九 龍 建 業 有 限 公 司

# Kowloon Development Company Limited

Stock Code 股份代號：34

# 凝心力 建優企


**Annual Report 2009 年報**

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# CORPORATE INFORMATION

## Kowloon Development Company Limited

*A member of the Polytec Group*

## Board

### Executive Directors

Or Wai Sheun *(Chairman)*
Ng Chi Man
Lai Ka Fai
Or Pui Kwan

### Non-executive Directors

Keith Alan Holman *(Deputy Chairman)*
Tam Hee Chung
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

## Company Secretary

Look Pui Fan

## Authorized Representatives

Lai Ka Fai
Look Pui Fan

## Independent Auditors

KPMG
*Certified Public Accountants*

## 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

## Principal Bankers

Bank of China (Hong Kong) Limited
Bank of China Macau Branch
Bank of Communications Co., Ltd.
Chong Hing Bank Limited
Hang Seng Bank Limited
Industrial and Commercial Bank of China (Asia) Limited
Standard Chartered Bank (Hong Kong) Limited
The Bank of East Asia, Limited

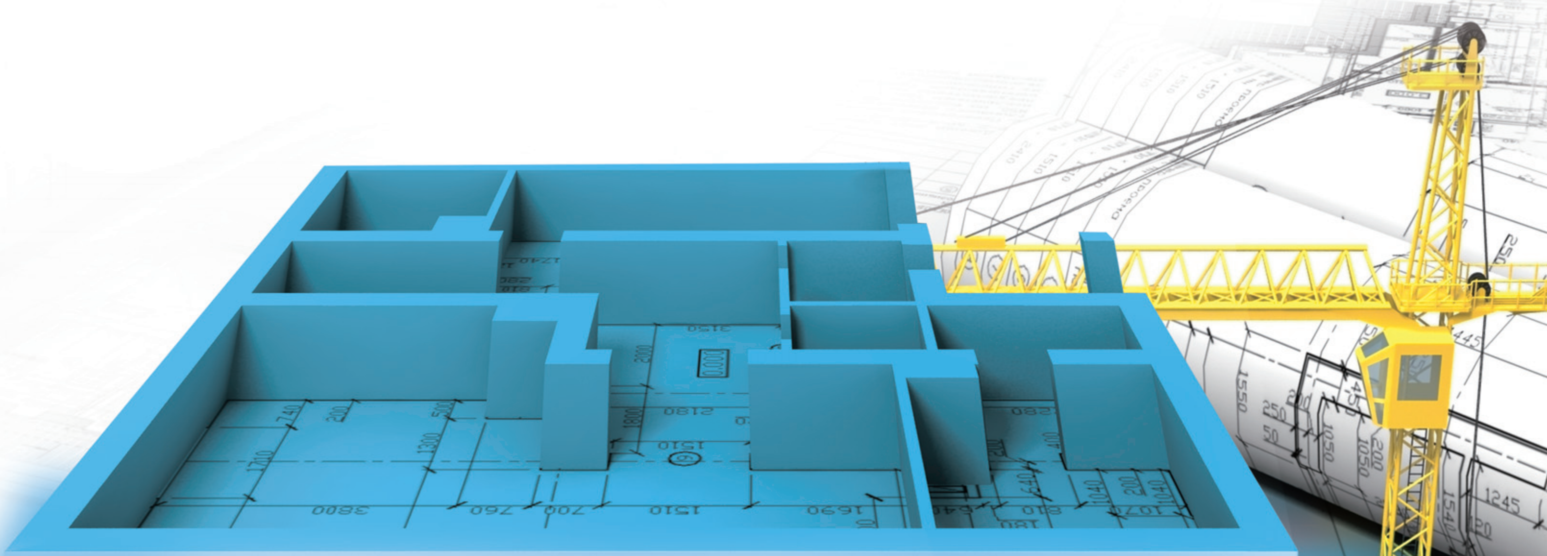
## Stock Code

Hong Kong Stock Exchange: 34

## Website

www.kdc.com.hk

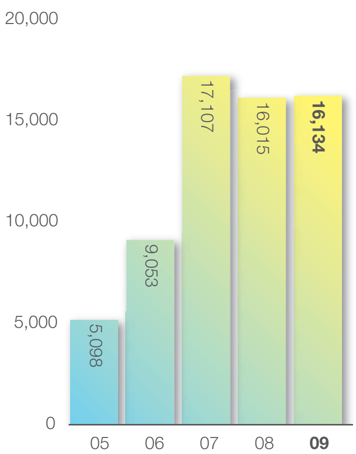
# HIGHLIGHTS



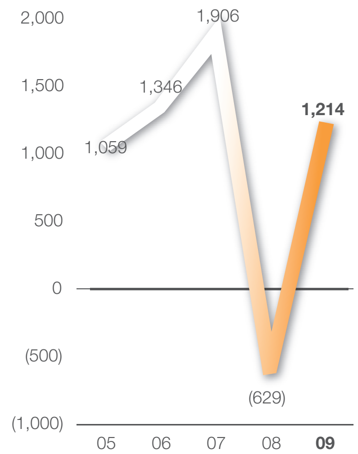
- Group's net profit attributable to shareholders for 2009 rises to HK$1,214 million from a net loss of HK$629 million in 2008.
- Excluding gains in fair value of our investment properties net of deferred tax, underlying net profit and underlying earnings per share for 2009 amounts to HK$1,159 million and HK$1.01 respectively.
- Full year dividend per share for 2009 rises to HK$0.52, an increase of 33.3% over 2008.
- Group's land bank increases 8.7% to approximately 5 million sq m at end-December 2009.
- The Group is focusing its resources and efforts on its property business in the Greater China region and will cease its non-strategic financial investment activities.

# FIVE-YEAR FINANCIAL SUMMARY

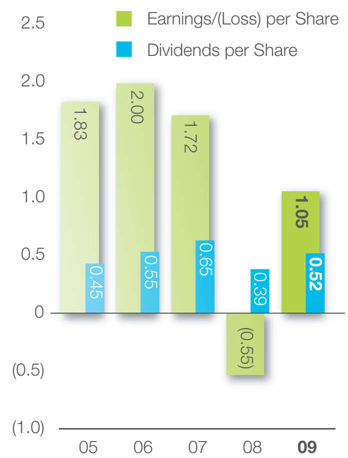
**Shareholders' Equity**
*(HK$ million)*




**Profit/(Loss) Attributable to Shareholders**
*(HK$ million)*




**Earnings/(Loss) & Dividends per Share**
*(HK$)*




## Consolidated Balance Sheet

| *(HK$ million)* | **2009** | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Non-Current Assets | **19,137** | 17,895 | 18,563 | 15,298 | 5,050 |
| Current Assets | **8,157** | 11,881 | 11,058 | 7,301 | 4,813 |
| Total Assets | **27,294** | 29,776 | 29,621 | 22,599 | 9,863 |
| Current Liabilities | **(5,220)** | (4,749) | (2,958) | (2,117) | (1,542) |
| Non-Current Liabilities | **(2,988)** | (5,922) | (4,844) | (7,909) | (2,334) |
| Net Assets | **19,086** | 19,105 | 21,819 | 12,573 | 5,987 |
| Share Capital | **115** | 115 | 115 | 77 | 57 |
| Reserves | **16,019** | 15,900 | 16,992 | 8,976 | 5,041 |
| Shareholders' Equity | **16,134** | 16,015 | 17,107 | 9,053 | 5,098 |
| Minority Interests | **2,952** | 3,090 | 4,712 | 3,520 | 889 |
| Total Equity | **19,086** | 19,105 | 21,819 | 12,573 | 5,987 |

## Consolidated Income Statement

| *(HK$ million)* | **2009** | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Turnover | **1,985** | 8,793 | 10,384 | 2,908 | 1,320 |
| Profit/(Loss) from Operations | **1,550** | (1,944) | 2,427 | 1,483 | 1,182 |
| Finance Costs | **(23)** | (96) | (82) | (178) | (18) |
| Profit/(Loss) Attributable to Shareholders | **1,214** | (629) | 1,906 | 1,346 | 1,059 |
| Profit/(Loss) Attributable to Shareholders *(excluding revaluation of properties and negative goodwill)* | **1,159** | (2,582) | 1,502 | 900 | 611 |
| Dividends | **598** | 449 | 748 | 572 | 255 |

## Financial Highlights

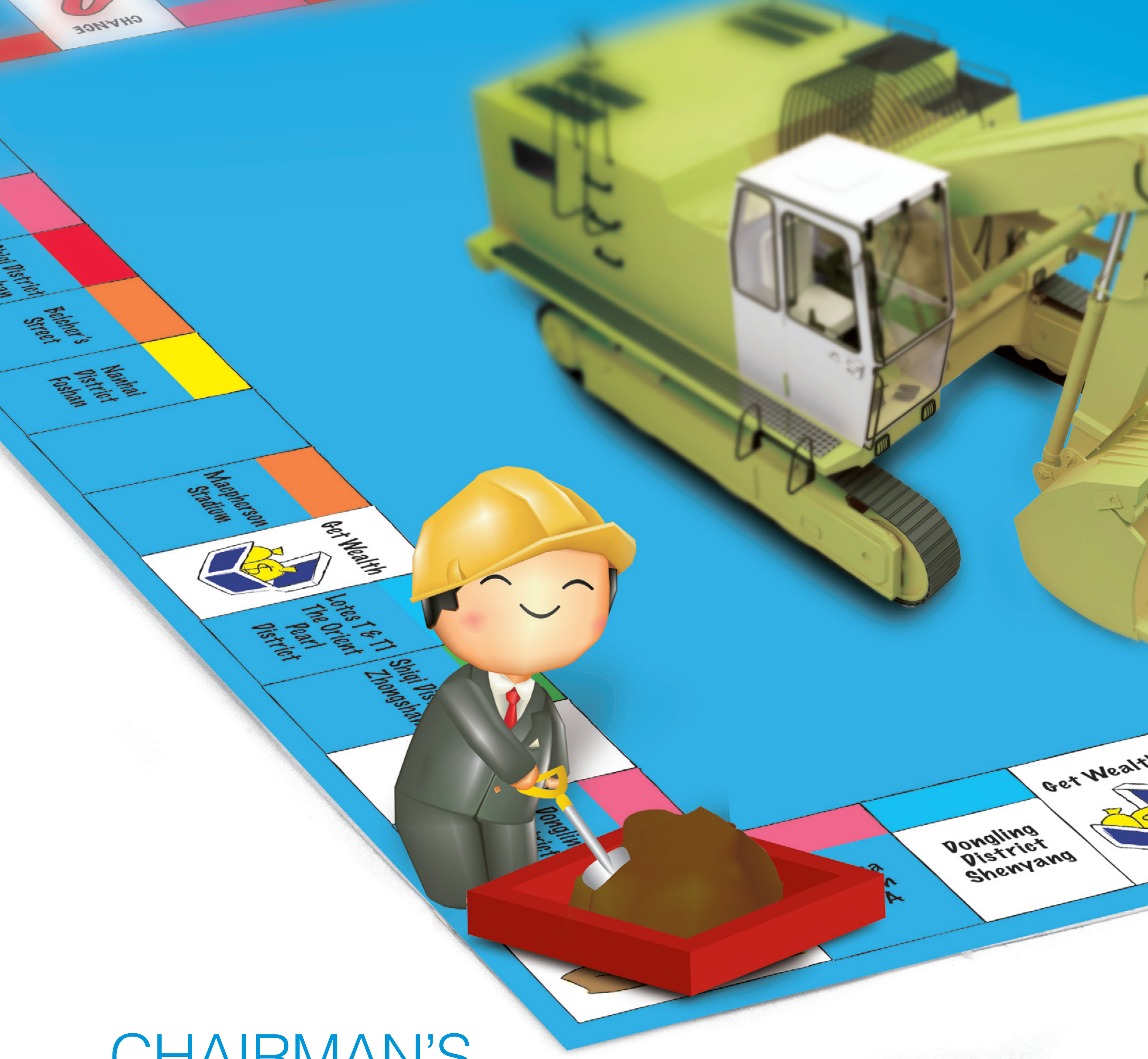
| | **2009** | 2008 | 2007 | 2006 | 2005 |
|---|---|---|---|---|---|
| Net Asset Value per Share *(HK$)* | **14.02** | 13.92 | 14.87 | 11.80 | 8.99 |
| Earnings/(Loss) per Share *(HK$) (Note 2)* | **1.05** | (0.55) | 1.72 | 2.00 | 1.83 |
| Earnings/(Loss) per Share *(excluding revaluation of properties and negative goodwill) (HK$) (Note 2)* | **1.01** | (2.24) | 1.36 | 1.33 | 1.06 |
| Dividends per Share *(HK$)* | **0.52** | 0.39 | 0.65 | 0.55 | 0.45 |
| Gearing Ratio *(%) (Note 3)* | **32.39** | 32.60 | 13.18 | 84.63 | 49.83 |

