not provided for in the accounts were as follows:

	Group		Company	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Contracted for	5,409	29,601	1,942	2,961
Authorised but not contracted for	–	139,460	–	139,460

28 CONTINGENT LIABILITIES

As at 31 December 2012, the Group and the Company has provided guarantees of RMB647,000,000 (2011: RMB475,000,000) representing a 50% proportional guarantee in respect of an aggregate of RMB1,294,000,000 term loan facilities (2011: RMB950,000,000) to a jointly controlled entity in Mainland China. The facilities were utilised to the extent of RMB1,184,000,000 (2011: RMB690,000,000) at 31 December 2012.

As at 31 December 2011, the Group and the Company has provided one guarantee on a joint and several basis with the other joint venture partner in respect of RMB80,000,000 loan facility. The joint venture partner and the Group and the Company had signed a mutual indemnification agreement by which each other will be indemnified on a 50:50 basis for any loss arising from the guarantee. The banking facility was utilised to the extent of RMB80,000,000 at 31 December 2011. At 31 December 2012, no such guarantees was given to the jointly controlled entity.

The Company has given guarantees in respect of banking facilities and other obligations of certain subsidiaries to the extent of \$2,412,259,000 (2011: \$2,657,559,000). The banking facilities and other obligations were utilised to the extent of \$1,730,778,000 (2011: \$1,828,607,000) at 31 December 2012.

29 PLEDGE OF ASSETS

At 31 December 2012, properties of the Group with an aggregate carrying value of approximately \$11,391,657,000 (2011: \$10,338,648,000) and bank deposits of \$35,396,000 (2011: \$15,000,000) were pledged to banks under fixed charges mainly to secure general banking facilities granted to the Group.

30 SUBSIDIARIES

Details of the principal subsidiaries of Kowloon Development Company Limited are as follows:

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
Able Talent Investments Limited	British Virgin Islands/ Macau	US\$1	100.0%	–	Financial investment
Asia Turbo Limited	Hong Kong	\$1	–	100.0%	Property development
Atlantic Capital Limited	Hong Kong	\$10,000	100.0%	–	Investment holding
Best Award Investments Limited	British Virgin Islands	US\$1	100.0%	–	Investment holding
Best Power (Asia) Limited	Hong Kong	\$2	–	100.0%	Property development
Bestcare Management Limited	British Virgin Islands	US\$1	–	100.0%	Investment holding
Bond Star Development Limited	Hong Kong	\$500,000	–	100.0%	Property development

30 SUBSIDIARIES (Continued)

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
Brilliant Idea Investments Limited	British Virgin Islands	US\$100	100.0%	–	Investment holding
Brilliant Way Holdings Limited	British Virgin Islands	US\$12,000	–	100.0%	Investment holding
Charm World Limited	British Virgin Islands	US\$1	100.0%	–	Investment holding
Cinema City (Film Production) Company Limited	Hong Kong	\$5,000,000	–	85.0%	Film distribution
Cinema City Company Limited	Hong Kong	\$1,000,000	–	85.0%	Film distribution
Country House Property Management Limited	Hong Kong	\$10,000	–	100.0%	Property management and security services
Dansend International Limited	British Virgin Islands	US\$1	100.0%	–	Investment holding
Elegant Florist Limited	British Virgin Islands	US\$1,000	100.0%	–	Investment holding
Eversound Investments Limited	Hong Kong	\$1,000,000	–	100.0%	Property development
Fulcoo Development Limited	Hong Kong	\$1	–	100.0%	Property development
Future Star International Limited	British Virgin Islands	US\$1	100.0%	–	Investment holding
Gargantuan Investment Limited	Hong Kong	\$2	100.0%	–	Financial investment
Golden Princess Amusement Company Limited	Hong Kong	\$100,000	85.0%	–	Film distribution and investment holding
Golden Princess Film Production Limited	Hong Kong	\$10,000	–	85.0%	Film distribution
Good Companion Investments Limited	British Virgin Islands	US\$1	100.0%	–	Investment holding
Good Companion Investments (Hong Kong) Limited	Hong Kong	\$1	–	100.0%	Investment holding
High Cheer Investments Limited	British Virgin Islands	US\$1	100.0%	–	Investment holding
High Cheer Investments (Hong Kong) Limited	Hong Kong	\$1	–	100.0%	Investment holding
Ideaplan Investments Limited	British Virgin Islands	US\$100	80.0%	–	Investment holding