*Notes:*

1. *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.*

2. *The comparative amounts of earnings per share for the previous years have been restated by adjusting the number of ordinary shares for the consolidation of one-for-two rights issue effected in February 2007.*

3. *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 2009, net profit attributable to shareholders of the Company rose significantly to HK$1,214 million from a net loss of HK$629 million in 2008. Basic earnings per share for 2009 rose to HK$1.05 from a loss of HK$0.55 in 2008.

Excluding revaluation gains from the Group's investment properties net of deferred tax, underlying net profit for 2009 amounted to HK$1,159 million.

The Board of Directors recommends the payment of a final dividend of HK$0.32 per share (2008: HK$0.20) for the year ended 31 December 2009. Together with the 2009 interim dividend of HK$0.20 per share, the full year dividend for 2009 amounts to HK$0.52 per share, representing an increase of 33.3% over 2008.

The final dividend will be paid on 28 May 2010 to shareholders whose names appear on the Register of Members of the Company on 18 May 2010, subject to approval of shareholders at the annual general meeting.

## Business Review

In the Greater China region, the three economies, Hong Kong, Macau and Mainland China, have rapidly recovered since the second half of 2009 and their respective property markets have rebounded strongly, with housing prices and transaction volumes returning to their pre-crisis levels since the middle of 2009. The Group's core property business has also benefited from the improving business environment.

### Property Sales and Development

In Hong Kong, we have sold almost all of our luxury residential units at 31 Robinson Road, Mid-levels, Hong Kong. Total sales proceeds from this development project so far amounted to approximately HK$2.2 billion, achieving an overall profit margin of approximately 58%. Sales booked in 2009 amounted to HK$528 million. The combined operating profit of HK$1,085 million for 2009 was mainly derived from the projects at Robinson Road, Hong Kong and Villa de Mer, Macau, representing an increase of 60.2% over the same period in 2008.

The Group received the final income distribution from its co-investment property project Villa de Mer in Macau during the year under review, which contributed HK$751 million to the Group's operating profit for 2009.

In Mainland China, the pre-sale of the first phase of the Group's 50% owned project in Foshan (Guangdong Province), which commenced in the first half of 2009, has been well received by the market, with total pre-sale proceeds already exceeding RMB2 billion. The majority of profit so generated will be recognized in 2010.

During the year under review, we have successfully acquired a number of property development projects in Hong Kong and Mainland China, with the Group's land bank rising 8.7% over 2008 to approximately 5 million sq m.


Construction works in progress

### Property Investment

The Group's gross rental income from its property investment portfolio for 2009 amounted to HK$272 million, an increase of 6.5% over 2008. The main improvement came from the Group's retail portfolio, with total rental income for 2009 rising 7.2% to HK$171 million and occupancy rate for all retail properties reaching nearly 100%. Gross rental income from the Group's flagship property, Pioneer Centre, rose to HK$218 million in 2009 from HK$206 million in 2008, with both offices and retail spaces being almost fully let at end-December 2009.

### Finance and Investments

The Group's finance and investment activities recorded an operating profit of HK$119 million in 2009 compared with a loss of HK$3,730 million in 2008 when the meltdown on the global financial markets significantly impaired the value of the Group's then owned financial investment portfolio.

As of 31 December 2009, the Group did not have any commitments under forward agreements and the total value of the financial investments in the Group's portfolio was further reduced to HK$107 million compared to HK$236 million at end-2008. The Group did not enter any new trades during the course of 2009.

## Prospects

The overall global market sentiment appears to have improved considerably and many economies around the globe have started to grow since the third quarter last year after three quarters of severe economic contraction. However, the uncertainty over the sustainability of the global recovery remains as the economic rebound has largely been attributable to the governments' massive liquidity injection, record low interest rate policy and fiscal stimulus since the start of the financial crisis and indeed these truly exceptional policies cannot be sustained. Nevertheless, we believe that investor confidence will further improve and the global economy will further recover, with Asian nations picking up faster than the others.

During the year under review, we have successfully acquired a number of property development projects and sites in Hong Kong and Mainland China, with the Group's land bank rising 8.7% over 2008 to approximately 5 million sq m. We will continue to look to strengthen our quality land bank throughout the Greater China region.

In Hong Kong, the soft launch of the Group's luxury residential project Mount East in North Point has been well received by the market and the formal pre-sale will start in the first half of this year. Due to the advantage of its proximity to the North Point MTR station and limited supply of new residential development sites in this area, we are confident this project will generate a satisfactory profit margin for the Group.

The Group's investment in the property projects in Mainland China over the past three years has started bearing fruit. The Group's first Mainland China development project in Foshan launched last year and the pre-sale of the first residential phase has been well received by the market, with total pre-sale proceeds already exceeding RMB2 billion so far. The pre-sales of the development projects in Zhongshan and Shenyang will begin later this year. It is expected that our Mainland China property business will start contributing an increasingly large proportion to the Group's results over the coming years.


Aerial view rendering of the Zhongshan Project

Through our subsidiary, Polytec Asset Holdings Limited, we have recently considered to extend our business to the oil and gas industry. We are of the view that there are exceptionally appealing opportunities to acquire assets in the industry after the financial turbulence and we have recently entered into a call option to acquire an oil and gas company in Kazakhstan. Looking forward, we are optimistic about the prospects of the industry.

The Group's results for 2008 were significantly impaired by the effect of unexpected turbulence in global financial markets. However, with the solid foundation in its property business, the Group has regained its strength as the annual results for 2009 show. Management has reviewed its overall strategy for the Group going forward and has decided to cease its non-strategic financial investment activities and focus the Group's resources and efforts on the property business in Hong Kong, Mainland China and Macau, aiming to become one of very few listed property companies to have the capacity to grow significantly in all three markets.

## Appreciation

I would like to express my heartfelt appreciation to all staff for their dedication and hardwork throughout the year, and sincere thanks to fellow Directors for their support, which will continue to motivate us to further strive for long-term success of the Group.

**Or Wai Sheun**
*Chairman*

Hong Kong, 1 March 2010

## Foshan Project

- the site, consists of 3 lakes and surrounded by natural greenery, covers 4 million sq m
- within a 30-minute drive from the site to Guangzhou Baiyun International Airport and the central business district of Guangzhou – Tianhe District