30 SUBSIDIARIES (Continued)

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
Jumbo Power Enterprises Limited	Hong Kong	\$2	–	100.0%	Property development
Jumbo Star Limited	British Virgin Islands	US\$1	100.0%	–	Investment holding
Kowloon Development Finance Limited	Hong Kong	\$2,000,000	100.0%	–	Financial services
Kowloon Development Properties Company Limited	Hong Kong	\$1	100.0%	–	Project management
Lucky City Investments Limited	British Virgin Islands	US\$1	100.0%	–	Investment holding
Lucky City Investments (Hong Kong) Limited	Hong Kong	\$1	–	100.0%	Investment holding
Manor House Holdings Limited	Hong Kong	\$264,529,125	100.0%	–	Investment holding
Marble King International Limited	British Virgin Islands	US\$2	100.0%	–	Investment holding
Mass Ventures International Limited	British Virgin Islands	US\$1	–	100.0%	Property development
Polytec Asset Holdings Limited (Listed in Hong Kong, Stock code: 208)	Cayman Islands/ Hong Kong and Macau	\$443,896,784	–	73.4%	Property development and investment, oil exploration and production, ice manufacturing and provision of cold storage
Polytec Property Good Companion (Shenyang) Limited (Remark 2)	Mainland China	US\$109,800,000 (Remark 1)	–	100.0%	Property development
Polytec Property Lucky City (Shenyang) Limited (Remark 2)	Mainland China	\$102,100,000 (Remark 1)	–	100.0%	Property development
Polytec Property (Wuxi) Limited (Remark 2)	Mainland China	\$945,849,840 (Remark 1)	–	80.0%	Property development
San Iao Lek Development Company Limited	Macau	MOP100,000	–	70.0%	Investment holding
Spark Team Limited	Hong Kong	\$2	100.0%	–	Retail
To Kwa Wan Properties Limited	Hong Kong	\$2	–	100.0%	Property investment
Top Milestone Developments Limited	British Virgin Islands/ Macau	US\$100	–	100.0%	Financial investment

30 SUBSIDIARIES (Continued)

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
Triumph Glory Investments Limited	British Virgin Islands	US\$1	100.0%	–	Investment holding
Tyleelord Development & Agency Company Limited	Hong Kong	\$100,000	–	100.0%	Property investment
Un Chau Properties Limited	Hong Kong	\$2	–	100.0%	Property investment
Units Properties Limited	Hong Kong	\$2	–	100.0%	Property investment
Union Way Management Limited	Hong Kong	\$2	–	100.0%	Investment holding
Wealrise Investments Limited	Hong Kong	\$2	–	100.0%	Property development and investment
Wealth Genesis Limited	Hong Kong	\$2	100.0%	–	Property development
中山市長江兆業地產開發有限公司 (Remark 2)	Mainland China	\$80,000,000 (Remark 1)	–	70.0%	Property development
保利達地產(瀋陽)高悅有限公司 (Remark 2)	Mainland China	US\$59,599,974 (Remark 1)	–	100.0%	Property development

Remarks:

- (1) The amount represented the registered capital paid up.
- (2) Wholly foreign owned enterprises incorporated in Mainland China.

31 STAFF RETIREMENT SCHEME

The Group operates a defined contribution staff retirement scheme. Contributions under the scheme are charged to the income statement as incurred. The amount of contributions is based on a specified percentage of the basic salary of the eligible employees. No forfeited contributions in respect of unvested benefits of staff leavers was utilised to reduce the Group's ongoing contributions during the year 2012 and 2011. There were no unutilised forfeited contributions at the balance sheet date of both years. The Group's annual contribution for the year was \$566,000 (2011: \$600,000).

Contributions to the Mandatory Provident Funds of \$3,854,000 (2011: \$3,376,000) as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance were charged to the income statement for the year.

Employees of the Group's subsidiaries in the Mainland China are required to participate in defined contribution retirement schemes which are administered and operated by the local municipal government. The Group's subsidiaries contribute funds of \$2,971,000 (2011: \$1,521,000) which are calculated on certain percentage of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

32 MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed above, the Group also entered into the following material related party transactions.