1

Lakeside luxury villa

The Master Plan


1

Deluxe villa with private swimming pool

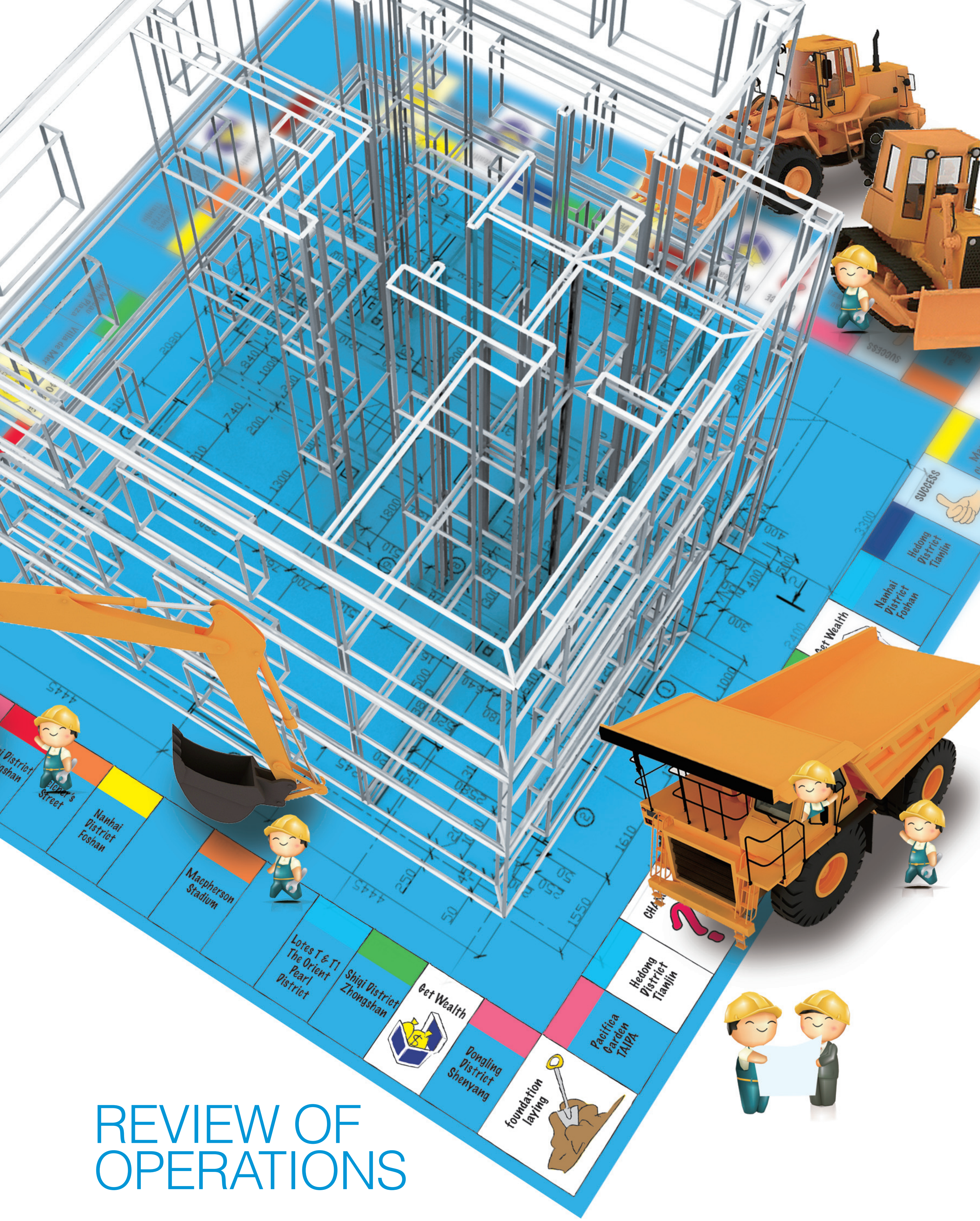
2

Landscaped garden with 18-hole golf facility

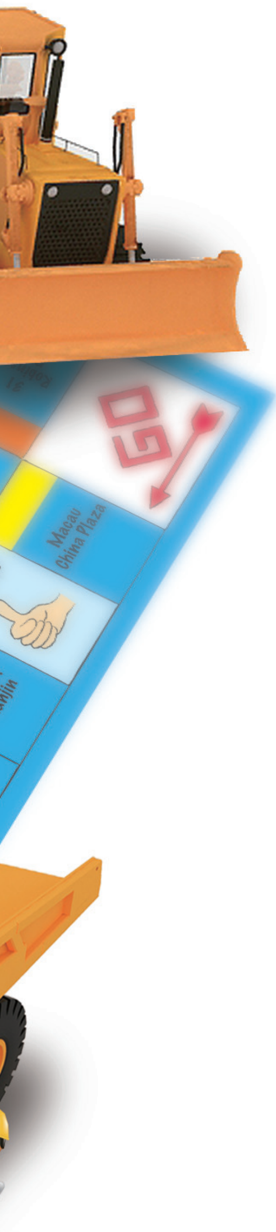
3

First phase luxury villa

On-site photography



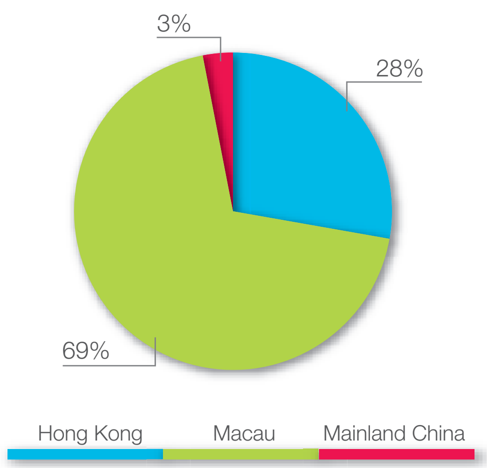

# REVIEW OF OPERATIONS



## Property Sales

The Group has been pursuing a three-tier development strategy, with exposure in the Greater China property markets in Hong Kong, Mainland China and Macau. Total operating profit of the Group generated from property development projects amounted to HK$1,085 million (2008: HK$677 million), representing an increase of 60.2% over last year, and accounting for 72.5% of the Group's operating profit.

**Operating profit contribution from three property markets for 2009**




## Property Development

Details of the major projects under development in the Greater China region are set out below.

### Hong Kong

| Ngau Chi Wan, Kowloon | |
|---|---|
| **Location** | No. 35 Clear Water Bay Road, Ngau Chi Wan, Kowloon, Hong Kong |
| **Usage** | Residential and Commercial |
| **Group's Interest** | 100% |
| **Approx. Total Gross Floor Area** | 196,400 sq m |
| **Status** | Land exchange under process |

This site is located in Ngau Chi Wan, and has planning approval for a residential and commercial development totaling 196,400 sq m, including a shopping arcade, club house and parking facilities. The land premium is under negotiation with the government.

| Macpherson Stadium, Kowloon | |
|---|---|
| **Location** | No. 10 Yim Po Fong 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. Total Gross Floor Area** | 24,800 sq m |
| **Status** | Basement excavation works in progress |
| **Expected Date of Completion** | 2012 |

The site is located in a prime location of Mongkok. This is a joint-venture redevelopment residential and commercial project with Urban Renewal Authority and Hong Kong Playground Association, with a gross floor area of approximately 24,800 sq m. It will be developed into a luxury residential and commercial complex with club house and parking facilities, retail spaces, a multi-purpose sports stadium and a youth centre. Excluding the multi-purpose sports stadium and a youth centre, the residential and commercial portion is approximately 19,000 sq m. Foundation work is now completed and basement excavation has begun.

| Sai Yeung Choi Street North, Kowloon | |
|---|---|
| **Location** | Nos. 468-474 Sai Yeung Choi Street North, Kowloon, Hong Kong |
| **Usage** | Residential |
| **Group's Interest** | 100% |
| **Approx. Total Gross Floor Area** | 8,400 sq m |
| **Status** | Foundation works in progress |
| **Expected Date of Completion** | 2012 |

The site is located in Sai Yeung Choi Street North. This residential redevelopment project is wholly-owned by the Group, with a gross floor area of approximately 8,400 sq m. It will be re-developed into a modern high-rise residential tower with club house and parking facilities. Foundation work has already been commenced in early 2010.

| Mount East, Ming Yuen Western Street, Hong Kong | |
|---|---|
| **Location** | Nos. 24-32 Ming Yuen Western Street, North Point, Hong Kong |
| **Usage** | Residential and Commercial |
| **Group's Interest** | 100% |
| **Approx. Total Gross Floor Area** | 5,700 sq m |
| **Status** | Superstructure works in progress |
| **Expected Date of Completion** | 2011 |

The site is located in North Point, the heart of Eastern Hong Kong Island, with a total gross floor area of approximately 5,700 sq m. This residential project is wholly-owned by the Group. It will be developed into a luxury residential tower. It comprises 74 residential units, a shop on ground floor, recreational facilities, a club house with sky garden. Superstructure work is in progress and the project is expected to be completed in the middle of 2011.

| Belcher's Street, Hong Kong | |
|---|---|
| **Location** | Nos. 150-162 Belcher's Street, Kennedy Town, Hong Kong |
| **Usage** | Residential and Commercial |
| **Group's Interest** | 100% |
| **Approx. Total Gross Floor Area** | 5,600 sq m |
| **Status** | Acquisition of adjacent buildings in progress |

The site is located in Belcher's Street, with a proposed MTR station exit nearby. With the original site area of 564 sq m, the Group is in the process of acquiring a number of adjacent buildings in order to further expand the gross site area and hence have a more sizeable development.

## Mainland China

| Dongling District, Shenyang | |
|---|---|
| **Location** | West of Daba Road, Dongling District, Shenyang, China |
| **Usage** | Residential and Commercial |
| **Group's Interest** | 100% |
| **Approx. Total Gross Floor Area** | 2,000,000 sq m |
| **Status** | Building plan approval in progress |
| **Expected Date of Completion** | 2011 (first phase) |

The site is located in a residential area of Dongling District, Shenyang. 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 density residential units by phases. The building plan for the first phase of the development, with a gross floor area of approximately 100,000 sq m, has been submitted to local authorities. Foundation work will be commenced once the plan has been approved by the government.

| Hun Nan Xin District, Shenyang | |
|---|---|
| **Location** | Northern side of Hun Nan Er Road, Hun Nan Xin District, Shenyang, China |
| **Usage** | Residential and Commercial |
| **Group's Interest** | 100% |
| **Approx. Total Gross Floor Area** | 579,000 sq m |
| **Status** | Construction works in progress (first phase) |
| **Expected Date of Completion** | 2011 (first phase) |

The site is located in the Hun Nan Xin District, Shenyang. According to the overall planning and development strategy of the local municipal government, the district will be developed into a modern technological new district with a high-tech industrial development zone, a high-grade commercial and business centre, a high-quality residential area, a university town and a Hun River tourism zone. This residential and commercial development project is wholly-owned by the Group, with a planned gross floor area of approximately 579,000 sq m. It will be developed into a residential and commercial complex, together with hotels. Construction work of the first phase started in the first half of 2009. Pre-sales of the project will start in the second half of 2010.

| Nanhai District, Foshan | |
|---|---|
| **Location** | Heshun Meijing Shuiku Sector, Lishui Town, Nanhai District, Foshan, China |
| **Usage** | Residential and Commercial |
| **Group's Interest** | 50% |
| **Approx. Total Gross Floor Area** | 1,600,000 sq m |
| **Status** | Construction works for the first phase development in progress |
| **Expected Date of Completion** | 2010 (first phase) |

The site is located in the Nanhai District, Foshan, with a sizable 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. This site is endowed with unique geographical advantages, surrounded by lakes, wetland nature reserve zone and woods. It will be developed into one of the most emblematic residential communities in Foshan, with aggregate gross floor area of approximately 1,600,000 sq m. The first phase of development comprises mainly luxury low-rise residential houses. The pre-sale of the first phase of residential development, which commenced in early 2009, has been well received by the market.

| Hedong District, Tianjin | |
|---|---|
| **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. Total Gross Floor Area** | 930,000 sq m |
| **Status** | Site clearance in progress |
| **Expected Date of Completion** | 2012 (first phase) |

The site is located in the Hedong District, Tianjin, a new commercial and business area. This residential and commercial development project is 49% owned by the Group, with a gross floor area of approximately 930,000 sq m. It will be developed into a residential and commercial complex with luxury residential towers, office buildings, a five-star hotel and a first-class shopping arcade. We are in the process of obtaining necessary approvals and plan to start construction work later this year.

| Shiqi District, Zhongshan | |
|---|---|
| **Location** | Xueyuan Road, Shiqi District, Zhongshan, China |
| **Usage** | Residential and Commercial |
| **Group's Interest** | 70% |
| **Approx. Total Gross Floor Area** | 129,000 sq m |
| **Status** | Foundation works in progress |
| **Expected Date of Completion** | 2011 |

The site is located in the Shiqi District, one of the most prestigious residential areas in Zhongshan. This residential and commercial project is 70% owned by the Group, with gross floor area of approximately 129,000 sq m and comprising of 7 high-end towers with 1,150 residential units, a club house and retails shops. Foundation work is expected to be completed shortly and the pre-sale of the project will start in the second half of 2010.

## 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:

| Pacifica Garden, Taipa | |
|---|---|
| **Location** | Lotes TN25b and TN26d near Estrada Coronel, Nicolau de Mesquita, Taipa, Macau |
| **Usage** | Residential and Commercial |
| **Group's Interest** | 42.6% |
| **Approx. Total Gross Floor Area** | 35,900 sq m |
| **Status** | Construction works completed |
| **Expected Date of Completion** | 2010 |

Pacifica Garden is Polytec Asset's 58% owned residential and commercial development project in Taipa with a gross floor area of approximately 35,900 sq m. It has been developed as two towers, with a total of 295 residential units and retail shops on the ground floor. The residential units have already been wholly pre-sold. The construction work has been completed and it is expected that the occupation permit will be obtained shortly.

| Lote P, The Orient Pearl District | |
|---|---|
| **Location** | Lote P, The Orient Pearl District, Novos Aterros da Areia Preta, Macau |
| **Usage** | Residential and Commercial |
| **Group's Interest** | 58.8% |
| **Approx. Total Gross Floor Area** | 699,700 sq m |
| **Status** | Building plan approval in progress |

Lote P covers an aggregate site area of approximately 68,000 sq m. This project, in which Polytec Asset has an 80% interest, will be developed by phases into various luxury residential towers, together with a large shopping arcade, a club house and numerous car parking spaces, with an aggregate gross floor area of approximately 699,700 sq m. The master plan of the development has been approved and the building plan has been submitted to the relevant government authorities for approval.

| Lotes T & T1, The Orient Pearl District | |
|---|---|
| **Location** | Lotes T and T1, The Orient Pearl District, Novos Aterros da Areia Preta, Macau |
| **Usage** | Residential and Commercial |
| **Group's Interest** | 58.8% |
| **Approx. Total Gross Floor Area** | 186,800 sq m |
| **Status** | Building plan approval in progress |

Lotes T & T1 combined covers an aggregate site area of approximately 17,900 sq m. This project, in which Polytec Asset has an 80% interest, will be developed into a number of high-end residential blocks with retail shops and car parking spaces, having an aggregate gross floor area of approximately 186,800 sq m. The master plan has been approved by the government with final approvals being processed.