- (a) Polytec Holdings has guaranteed the due performance of the Company in respect of its obligations in the property development project in Tianjin, Mainland China.
- (b) During the year, interest of \$90,991,000 (2011: \$42,075,000) was paid to Polytec Holdings.
- (c) As at 31 December 2012, the Group has given guarantees to an insurance company in respect of performance bonds entered into by an associated company to the extent of \$14,028,000 (2011: \$10,608,000).
- (d) During the year, the remuneration for key management personnel being short-term employee benefits amounted to \$16,857,000 (2011: \$15,441,000) as disclosed in notes 5(a) and 5(b). The remuneration of directors and senior management is recommended by the Remuneration Committee having regard to the performance and responsibilities of individuals and market trends.
- (e) On 1 April 2010, Polytec Holdings granted a credit facility to the Group which would be expired in March 2013. During the year, Polytec Holdings has agreed to extend the term of the facility. Polytec Holdings shall serve a three years' prior written notice to the Group demanding for repayment. As at 31 December 2012, the facility was utilised to the extent of \$842,884,000 (2011: \$680,579,000).

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

The Group is exposed to interest rate, credit, liquidity, currency, equity price and other price risks which arise in the normal course of the Group's business as set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner and these risks are limited by the financial policies and practices undertaken by the Group.

(a) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings and borrowings from ultimate holding company. All the borrowings are on a floating rate basis. The risk is mainly concentrated on the fluctuation in interest rates arising from the Group's borrowings denominated in Hong Kong dollar and Renminbi.

Interest rate risk is managed by the Group's management with defined policies through regular review to determine the strategy as of funding in floating/fixed rate mix appropriate to its current business profile, and to engage in relevant hedging arrangements in appropriate time.

At 31 December 2012, it is estimated that an increase/decrease in interest rates by 100 basis points, with all other variables held constant, the Group's result attributable to shareholders of the Company and retained profits would be decreased/increased by approximately \$57 million (2011: \$59 million).

The sensitivity analysis has been determined based on the exposure to interest rates at the balance sheet date. The analysis is prepared assuming the amount of interest-bearing borrowings outstanding at the balance sheet date was outstanding for the whole year. The analysis is performed on the same basis for 2011.

(b) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties' failure to perform their obligations as at 31 December 2012 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

The Group maintains a defined credit policy. An ageing analysis of trade debtors is prepared on a regular basis and is closely monitored to minimise any credit risk associated with receivables. Collateral is usually obtained in respect of loans and advances to customers.

Cash at bank, deposits placed with financial institutions and investments are with counterparties with sound credit ratings to minimise credit exposure.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(c) Liquidity risk

Cash management of the Company and wholly owned subsidiaries of the Group are substantially centralised at the Group level. The non wholly owned subsidiaries are responsible for their own cash management, including the short term investment of cash surpluses with creditworthy financial institutions and the raising of loans to cover expected cash demands, in accordance with the established policies and strategies with the concurrence by the management of the Group. The Group's policy is to regularly monitor current, expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash, readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*(c) **Liquidity risk** *(Continued)*

The following tables detail the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Group can be required to pay:

Group

	Contractual undiscounted cash flows					Balance sheet carrying amount \$'000
	Within 1 year or on demand \$'000	More than 1 year but less than 2 years \$'000	More than 2 years but less than 5 years \$'000	Undated \$'000	Total \$'000	
At 31 December 2012						
Trade and other payables	1,028,022	152,997	29,814	77,135	1,287,968	1,287,968
Amount due to non-controlling interests	-	-	-	200,000	200,000	200,000
Bank loans	1,694,574	4,279,349	-	-	5,973,923	5,869,523
Loan from ultimate holding company	-	-	-	5,666,253	5,666,253	5,666,253
Amount payable to ultimate holding company	-	-	-	842,884	842,884	842,884
Amount due to a jointly controlled entity	762,368	-	-	-	762,368	762,368
Other payables	-	-	-	48,732	48,732	48,732
	3,484,964	4,432,346	29,814	6,835,004	14,782,128	14,677,728
At 31 December 2011						
Trade and other payables	1,075,566	14,031	6,851	108,826	1,205,274	1,205,274
Amount due to non-controlling interests	-	-	-	200,000	200,000	200,000
Bank loans	1,518,082	988,419	3,623,492	-	6,129,993	5,946,779
Loan from ultimate holding company	-	-	-	5,097,532	5,097,532	5,097,532
Amount payable to ultimate holding company	-	-	-	680,579	680,579	680,579
Amount due to a jointly controlled entity	581,200	-	-	-	581,200	581,200
Other payables	-	-	-	46,637	46,637	46,637
	3,174,848	1,002,450	3,630,343	6,133,574	13,941,215	13,758,001