## Property Investment

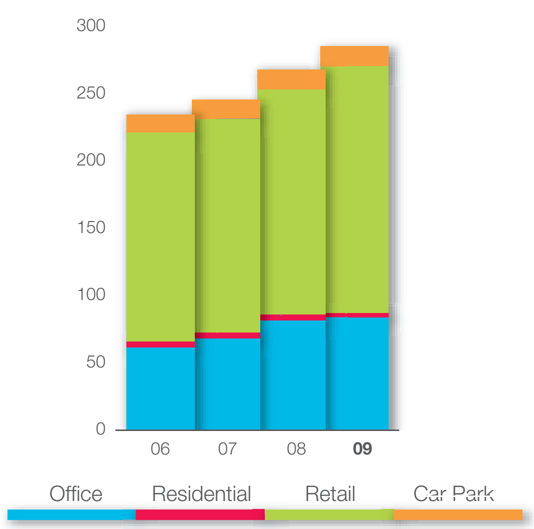
Gross rental income generated from the Group's portfolio of investment property for 2009 rose to HK$272 million (2008: HK$256 million), an increase of 6.5% over 2008. The main improvement came from the Group's retail portfolio, with total rental income for 2009 rising 7.2% to HK$171 million and occupancy rate for all retail properties reaching nearly 100%.

Gross rental income from the Group's flagship property, Pioneer Centre, rose to HK$218 million in 2009 from HK$206 million in 2008, with both offices and retail spaces being almost fully let at end-December 2009.

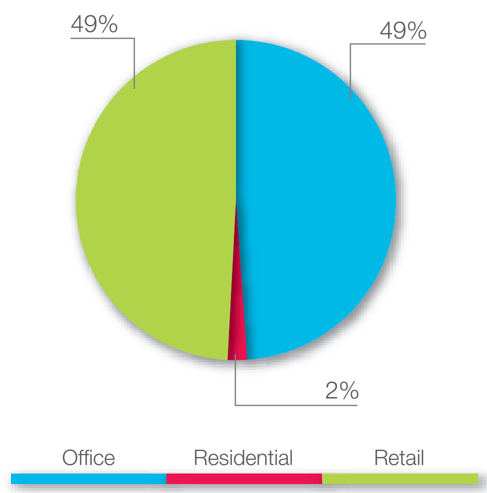
Contribution from investment properties accounted for approximately 19% of the Group's operating profits in 2009.

At end-2009, the Group's attributable gross floor area of its investment property portfolio (excluding carparks) was 75,000 sq m. The portfolio comprises mainly a shopping mall, retail shops and offices in prime locations. Breakdowns of the portfolio are set out below.

**Total Rental Income**
(HK$ million)




**Investment Property Portfolio 2009**
(By attributable gross floor area)




Total net revaluation gains of the Group's investment property portfolio was HK$72 million (2008: HK$879 million) during 2009.

## Property Management

Best Property Services Agent
(Public Rental Housing)
– Bronze Award

The Group offers high quality property management and all-round services to our clients. Our client base includes not only self-developed luxury residential building, serviced apartments and medium scale commercial building, but also public housing estates. An award for outstanding performance has been recently granted by Hong Kong Housing Authority to Easy Living Property Management Limited, the Group's 49%-owned associated company, for its high-quality management services provided for 2009. At end-2009, gross floor area under our management was 1,092,000 sq m (2008: 560,100 sq m).

## Finance and Investments

The Group's finance and investment activities recorded an operating profit of HK$119 million in 2009 compared with a loss of HK$3,730 million in 2008. As of 31 December 2009, total value of the Group's investment portfolio was further reduced to HK$107 million from HK$236 million at end-2008.

## New Developments and Major Events in 2009

### Disposal of 12% Interest in Tianjin Project

On 29 July 2009, the Company entered into an equity transfer agreement for disposal of 12% interest in CITIC Polytec Property (Tianjin) Co., Ltd. to the joint venture partner, CITIC Real Estate Tianjin Investment Co., Ltd. The total proceeds arising from the disposal were approximately RMB271 million, consisting of RMB49 million as consideration and a further receipt of RMB222 million in relation to a reduction of the Company's contribution to this project.

### New Property Development Projects

On 13 August 2009, the Company entered into a sale and purchase agreement with the ultimate holding company, Polytec Holdings International Limited, for the acquisition of 100% equity interests in two property development companies relating to the development of Mount East in Hong Kong and the project in Hun Nan Xin District of Shenyang in Mainland China at an aggregate consideration of approximately HK$857 million. As a result of this acquisition, the Group's land bank has been increased by approximately 584,000 sq m in aggregate.

### New Business Opportunity

As announced on 7 December 2009, Polytec Asset is reviewing an opportunity of extending its business to the oil and gas industry through acquisition of Caspi Neft TME, which is a joint stock company registered under the laws of Kazakhstan and is principally engaged in the production of oil from hydrocarbon deposits in Kazakhstan. Polytec Asset's subsidiary is entitled to exercise an option to acquire Caspi Neft TME at a cash consideration of US$139,600,000 at any time till 7 April 2010 pursuant to a deed of call option dated 7 December 2009. It is expected that the option will be exercised by the Group, subject to the necessary approvals have been granted by the Kazakhstan government. If the option is exercised, detailed information will be provided to shareholders in compliance with Listing Rules requirements.

## Human Resources

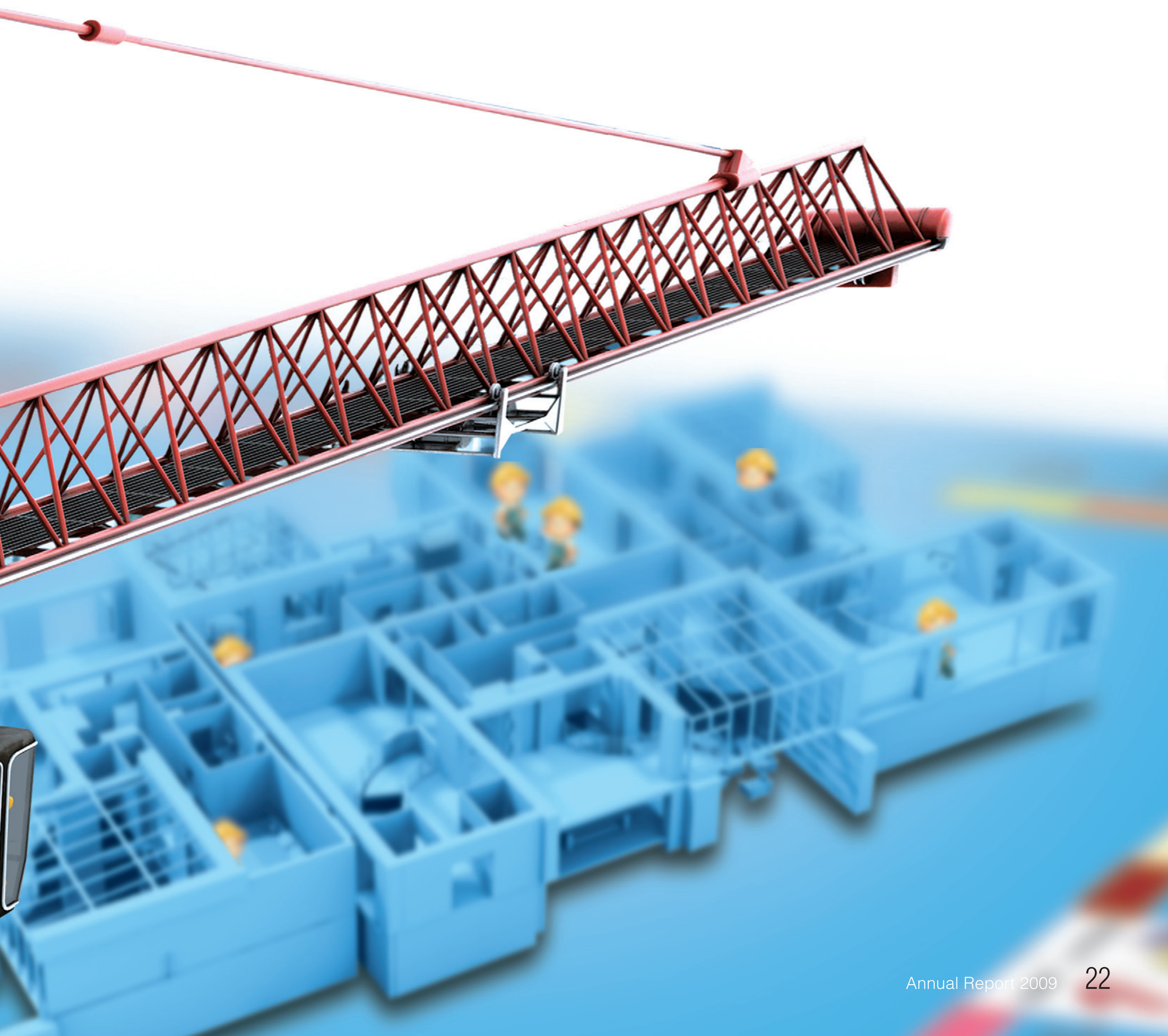
At 31 December 2009, the Group has a total of 398 employees (2008: 362 employees). During the year, total staff costs increased to HK$111 million (2008: HK$77 million). Salary levels of employees are competitive. Discretionary bonuses are granted based on performance of the Group as well as performance of individuals to attract, motivate and retain talented people.

We believe that the quality of the Group's human resources is critical to its maintaining a strong competitive edge. The Group conducts a range of on-going training programme both in-house and through external institutions on an on-going basis to strengthen employees' all round skills and knowledge, aiming to well equip them to cope with the Group's development in the ever-changing economy.

# FINANCIAL REVIEW

## Financial Resources and Bank Borrowings

As at 31 December 2009, the Group had total bank borrowings of HK$3,268 million with HK$3,118 million repayable within one year and HK$150 million repayable beyond one year. A substantial portion of the bank loans related to a 5-year term loan with maturity in early 2010. Refinancing of the loan had been arranged subsequent to end-December 2009. The net borrowings position of the Group as at the year end date was HK$2,693 million after taking into account cash and cash equivalents of HK$575 million. There was an increase of HK$632 million as compared with the net borrowings of HK$2,061 million as at 31 December 2008. Loan from/amount payable to the ultimate holding company amounted to HK$2,533 million as at year end 2009 (2008: HK$3,160 million).



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) was 32.4% as at 31 December 2009 (2008: 32.6%).

During year 2009, the property sale of 31 Robinson Road generated a cash inflow of approximately HK$710 million. Inflow of funds in connection with the Group's investment in Mainland China was approximately HK$1,323 million. This related to the deposits refund upon termination of the proposed acquisition of Shenzhen Properties & Resources Development (Group) Limited, the disposal of 12% interest in Tianjin project and the return of funds from Foshan project which amounted to approximately HK$250 million, HK$308 million and HK$765 million respectively.

Acquisition of property development projects amounted to approximately HK$992 million in Hong Kong and Mainland China which included Mount East and Shenyang property acquired from ultimate holding company with total consideration of approximately HK$857 million, HK$767 million of which was settled by a promissory note which carried no interest and will mature in September 2010. The Group made a further investment of approximately HK$446 million in Tianjin project during the year under review.

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. When appropriate, the Group will consider engaging relevant hedging arrangements suitable for its financing structure.

The Group is exposed to exchange fluctuations on Renminbi with its investments in Mainland China. External borrowings in Renminbi together with revenue generated from the development projects in Mainland China will serve as a natural hedge against the exchange rate risk of Renminbi.

With the financing facilities in place, recurrent rental income from investment properties, cash inflow from presale/sale 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 2009, in connection to the Group's investment properties, the Group had commitments for construction work which amounted to HK$128 million.

## Pledge of Assets

As at 31 December 2009, properties amounted to HK$7,521 million and time deposits of HK$15 million were pledged to financial institutions mainly to secure credit facilities extended to the Group.

## Contingent Liabilities

The Group had given three guarantees in respect of banking facilities granted to a jointly controlled entity. One guarantee is provided in a joint and several basis in the amount of RMB200 million. The joint venture partner and the Group had signed a mutual indemnification agreement by which each other will be indemnified on a 50:50 basis for any loss in connection from the provision of the guarantee. The banking facility was subsequently reduced and utilized to the extent of RMB80 million as at 31 December 2009. The other two guarantees amounted to RMB365 million, representing 50% proportional guarantee in respect of an aggregate of RMB730 million term loan facilities. The facilities were subsequently reduced and utilized to the extent of RMB600 million as at 31 December 2009.

# PROFILE OF DIRECTORS AND SENIOR MANAGEMENT

# Board of Directors

## Executive Directors

**OR Wai Sheun**, aged 58, 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 and a director of Or Family Trustee Limited Inc., 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 57, 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 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.

**LAI Ka Fai**, aged 45, 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 31, 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 65, is the *Deputy Chairman* of the Company. He has been a Non-executive Director since January 2002. He is a director of, inter alia, Or Family Trustee Limited Inc. and a founding Partner of the Lantern Group which invests in U.K. property and shares. 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.

**TAM Hee Chung**, aged 66, has been a *Non-executive Director* of the Company since January 2002. He is the managing director of Larry H.C. Tam & Associates Limited, a surveying, valuing and development consultancy company. Mr Tam started his professional career in Crown Lands & Survey Office of the Hong Kong Government (already consolidated into the Lands Department), in which he reached the rank of Acting Government Land Agent/Valuation in charge of the Valuation Branch of the said Office. He left the Government in 1981 and joined a property company as the general manager, and later set up his own practice as Larry H.C. Tam & Associates Limited. Mr Tam has extensive experience in all aspects of the land professional work both in government and in private practice. He was a member of the Town Planning Board and the Building Committee of the Housing Authority. Mr Tam is a fellow member of both the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors. He is also a Registered Professional Surveyor.

**YEUNG Kwok Kwong**, aged 51, has been a *Non-executive Director* of 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 60, 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 30 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, CNPC (Hong Kong) Limited and Pokfulam Development Company Limited (each of them is listed on the Stock Exchange of Hong Kong). Mr Li was the non-executive chairman of Atlantis Asian Recovery Fund plc, an independent non-executive director of ABC Communications (Holdings) Limited (listed on the Stock Exchange of Hong Kong) and an independent non-executive director of Value Partners China Greenchip Fund Limited. 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 60, 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 61, 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 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 63, 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 both HSBC Private Banking Holdings (Suisse) SA and The Bank of Bermuda Limited, which are companies within 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.

## Senior Management

**AU YEUNG Chi Hung, Alex**, aged 50, is the *General Manager, Land and Business Development Department*. He has over 27 years' working experience in large scale infrastructure and property development projects in Hong Kong, Macau and Mainland China. Prior to joining the Company in 2002, he had been a general manager in a property development company for over 8 years involved in various aspects of property development including land acquisition, rezoning, master planning, planning and plan submission, contracting, marketing and construction supervision. He is a member of the Hong Kong Institution of Engineers.

**CHEUNG Kin Hung, Grace**, aged 37, is the *General Manager, Land and Business Development Department*. She joined the Company in 2008. She has over 15 years of experience in strategic land conversion, planning and development, land acquisition/merging, and financial planning for sizable property development and infrastructure projects in Hong Kong and Mainland China. She was previously director of professional firms and was the chief development manager and lands counsel of a listed enterprise. She holds a Bachelor of Science degree in Surveying from the University of Hong Kong and a Master of Science degree in Financial Management from the University of London. She is a member of both the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors, a Registered Professional Surveyor (General Practice) and a Registered Business Valuer.

**LIU Bik Yuk**, aged 40, is the *Executive Assistant to Chairman*. She joined the Company as Leasing Manager in 2004 and was promoted to her current position in 2007. She has over 15 years of experience in leasing, sales, marketing and promotion. She holds a Bachelor of Science degree in Business Administration.

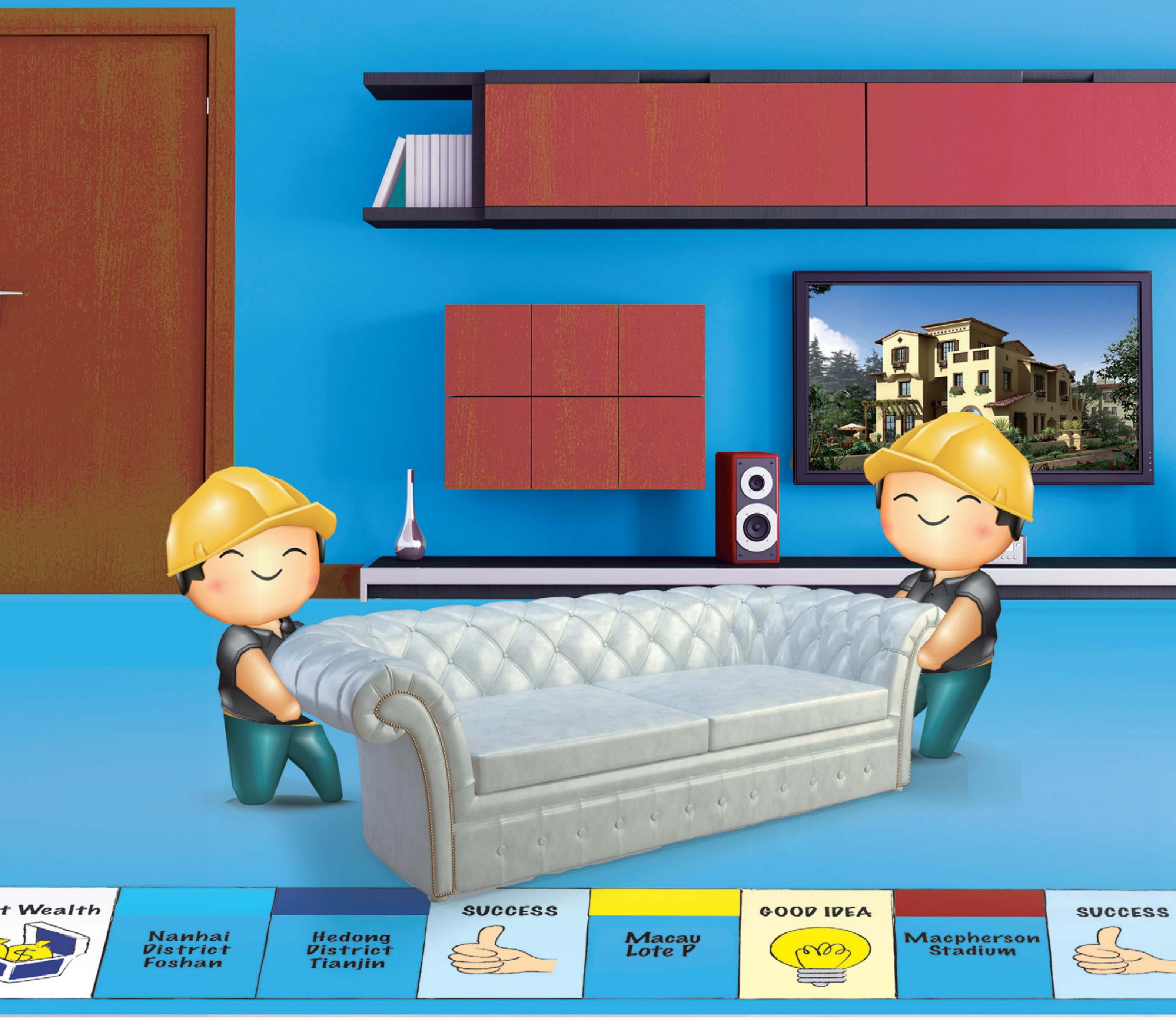
**LOOK Pui Fan**, aged 44, is the *Company Secretary*. She joined the Company in January 2009. She has extensive experience in company secretarial practice and strategic investments. She holds a Bachelor of Arts degree in Accountancy from the City University of Hong Kong and a Bachelor of Laws from the University of London. She is a fellow member of both the Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators.

**LUI Shan Lai**, aged 44, is the *General Manager, Finance Department*. She rejoined the Company in 1996 and had previously served the Company from 1990 to 1993. Prior to that, she worked with an international accounting firm for several years. She has over 20 years of experience in finance and accounting. She graduated from the University of Hong Kong with a Bachelor's degree in Social Sciences. She is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and a member of CPA Australia.

**WONG Kam Hung, Clement**, aged 53, is the *Property Director, China Project Department*. He joined the Company in September 2009. He has solid experience in the planning, development and construction of property projects in Mainland China and Hong Kong. Before joining the Company, he held management positions with large property developers. He graduated from the University of Hong Kong with a Bachelor of Science degree in Engineering. He is a member of the Hong Kong Institution of Engineers and the Chartered Institution of Building Services Engineers. He is also a Chartered Engineer registered with Engineering Council.

**YIP Kwok Fai**, aged 42, is the *General Project Manager, Property Development Department*. He joined the Company in 2002. He has over 15 years of experience in property development projects in Hong Kong, Macau and Mainland China. Previously, he was project manager of a large property developer and worked for architectural consultancy firms, specializing in large scale property projects. He graduated from the University of Hong Kong. He holds a Doctor's degree in Business Administration and a Master's degree in Architecture. He is a fellow member of the International Institute of Management and a member of both the Royal Institute of British Architects and the Hong Kong Institute of Architects. He is also an Authorized Person registered under the Buildings Ordinance and a Registered Professional Architect.

# CORPORATE GOVERNANCE REPORT



“To enhance our competitive position in the property markets of Hong Kong, Mainland China and Macau with the aim of becoming one of very few listed companies to have the capability to grow significantly in all three markets.”

The corporate objective guides us to strive for long-term success. We are committed to:

- executing projects in timely, high-quality and cost effective ways
- providing superior quality property with a strong focus on modern, elegant and long-lasting design
- the core values of integrity, heart and teamwork upon which operational excellence is achieved

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 emphasize on the importance of a quality Board and accountability to shareholders. We will regularly review our corporate governance practices based on these principles to maintain the long-term health of the Company.

## Code on 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 of Corporate Governance Practices 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.

The Company has complied throughout the year 2009 the code provisions of the Code of Corporate Governance Practices except Code Provision A.2.1 (which recommends the roles of the chairman and chief executive officer should be separate) as explained below.

## Board of Directors

From 1 January 2009 till the year end, the Board comprised the executive Chairman, the non-executive Deputy Chairman, three executive Directors and six non-executive Directors. The majority of non-executive Directors are independent. Every independent Director confirmed in writing his independence with reference to the criteria affecting independence set out in the Listing Rules. The Company considers that they satisfy the independence requirements.

There has been no change in the composition of the Board during the year. Brief biographical details of them are given on pages 26 to 28.