The Group exposes to liquidity risk that arises from guarantees in respect of banking facilities of a jointly control entity. The guarantees are callable if the respective jointly control entity is unable to meet its obligation. Details refer to note 28.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

(c) **Liquidity risk** (Continued)

The following tables detail the remaining contractual maturities at the balance sheet date of the Company's financial liabilities, which are based on contractual undiscounted cash flows and the earliest date the Company can be required to pay:

Company

	Contractual undiscounted cash flows					Balance sheet carrying amount \$'000
	Within 1 year or on demand \$'000	More than 1 year but less than 2 years \$'000	More than 2 years but less than 5 years \$'000	Undated \$'000	Total \$'000	
At 31 December 2012						
Trade and other payables	49,759	–	–	54,033	103,792	103,792
Bank loans	46,197	3,481,925	–	–	3,528,122	3,480,000
Loan from ultimate holding company	–	–	–	5,666,253	5,666,253	5,666,253
Loans from subsidiaries	233,807	–	–	48,877	282,684	282,684
Amounts due to subsidiaries	269	–	–	–	269	269
Amount due to a jointly controlled entity	762,368	–	–	–	762,368	762,368
	1,092,400	3,481,925	–	5,769,163	10,343,488	10,295,366
At 31 December 2011						
Trade and other payables	46,135	–	–	48,984	95,119	95,119
Bank loans	48,397	48,397	3,482,017	–	3,578,811	3,480,000
Loan from ultimate holding company	–	–	–	5,097,532	5,097,532	5,097,532
Loans from subsidiaries	197,602	–	–	27,705	225,307	225,307
Amounts due to subsidiaries	85	–	–	–	85	85
Amount due to a jointly controlled entity	581,200	–	–	–	581,200	581,200
	873,419	48,397	3,482,017	5,174,221	9,578,054	9,479,243

The Company exposes to liquidity risk that arises from guarantees in respect of banking facilities of certain subsidiaries and a jointly control entity. The guarantees are callable if the respective subsidiary or jointly control entity is unable to meet its obligation. Details refer to note 28.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(d) **Currency risk**

The Group owns assets and conducts its business mainly in Hong Kong, Mainland China, Macau and Kazakhstan.

The Group's primary foreign currency exposures arise from its direct property development and investments in Mainland China. The Group is mainly exposed to the effects of fluctuation in Renminbi. Where appropriate and cost efficient, the Group seeks to finance these investments by Renminbi borrowings and as future returns from these investments are denominated in Renminbi, exposure to Renminbi currency risk is minimised.

The Group conducts its oil exploration and production business primarily in Kazakhstan. Currency exposure arises from sales of crude oil in currency other than the local currency of the domicile of the Group entity making the sale. The sales are substantially denominated in United States Dollars, whilst the costs are substantially denominated in Kazakhstan Tenge. Management considers this risk is insignificant to the Group as a whole but still manages and monitors this risk to ensure that its net exposure is kept to an acceptable low level.

(e) **Equity price risk**

The Group is exposed to equity price risk through its financial investments.

Appropriate measures are implemented under risk management policies on a timely and effective manner. These measures covered macroeconomic analysis, securities analysis, trade execution control and portfolio evaluation. The Group controls its market exposure by maintaining investment portfolio of securities with high market liquidity.

At 31 December 2012, it is estimated that an increase/decrease of 5% in market value of the Group's financial investments classified as held for trading investments, with all other variables held constant, result attributable to shareholders of the Company and retained profits would increase/decrease by \$5 million (2011: \$4 million). The analysis is performed on the same basis for 2011.

The sensitivity analysis above indicates the instantaneous change in result attributable to shareholders of the Company (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the equity price had occurred at the balance sheet date and had been applied to re-measure those financial investments held by the Group which expose the Group to equity price risk at that date. It is also assumed that the fair values of the Group's financial investments would change in accordance with the historical correlation with the relevant equity price, and that none of the Group's available-for-sale investments would be considered impaired as a result of a decrease in the relevant equity price, and that all other variables remain constant.