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 Board delegates Management to carry out day-to-day operational duties but 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

Mr Or Wai Sheun, the Chairman, has performed the combined role as the chairman and the chief executive officer taking charge of overall operation of the Group. 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 does not have a standing Nomination Committee focusing on Board membership criteria and selection. The Board may establish ad hoc independent committee to make recommendations to the Board for naming new members based on objective criteria, such as ability, knowledge, experience and the requirements of independence set out in the Listing Rules.

Every existing non-executive Directors 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.

## 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 value, 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. Four 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 her 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 three Board committees. They adopted formal terms of reference, which has included those specific duties in line with Code Provision B.1.3 (Remuneration Committee) and Code Provision C.3.3 (Audit Committee). These are available from the Company's website (www.kdc.com.hk) 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 |

# Independent Non-executive Director

## Executive Committee

The Executive Committee comprises all executive Directors and a non-executive Director. The committee has 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.

## 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 discuss 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 Directors. The chairman of the committee possesses the relevant financial management expertise and experience. The committee members met three times during 2009. Main duties performed during the year 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; and
- 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.

## Remuneration Committee

The Remuneration Committee comprises four members, three of whom are independent 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 remuneration of Directors and Senior Management and determine the remuneration of executive Directors and Senior Management. They met twice during 2009. Main duties performed during the year 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 the director fees proposal submitted by Management.

## Time Commitment

Each of the non-executive Directors committed sufficient time during 2009 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 are set out below.

| Board Members | Board Meetings | Remuneration Committee Meetings | Audit Committee Meetings |
|---|---|---|---|
| *Executive Directors* | | | |
| Or Wai Sheun *(Chairman)* | 4 | – | – |
| Ng Chi Man* | 4 | – | – |
| Lai Ka Fai | 4 | 2 | – |
| Or Pui Kwan* | 4 | – | – |
| *Non-executive Directors* | | | |
| Keith Alan Holman *(Deputy Chairman)* | 4 | – | – |
| Tam Hee Chung | 3 | – | – |
| Yeung Kwok Kwong | 4 | – | 2 |
| *Independent Non-executive Directors* | | | |
| Li Kwok Sing, Aubrey | 4 | 2 | 3 |
| Lok Kung Chin, Hardy | 4 | 2 | 3 |
| Seto Gin Chung, John | 4 | 2 | 3 |
| David John Shaw | 4 | – | – |
| **Total meetings held** | 4 | 2 | 3 |

* Family members of Mr Or Wai Sheun

During 2009, independent Directors had also played vital monitoring roles in corporate transactions including the entering into agreements for guaranteeing bank loan facilities granted to a Foshan joint-venture company in January; disposal of 12% interest of Tianjin project company in July; and acquisition of Hong Kong and Shenyang properties in August. The Board considers that independent Directors contribute significantly to the deliberations of the Board by virtue of independent judgement, expertise and experience.

## 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 interests 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 and 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 delegated powers to recommend the policy and structure of all remuneration of 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 authorized 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 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 three meetings with the Head of Internal Audit Department to discuss about the role, objectives, scope and job progress of internal audit functions.

### 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 respects, 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 recognizes that a clear, balanced and timely presentation of financial report is crucial in maintaining the confidence of stakeholders. Reasonable disclosure of the Company's and the Group's financial position and prospects are provided in the report. Annual and interim results are published as early as possible after the end of the relevant financial year/period.

### External Auditors

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

| | | **2009** **HK$'000** |
|---|---|---|
| Audit services | | 3,705 |
| Non-audit services | | 780 |
| Tax and business advisory services | 281 | |
| Other services | 499 | |

The Audit Committee discussed at least annually with the external auditors about their independence status to ensure they performed objectively. External auditors confirmed in writing of their independence.

## Shareholder Relations

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 attend, fellow Directors are available to answer questions at the general meetings.

During the year, the Board convened two general meetings. Not less than 20 clear business days' notice for annual general meeting and not less than 10 clear business days' notice for extraordinary general meeting were served. At both meetings, the chairmen demanded for a poll and the Company's share registrars was appointed as scrutineer for the vote-taking.

The Company's website (www.kdc.com.hk) serves as a communication tool, company information including corporate profile, governance, announcements, business news and financial reports are available to the public.

## Other Information

### Corporate Citizenship

The Company is committed to enhance corporate citizenship and has become a corporate member of WWF-Hong Kong since 2007. In 2008, the Company upgraded its membership to Pearl Member and continues to support their conservation and education work.

WWF HONG KONG Pearl Member 珍珠會員2009

商界展關懷 caringcompany 2009/10 Awarded by The Hong Kong Council of Social Service 香港社會服務聯會頒發

The Company was also awarded "Caring Company" 2009/10 by The Hong Kong Council of Social Service in recognition of our good corporate citizenship.

# 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 2009.

## 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 31 on the accounts.

## Accounts

The profit of the Group for the year ended 31 December 2009 and the state of affairs of the Company and of the Group at that date are set out in the accounts on pages 51 to 127.

## Dividends

An interim dividend of HK$0.20 per share (2008: HK$0.19 per share) was paid on 16 October 2009. The Directors now recommend that a final dividend of HK$0.32 per share (2008: HK$0.20 per share) be paid in respect of the year ended 31 December 2009.

## Share Capital

Movements in share capital during the year are set out in note 26(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 2009.

## 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.

## Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and of the Group as at 31 December 2009 are set out in notes 12, 22, 23, 24 and 25 on the accounts.

## Finance Costs Capitalized

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

## Donations

Charitable donations made by the Group during the year amounted to HK$106,400 (2008: HK$390,252).

## Properties

Particulars of major properties and property interests of the Group are shown on pages 129 to 132 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 3 and 4 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*
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*

In accordance with Article 105 of the Articles of Association of the Company, Mr Or Wai Sheun, Mr Li Kwok Sing, Aubrey, 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 Listing Rules, are set out in note 5(a) on the accounts.

Brief biographical particulars of all Directors are given on pages 26 to 28 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 2009, 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 pursuant to 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 | 812,230,124 | | 2 |
| | Corporate | 277,500 | | 3 |
| | | 812,507,624 | 70.61% | |
| Ng Chi Man | Beneficiary of a trust | 812,230,124 | 70.59% | 2 |
| Or Pui Kwan | Beneficiary of a trust | 812,230,124 | | 2 |
| | Personal | 43,500 | | |
| | | 812,273,624 | 70.59% | |
| Lok Kung Chin, Hardy | Founder and beneficiary of trusts | 1,425,000 | 0.12% | 4 |
| Lai Ka Fai | Personal | 701,000 | 0.06% | |
| Keith Alan Holman | Personal | 567,000 | 0.05% | |
| Tam Hee Chung | Personal | 300,000 | 0.03% | |
| David John Shaw | Personal | 133,500 | | |
| | Family | 67,000 | | 5 |
| | | 200,500 | 0.02% | |
| Yeung Kwok Kwong | Personal | 165,000 | 0.01% | |

## 2 Long positions in the shares of Polytec Asset

| Name | Nature of interest | 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% | |
| Tam Hee Chung | Personal | 1,100,000 | 0.02% | |
| 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 2009.

(2) Such interest in shares is held by Intellinsight Holdings Limited, a wholly-owned subsidiary of Polytec Holdings International Limited which is ultimately wholly-owned by a discretionary trust, the trustee of which is Or Family Trustee Limited Inc. The said trust is in turn wholly-owned by another 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 2009.

(7) The three references to 3,260,004,812 shares in Polytec Asset relate to the same block of shares 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 2009, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares or 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 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 2009, the interests of other persons (other than the 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 | 805,826,974 | 70.03% | 2 |
| Or Family Trustee Limited Inc. | Trustee | 805,880,124 | 70.04% | 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 2009.

(2) Based on information available to the Company, as at 31 December 2009, HSBC International Trustee Limited was taken to be interested in 812,344,474 shares of the Company for the purposes of the SFO. Such interest included the shares owned by a family trust as explained in note (2) under the section headed "Directors' Interests and Short Positions".

(3) Based on information available to the Company, as at 31 December 2009, Or Family Trustee Limited Inc. was taken to be interested in 812,230,124 shares of the Company by virtue of being the trustee of a family trust as stated above.

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

Save as disclosed above, as at 31 December 2009, the Company has 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

(1) During the year, Polytec Asset's subsidiary had exercised their right to further defer the payment of the balance of the cash consideration for the acquisition of New Bedford Properties Limited. The outstanding balance of the consideration together with accrued interest thereon due to Polytec Holdings International Limited ("Polytec Holdings"), the controlling shareholder of the Company, as at 31 December 2009 was HK$566,374,000. Mr Or Wai Sheun, Ms Ng Chi Man and Mr Or Pui Kwan, the Directors, were interested in the transactions by virtue of being beneficiaries of a family trust as disclosed in the section headed "Directors' Interests and Short Positions".

Details of the transactions, including the provision of loans relating to the development of three property development projects in Macau, were disclosed in the circular dated 23 May 2006 issued by the Company. The transactions were approved by independent shareholders of the Company in 2006.

(2) On 2 January 2009, a corporate guarantee was executed by the Company in connection with the loan facility of RMB380 million granted by Bank of China Limited (Foshan Branch) for CITIC Polytec Property (Foshan) Company Limited, a jointly controlled entity of the Company. The maximum liability thereunder shall be RMB190 million in respect of the loan principal, equivalent to 50% of the loan, and relevant interests, fees and expenses thereon. CITIC Polytec Property (Foshan) Company Limited was an associate of CITIC South China (Group) Co., Ltd. (which, before the completion of the disposal set out in item (3) below, was a substantial shareholder of the Company's subsidiary by virtue of the Listing Rules) and thus a connected person.

The transaction, when aggregated with the guarantee of up to RMB200 million already provided by the Company for the same jointly controlled entity in respect of other term loan facility granted by a PRC financial institution as previously disclosed in the announcement of the Company dated 24 July 2008, was a discloseable and connected transaction. The transaction was approved by means of a written shareholders' approval.

(3) On 29 July 2009, an equity transfer agreement was entered into by the Company for the disposal of 12% interest in a subsidiary, namely Polytec CITIC Property (Tianjin) Co., Ltd. (which has been renamed as CITIC Polytec Property (Tianjin) Co., Ltd. and became an associated company of the Company since the completion of the disposal), to Tianjin CITIC Real Estate Investment Co., Ltd. (currently known as CITIC Real Estate Tianjin Investment Co., Ltd.), a subsidiary of CITIC South China (Group) Co., Ltd. The total proceeds in connection with the disposal was approximately RMB271 million as detailed in the circular of the Company dated 20 August 2009.

Prior to the completion of the disposal, Tianjin CITIC Real Estate Investment Co., Ltd. was as a substantial shareholder of the Company's subsidiary and thus a connected person by virtue of the Listing Rules. The disposal was a discloseable and connected transaction and was approved by means of a written shareholders' approval.

(4) On 13 August 2009, the Company entered into an agreement with Polytec Holdings for the acquisition of the entire issued share capital of Best Award Investments Limited and High Cheer Investments Limited together with the assignment of related shareholder's loans. The acquisition was a discloseable and connected transaction and was approved by the independent shareholders in a general meeting of the Company on 28 September 2009.

The total consideration of the acquisition was HK$856,506,000, of which HK$90,000,000 was paid in September 2009 and the remaining balance will be paid on or before the first anniversary of the date of completion.

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 33 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.

## Disclosure pursuant to Rule 13.21 of the Listing Rules

On 22 January 2010, the Company as borrower entered into the loan agreement (the "Loan Agreement") with a bank as lender for term loan and revolving loan facilities of up to HK$2,568 million for the purposes of refinancing the pre-existing loan made by the bank and financing the general working capital of the Company. The final maturity date of the loans thereunder shall be on the date falling twelve months from 22 January 2010.