(f) **Other price risk**

The Group is also exposed to property price risk through its interests in property development classified as non-current assets. The Group assesses their fair value at least bi-annually through reviewing the prevailing market conditions and monitoring the progress of the property development. At 31 December 2012, it is estimated that an increase/decrease of 5% in the assumed selling price of the underlying properties of the Group's interests in property development classified as non-current assets, with all other variables held constant, the Group's fair value reserve would increase/decrease by \$327,645,000/\$327,665,000 (2011: \$467,521,000/\$467,493,000). The analysis has been determined assuming that the changes in the selling price of the underlying properties had occurred at the balance sheet date and had been applied to the exposure to property price risk in existence at that date. The analysis is performed on the same basis for 2011.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)***(g) Fair values**

The following table presents the carrying value of financial instruments measured at fair value at the balance sheet date across the three levels of the fair value hierarchy defined in HKFRS 7, "Financial Instruments: Disclosures", with the fair value of each financial instrument categorised in its entirety based on the lowest level of input that is significant to that fair value measurement. The levels are defined as follows:

- Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments
- Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data
- Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

2012

	Group			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
<i>Assets</i>				
Available-for-sale investment fund	–	–	8,485	8,485
Trading securities	94,937	–	–	94,937
Interests in property development	–	–	10,198,258	10,198,258
	94,937	–	10,206,743	10,301,680

2011

	Group			Total \$'000
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	
<i>Assets</i>				
Available-for-sale investment fund	–	–	19,555	19,555
Trading securities	80,255	–	–	80,255
Interests in property development	–	–	10,190,981	10,190,981
	80,255	–	10,210,536	10,290,791

During the year there were no significant transfers between instruments in Level 1 and Level 2.

33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

(g) Fair values *(Continued)*

The movement during the year in the balance of Level 3 fair value measurements is as follows:

	Group 2012 \$'000	2011 \$'000
At 1 January	10,210,536	10,202,750
Gain recognised in other comprehensive income	1,995	16,493
Distributions	(5,788)	(8,707)
At 31 December	10,206,743	10,210,536

Certain amounts due from/to subsidiaries of the Company are unsecured, interest free and repayable on demand. Given these terms, it is not meaningful to disclose their fair values.

34 PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2012, the directors consider the parent company and ultimate holding company to be Intellinsight Holdings Limited and Polytec Holdings International Limited, which are both incorporated in the British Virgin Islands. Neither entity produces accounts available for public use.

35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2012

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2012 and which have not been adopted in these accounts.

The Group is in the process of evaluating the impact that will result from the adopting these new or revised HKFRSs. The Group is therefore unable to disclose the impact that adopting these new or revised HKFRSs will have on its financial position and the results of operations when such new or revised HKFRSs are adopted.

36 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year's presentation.

Independent Auditor's Report



Independent auditor's report to the shareholders of Kowloon Development Company Limited *(Incorporated in Hong Kong with limited liability)*

We have audited the consolidated accounts of Kowloon Development Company Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 60 to 123, which comprise the consolidated and Company balance sheets as at 31 December 2012, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED ACCOUNTS

The directors of the Company are responsible for the preparation of consolidated accounts that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated accounts that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated accounts based on our audit. This report is made solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated accounts that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building,
10 Chater Road,
Central, Hong Kong

27 March 2013

Particulars of Properties

31 December 2012

A. MAJOR INVESTMENT PROPERTIES

Location	Usage	Category of Lease	Approximate Gross Floor Area (sq m)	Group's Interest (%)
Hong Kong				
Pioneer Centre 750 Nathan Road Mongkok	Commercial	Long lease	45,891 sq m and 124 Carparking Spaces	100.0
40 Shop Units on 1st Floor and 2nd Floor New Mandarin Plaza 14 Science Museum Road Tsim Sha Tsui	Commercial	Long lease	6,650	100.0
20th Floor of Argyle Centre Phase 1 688 Nathan Road and 65 Argyle Street Mongkok	Commercial	Medium-term lease	1,465	100.0
2nd to 23rd Floor and the Roof of The Elgin 51 Elgin Street Central	Residential	Long lease	1,327	100.0
The Whole Shop Spaces on Basement Peninsula Centre 67 Mody Road Tsim Sha Tsui	Commercial	Long lease	1,767 sq m and 10 Carparking Spaces	100.0
32 Shop Units on Basement, Ground Floor, Mezzanine Floor and 1st Floor Sino Centre 582-592 Nathan Road Mongkok	Commercial	Medium-term lease	614	100.0