The Loan Agreement provides that it would constitute an event of default if the shareholding of Polytec Holdings, or through its subsidiaries, in the Company falls below 51%. After the happening of the event of default, the bank may declare that the indebtedness or any part thereof has become immediately due and payable.

## 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 32 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 31 to 40 of the Annual Report.

## Review of Accounts

The Audit Committee has reviewed the Group's consolidated accounts for the year ended 31 December 2009, 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.

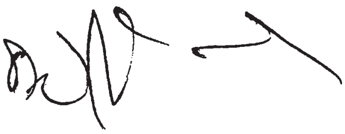
## Closure of Register of Members

The Register of Members of the Company will be closed on Monday, 17 May 2010 and Tuesday, 18 May 2010. 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 for registration not later than 4:30 pm on Friday, 14 May 2010.

## 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, 1 March 2010

# Consolidated Income Statement

for the year ended 31 December 2009
(Expressed in Hong Kong dollars)

| | Note | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **Turnover** | 3 | **1,985,304** | 8,792,773 |
| Cost of sales | | **(534,683)** | (8,171,721) |
| Other revenue | 4(a) | **57,062** | 41,282 |
| Other net income | 4(b) | **152,566** | 34,170 |
| Depreciation and amortization | | **(11,288)** | (10,597) |
| Staff costs | | **(111,304)** | (76,541) |
| Other operating expenses | | **(60,081)** | (229,023) |
| Fair value changes on investment properties | 11 | **72,357** | 878,833 |
| Unwinding cost for contingent forward transactions | 4(c) | **–** | (1,614,522) |
| Loss on disposal of available-for-sale investments | 4(d) | **–** | (1,588,710) |
| **Profit/(Loss) from operations** | | **1,549,933** | (1,944,056) |
| Finance costs | 4(f) | **(23,154)** | (95,512) |
| Share of profits of associated companies | 4(h) | **2,370** | 206 |
| Share of profits less losses of jointly controlled entities | 4(i) | **38,955** | (53,455) |
| Negative goodwill | 4(e) | **–** | 1,205,914 |
| **Profit/(Loss) before taxation** | 4 | **1,568,104** | (886,903) |
| Income tax | 6(a) | **(114,231)** | (171,131) |
| **Profit/(Loss) for the year** | | **1,453,873** | (1,058,034) |
| Attributable to: | | | |
| Shareholders of the Company | 7 | **1,213,541** | (629,266) |
| Minority interests | | **240,332** | (428,768) |
| **Profit/(Loss) for the year** | | **1,453,873** | (1,058,034) |
| **Earnings/(Loss) per share – Basic/Diluted** | 8 | **$1.05** | ($0.55) |

The notes on pages 58 to 127 form part of these accounts.

# Consolidated Statement of Comprehensive Income

for the year ended 31 December 2009
(Expressed in Hong Kong dollars)

| | 2009<br>$'000 | 2008<br>$'000 |
|---|---|---|
| **Profit/(Loss) for the year** | **1,453,873** | (1,058,034) |
| **Other comprehensive income for the year** | | |
| Exchange differences on translation of accounts of overseas subsidiaries | **3,495** | 149,360 |
| Realization of exchange differences upon disposal of interest in a subsidiary | **(21,520)** | – |
| Changes in fair value of available-for-sale investments | **(6,585)** | (1,625,213) |
| Changes in fair value of interests in property development | **(134,112)** | 768,437 |
| Impairment loss on available-for-sale investments | **9,078** | – |
| Transfer to income statement upon disposal of available-for-sale investments | **–** | 1,588,710 |
| Transfer to income statement upon recognition from interests in property development | **(751,168)** | (506,760) |
| Share of other comprehensive income of jointly controlled entities and associated companies | **538** | 38,528 |
| | **(900,274)** | 413,062 |
| **Total comprehensive income for the year** | **553,599** | (644,972) |
| Attributable to: | | |
| Shareholders of the Company | **579,792** | (321,633) |
| Minority interests | **(26,193)** | (323,339) |
| **Total comprehensive income for the year** | **553,599** | (644,972) |

The notes on pages 58 to 127 form part of these accounts.

# Consolidated Balance Sheet

at 31 December 2009
(Expressed in Hong Kong dollars)

| | | 2009 | | 2008 | |
|---|---|---|---|---|---|
| | Note | $'000 | $'000 | $'000 | $'000 |
| **Non-current assets** | | | | | |
| Fixed assets | | | | | |
| – Investment properties | | | **6,108,010** | | 6,027,990 |
| – Leasehold land held for own use | | | **239,431** | | 245,961 |
| – Other property, plant and equipment | | | **38,616** | | 41,725 |
| | 11 | | **6,386,057** | | 6,315,676 |
| Interests in property development | 13 | | **10,116,880** | | 10,251,062 |
| Interest in jointly controlled entities | 14 | | **1,280,826** | | 1,241,043 |
| Interest in associated companies | 15 | | **1,286,726** | | 7,584 |
| Financial investments | 16 | | **27,096** | | 33,681 |
| Loans and advances | 17 | | **9,338** | | 14,085 |
| Deferred tax assets | 10(a) | | **30,266** | | 31,711 |
| | | | **19,137,189** | | 17,894,842 |
| **Current assets** | | | | | |
| Inventories | 18 | **7,067,026** | | 5,854,969 | |
| Interests in property development | 13 | **–** | | 1,601,329 | |
| Trade and other receivables | 19 | **169,622** | | 2,196,512 | |
| Loans and advances | 17 | **31,322** | | 42,407 | |
| Amounts due from jointly controlled entities | 14 | **210,822** | | 997,314 | |
| Derivative financial instrument | 20(a) | **7,800** | | – | |
| Financial investments | 16 | **80,016** | | 202,176 | |
| Time deposits (pledged) | 30 | **15,000** | | 18,810 | |
| Cash and cash equivalents | | **575,237** | | 967,499 | |
| | | **8,156,845** | | 11,881,016 | |
| **Current liabilities** | | | | | |
| Trade and other payables | 21 | **1,061,330** | | 2,676,052 | |
| Amount payable to ultimate holding company | 23 | **766,506** | | 1,380 | |
| Amounts due to minority shareholders | 22 | **–** | | 461,158 | |
| Derivative financial instruments | 20(b) | **–** | | 45,526 | |
| Bank loans | 25 | **3,117,500** | | 1,166,000 | |
| Current taxation | | **274,121** | | 398,870 | |
| | | **5,219,457** | | 4,748,986 | |
| **Net current assets** | | | **2,937,388** | | 7,132,030 |
| **Total assets less current liabilities** | | | **22,074,577** | | 25,026,872 |

| | Note | 2009 $'000 | 2009 $'000 | 2008 $'000 | 2008 $'000 |
|---|---|---|---|---|---|
| **Non-current liabilities** | | | | | |
| Loan from ultimate holding company | 24 | **1,200,559** | | 2,473,789 | |
| Amount payable to ultimate holding company | 23 | **566,374** | | 686,497 | |
| Bank loans | 25 | **150,000** | | 1,862,000 | |
| Deferred tax liabilities | 10(a) | **1,071,264** | | 900,145 | |
| | | | **2,988,197** | | 5,922,431 |
| **Net assets** | | | **19,086,380** | | 19,104,441 |
| **Capital and reserves** | | | | | |
| Share capital | 26(b) | | **115,068** | | 115,068 |
| Reserves | | | **16,019,126** | | 15,899,606 |
| **Total equity attributable to the shareholders of the Company** | | | **16,134,194** | | 16,014,674 |
| **Minority interests** | | | **2,952,186** | | 3,089,767 |
| **Total equity** | | | **19,086,380** | | 19,104,441 |

Approved and authorized for issue by the board of directors on 1 March 2010.

**Or Wai Sheun**
*Director*

**Lai Ka Fai**
*Director*

The notes on pages 58 to 127 form part of these accounts.

# Balance Sheet

at 31 December 2009
(Expressed in Hong Kong dollars)

| | Note | **2009** $'000 | **2009** $'000 | 2008 $'000 | 2008 $'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Fixed assets | | | | | |
| – Investment properties | | | **4,318,000** | | 4,267,000 |
| – Other property, plant and equipment | | | **3,572** | | 4,168 |
| | 11 | | **4,321,572** | | 4,271,168 |
| Interest in subsidiaries | 12 | | **10,230,294** | | 10,828,434 |
| Interest in a jointly controlled entity | 14 | | **584,079** | | 584,079 |
| Interest in an associated company | 15 | | **1,219,366** | | – |
| | | | **16,355,311** | | 15,683,681 |
| **Current assets** | | | | | |
| Trade and other receivables | 19 | **12,758** | | 319,651 | |
| Amount due from a jointly controlled entity | 14 | **31,835** | | 383,700 | |
| Cash and cash equivalents | | **246,916** | | 540,704 | |
| | | **291,509** | | 1,244,055 | |
| **Current liabilities** | | | | | |
| Trade and other payables | 21 | **103,114** | | 84,060 | |
| Amount payable to ultimate holding company | 23 | **766,506** | | 1,380 | |
| Bank loans | 25 | **2,100,000** | | 255,000 | |
| Current taxation | | **15,865** | | 3,496 | |
| | | **2,985,485** | | 343,936 | |
| **Net current (liabilities)/assets** | | | **(2,693,976)** | | 900,119 |
| **Total assets less current liabilities** | | | **13,661,335** | | 16,583,800 |
| **Non-current liabilities** | | | | | |
| Loan from ultimate holding company | 24 | **1,200,559** | | 2,473,789 | |
| Bank loans | 25 | **–** | | 1,862,000 | |
| Deferred tax liabilities | 10(a) | **607,682** | | 597,586 | |
| | | | **1,808,241** | | 4,933,375 |
| **Net assets** | | | **11,853,094** | | 11,650,425 |
| **Capital and reserves** | | | | | |
| Share capital | | | **115,068** | | 115,068 |
| Reserves | | | **11,738,026** | | 11,535,357 |
| **Total equity** | 26 | | **11,853,094** | | 11,650,425 |

Approved and authorized for issue by the board of directors on 1 March 2010.

**Or Wai Sheun**
*Director*

**Lai Ka Fai**
*Director*

The notes on pages 58 to 127 form part of these accounts.