B. MAJOR PROPERTIES UNDER DEVELOPMENT

Location	Usage	Approximate Total Site Area (sq m)	Approximate Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Hong Kong						
<i>Cadogan</i> 37A Cadogan Street Kennedy Town	Residential and Commercial	1,318	13,200	Superstructural work in progress	2013/2014	100.0
35 Clear Water Bay Road Ngau Chi Wan	Residential and Commercial	19,335	196,400	Foundation work in progress	(Note 1)	100.0
<i>MacPherson Place</i> 38 Nelson Street Mongkok	Stadium, Youth Centre, Residential and Commercial	2,400	24,800 (Note 2)	Superstructural work topped out and fitting-out work in progress	Obtained Occupation Permit on 31 December 2012	Joint Venture with Urban Renewal Authority and Hong Kong Playground Association
<i>Upper West</i> 18 Fuk Chak Street Tai Kok Tsui	Residential and Commercial	781	6,600	Foundation work in progress	March 2016	100.0
Mainland China						
<i>The Gardenia (翠堤灣)</i> West of Daba Road Shenhe District Shenyang	Residential and Commercial	1,100,000	2,000,000	Fitting-out work in progress (first phase)	By phases from 2013 onwards	100.0
<i>Le Cove City (江灣城)</i> 6 Hun Nan Er Road Hun Nan Xin District Shenyang	Residential and Commercial	165,303	712,000	Fitting-out work in progress (second phase)	By phases from 2011 onwards	100.0
<i>Le Cove City (江灣城)</i> Tongyun Road and Gongyun Road Chong An District Wuxi	Residential and Commercial	68,833	404,400 (Note 3)	Fitting-out work in progress (first phase)	By phases from 2014 onwards	80.0
<i>Galaxy Heights (星際豪庭)</i> 8 Xueyuan Road Shiqi District Zhongshan	Residential and Commercial	18,334	129,000	Fitting-out work in progress	2013	70.0

Notes:

- (1) Subject to finalisation of land premium
- (2) Attributable gross floor area to the Group is approximately 18,100 sq m
- (3) With additional underground gross floor area of approximately 15,000 sq m for the commercial portion and car parking spaces of over 2,300

C. MAJOR LAND HELD FOR FUTURE DEVELOPMENT

Location	Usage	Approximate Total Site Area (sq m)	Approximate Gross Floor Area (sq m)	Group's Interest (%)
Hong Kong				
49-65A Pok Fu Lam Road Sai Ying Pun	Residential	1,162	9,300	100.0
Macau				
Pearl Horizon (海一居) Lote P The Orient Pearl District Novos Aterros da Areia Preta (Note)	Residential and Commercial	68,000	699,700	58.8
Lotes T+T1 The Orient Pearl District Novos Aterros da Areia Preta (Note)	Residential and Commercial	17,900	195,600	58.8

Note: The development of these properties are under the co-investment agreements with wholly owned subsidiaries of the ultimate holding company

D. INVESTMENT PROPERTIES OF JOINTLY CONTROLLED ENTITIES

Location	Usage	Category of Lease	Approximate Gross Floor Area (sq m)	Group's Interest (%)
Macau				
208 Shop Units and 208 Office Units The Macau Square, Rua do Dr. Pedro Jose Lobo Nos. 2-16A, Avenida do Infante D. Henrique Nos. 43-53A and Avenida Doutor Mario Soares Nos. 81-113	Commercial	Medium-term lease	36,553 sq m and 265 Carparking Spaces	36.7

E. PROPERTIES UNDER DEVELOPMENT OF JOINTLY CONTROLLED ENTITIES

Location	Usage	Approximate Total Site Area (sq m)	Approximate Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Mainland China						
<i>The Lake (山語湖)</i> Heshun Meijing Shuiku Sector Lishui Town Nanhai District Foshan	Residential and Commercial	4,020,743	1,600,000	Construction work in progress	By phases from 2009 onwards	50.0

F. LAND HELD FOR FUTURE DEVELOPMENT OF ASSOCIATED COMPANY

Location	Usage	Approximate Total Site Area (sq m)	Approximate Gross Floor Area (sq m)	Group's Interest (%)
Mainland China				
Lot No. Jin Dong Liu 2004-066 intersection of Shiyijing Road and Liuwei Road Hedong District Tianjin	Residential and Commercial	135,540	930,000	49.0

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