# Consolidated Statement of Changes in Equity

for the year ended 31 December 2009
(Expressed in Hong Kong dollars)

| | Attributable to shareholders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital $'000 | Share premium $'000 | Capital reserve $'000 | Fair value reserves $'000 | Exchange reserves $'000 | Retained profits $'000 | Total $'000 | Minority interests $'000 | Total equity $'000 |
| At 1 January 2008 | 115,068 | 8,302,404 | 2,154 | 2,138,729 | 143,316 | 6,405,592 | 17,107,263 | 4,712,021 | 21,819,284 |
| Changes in equity for 2008 | | | | | | | | | |
| Dividends approved in respect of the previous year | – | – | – | – | – | (552,327) | (552,327) | – | (552,327) |
| Dividends approved in respect of the current year | – | – | – | – | – | (218,629) | (218,629) | – | (218,629) |
| Dividend paid to minority interests | – | – | – | – | – | – | – | (46,897) | (46,897) |
| Loans from minority shareholders | – | – | – | – | – | – | – | 165,090 | 165,090 |
| Minority interests of a subsidiary acquired | – | – | – | – | – | – | – | 60,014 | 60,014 |
| Decrease in minority interests attributable to an increase in shareholding of a subsidiary | – | – | – | – | – | – | – | (1,477,122) | (1,477,122) |
| Total comprehensive income for the year | – | – | – | 119,247 | 188,386 | (629,266) | (321,633) | (323,339) | (644,972) |
| At 31 December 2008 | 115,068 | 8,302,404 | 2,154 | 2,257,976 | 331,702 | 5,005,370 | 16,014,674 | 3,089,767 | 19,104,441 |
| **At 1 January 2009** | **115,068** | **8,302,404** | **2,154** | **2,257,976** | **331,702** | **5,005,370** | **16,014,674** | **3,089,767** | **19,104,441** |
| **Changes in equity for 2009** | | | | | | | | | |
| Dividends approved in respect of the previous year | **-** | **-** | **-** | **-** | **-** | **(230,136)** | **(230,136)** | **-** | **(230,136)** |
| Dividends approved in respect of the current year | **-** | **-** | **-** | **-** | **-** | **(230,136)** | **(230,136)** | **-** | **(230,136)** |
| Dividend paid to minority interests | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(25,939)** | **(25,939)** |
| Decrease in loans from minority shareholders | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(33,423)** | **(33,423)** |
| Decrease in minority interests upon disposal of a subsidiary | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(52,026)** | **(52,026)** |
| Total comprehensive income for the year | **-** | **-** | **-** | **(615,403)** | **(18,346)** | **1,213,541** | **579,792** | **(26,193)** | **553,599** |
| **At 31 December 2009** | **115,068** | **8,302,404** | **2,154** | **1,642,573** | **313,356** | **5,758,639** | **16,134,194** | **2,952,186** | **19,086,380** |

As at 31 December 2009, loans from minority shareholders of $168,432,000 (2008: $201,855,000) are classified as equity being the capital contributions on subsidiaries by the minority shareholders.

The notes on pages 58 to 127 form part of these accounts.

# Consolidated Cash Flow Statement

for the year ended 31 December 2009
(Expressed in Hong Kong dollars)

| | Note | 2009 $'000 | 2008 $'000 |
|---|---|---|---|
| **Net cash from/(used in) operating activities** | 27(a) | **1,500,800** | (2,411,268) |
| **Investing activities** | | | |
| Sale of fixed assets | | **43** | 10 |
| Additions to fixed assets and properties | | **(10,063)** | (8,894) |
| Increase in loan to an associated company | | **(445,920)** | – |
| Increase in loan to a jointly controlled entity | | **–** | (183,500) |
| Additional investment in a subsidiary | | **–** | (263,174) |
| Acquisition of subsidiaries | 27(b) | **(85,858)** | (129,302) |
| Disposal of interest in a subsidiary | 27(c) | **303,111** | – |
| Acquisition of derivative financial instrument | | **(7,800)** | – |
| **Net cash used in investing activities** | | **(246,487)** | (584,860) |
| **Financing activities** | | | |
| Increase in bank loans | | **239,500** | 1,263,300 |
| (Decrease)/Increase in loan from ultimate holding company | | **(1,273,230)** | 2,601,825 |
| Decrease in loans from minority shareholders | | **(33,423)** | – |
| Decrease in amount payable to ultimate holding company | | **(95,339)** | – |
| Dividend paid to shareholders of the Company | | **(459,868)** | (770,243) |
| Dividend paid to minority shareholders | | **(25,939)** | (46,897) |
| **Net cash (used in)/from financing activities** | | **(1,648,299)** | 3,047,985 |
| **Net (decrease)/increase in cash and cash equivalents** | | **(393,986)** | 51,857 |
| Cash and cash equivalents at 1 January | | **967,499** | 907,961 |
| Effect of foreign exchange rate changes | | **1,724** | 7,681 |
| **Cash and cash equivalents at 31 December** | | **575,237** | 967,499 |
| **Analysis of balances of cash and cash equivalents at 31 December** | | | |
| Deposits with banks and other financial institutions | | **230** | 616 |
| Cash at bank and in hand | | **575,007** | 966,883 |
| | | **575,237** | 967,499 |

The notes on pages 58 to 127 form part of these accounts.

## 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 2 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, derivative financial instruments 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 34.

### (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.

## 1 Significant accounting policies *(Continued)*

### (d) Goodwill

Goodwill arising on consolidation represents the excess of the cost of the acquisition of subsidiaries, associated companies and jointly controlled entities over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired at the date of acquisition. Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to relevant cash-generating units and is tested annually for impairment. Goodwill arising on the acquisition of associated companies or jointly controlled entities is included in the carrying amount of interest in the associated companies or jointly controlled entities and the investment as a whole is tested for impairment whenever there is objective evidence of impairment. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over the cost of acquisition is recognized immediately in the income statement.

On disposal of a subsidiary, an associated company or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

### (e) Interest in subsidiaries and minority 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 unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated accounts. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority 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 minority interests and the equity shareholders of the Company.

## 1 Significant accounting policies *(Continued)*

### (e) Interest in subsidiaries and minority interests *(Continued)*

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

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.

### (f) 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 and adjusted thereafter for the post-acquisition changes in the Group's share of the associated company's net assets and any impairment loss relating to the investment. The Group's share of the post-acquisition, post-tax results of the associated company and any impairment losses for the year are recognized 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 recognized in the consolidated statement of comprehensive income.

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)*

### (g) 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 recognized 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 recognized 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 and adjusted thereafter 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. The Group's share of the post-acquisition, post-tax results of the jointly controlled entities and any impairment loss for the year are recognized 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 recognized in the consolidated statement of comprehensive income.

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)*

### (h) 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 recognized 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 realizable value. Net realizable 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 recognized 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 recognized 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 derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in the income statement.

#### (iv) Properties under development

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

## 1 Significant accounting policies *(Continued)*

### (h) Properties *(Continued)*

#### (v) Properties held for sale

Properties held for sale are stated at the lower of cost and the estimated net realizable value. Net realizable 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 in the balance sheet at cost and amortized on a straight-line basis over the lease term.

Leasehold buildings held for own use which are situated on leasehold land, where fair value of the buildings could be measured separately from the fair value of the leasehold land at the inception of the lease are stated in the balance sheet at cost less accumulated depreciation and impairment losses.

### (i) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less allowance for impairment of doubtful debts.

### (j) 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 recognized in the income statement. The net gain or loss recognized in the income statement does not include any dividends or interest earned on these investments as they are recognized in accordance with the policies set out in note 1(q)(v) and (vi).

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 amortized cost less impairment losses.

## 1 Significant accounting policies *(Continued)*

### (j) Financial assets *(Continued)*

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 recognized 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 recognized in other comprehensive income and accumulated separately in equity in the fair value reserve, except for impairment losses. Income from these investments is recognized in the income statement in accordance with the policies set out in note 1(q)(iii) and (v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognized in the income statement in accordance with the policy set out in note 1(q)(vi). When these investments are derecognized or impaired, the cumulative gain or loss is reclassified from equity to the income statement.

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

Derivative financial instruments are recognized initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is recognized immediately in the income statement, except where the derivatives qualify for cash flow hedge accounting. Where a derivative financial instrument qualifies for hedge accounting and is designated as a cash flow hedge, the effective part of any unrealized gains or losses on the instrument are recognized in other comprehensive income and accumulated separately in equity in the hedging reserve. The ineffective portion of any gains or losses are recognized immediately in the income statement. The cumulative gain or loss associated with the effective part of cash flow hedge is reclassified from equity to the income statement in the same period or periods during which the gain or loss arising from the hedged transaction is recognized in the income statement.

### (k) Trade and other payables

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

### (l) 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.

## 1 Significant accounting policies *(Continued)*

### (l) Cash and cash equivalents *(Continued)*

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.

### (m) Borrowings

Borrowings are recognized initially at fair value and subsequently stated at amortized cost. Any difference between the amount initially recognized and the redemption value is amortized 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 capitalized as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred. The capitalization 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.

### (n) Depreciation and amortization

#### (i) Leasehold land and buildings

Leasehold land and buildings are stated at cost less accumulated depreciation and impairment losses. Leasehold land is amortized 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) Other fixed assets

Other fixed assets are stated at cost less accumulated depreciation and impairment losses. 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 |

## 1 Significant accounting policies *(Continued)*

### (o) 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 recognized no longer exists or may have decreased.

An impairment loss is recognized 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 recognized, the reversal of the impairment loss is recognized as follows:

(i) Financial assets

- For unquoted equity investments, impairment loss is not reversed in subsequent periods.

- For financial assets carried at amortized 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 recognized 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 recognized directly in other comprehensive income.

- For available-for-sale debt investments, reversal of an impairment loss is recognized in the income statement.

## 1 Significant accounting policies *(Continued)*

### (o) Impairment of assets *(Continued)*

(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 amortization or depreciation) that would have been determined had no impairment loss been recognized in prior years.

(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 recognized 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 recognized 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 recognized in other comprehensive income and not the income statement.

### (p) 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 recognized in the income statement except to the extent that they relate to items recognized in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognized 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.

## 1 Significant accounting policies *(Continued)*

### (p) Income tax *(Continued)*

Deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

The amount of deferred tax recognized is measured based on the expected manner of realization or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

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 utilized. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

### (q) 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 recognized in the income statement as follows:

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

Rental income receivable under operating leases is recognized 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 recognized in the income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognized as income in the accounting period in which they are earned.

#### (ii) Sale of properties

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

## 1 Significant accounting policies *(Continued)*

### (q) Recognition of revenue *(Continued)*

(iii) Income from interests in property development

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

(iv) Sale of financial investments

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

(v) Dividends income

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

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

(vi) Interest income

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

### (r) 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 recognized 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 recognized in other comprehensive income and accumulated separately in equity in the exchange reserve.

## 1 Significant accounting policies *(Continued)*

### (r) Translation of foreign currencies *(Continued)*

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 recognized.

### (s) 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 recognized as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognized 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 recognized in the income statement on initial recognition of any deferred income.

The amount of the guarantee initially recognized as deferred income is amortized in the income statement over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognized 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 recognized, less accumulated amortization.

#### (ii) Other provisions and contingent liabilities

Provisions are recognized 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.

## 1 Significant accounting policies *(Continued)*

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

#### (ii) Other provisions and contingent liabilities *(Continued)*

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.

### (t) Related parties

For the purposes of these accounts, a party is considered to be related to the Group if the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions or has joint control over the Group; the Group and the party are subject to common control; the party is an associated company of the Group or a joint venture in which the Group is a venturer. Related parties may be individuals or other entities.

### (u) 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.

### (v) 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 Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs that are first effective for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs has no material impact on the results and financial position of the Group. Except as described below, the accounts have been prepared on a basis consistent with the accounting policies adopted in the prior year accounts.

– HKFRS 8, "Operating segments", requires segment disclosure to be based on the way that the Group's top management regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's top management for the purposes of assessing segment performance and making decisions about operating matters. This contrasts with the presentation of segment information in prior years which was based on a disaggregation of the Group's accounts into segments based on related products and services and on geographical areas. The adoption of HKFRS 8 has resulted in the presentation of segment information in a manner that is more consistent with internal reporting provided to the Group's top management, and has resulted in amended disclosure being presented. Corresponding amounts have been provided on a basis consistent with the revised segment information.

– As a result of the adoption of HKAS 1 (revised 2007), "Presentation of financial statements", details of changes in equity during the period arising from transactions with shareholders of the Company in their capacity as such have been presented separately from all other income and expenses in a revised consolidated statement of changes in equity. All other items of income and expenses are presented in the consolidated income statement, if they are recognized as part of profit or loss for the period, or otherwise in a new primary statement, the consolidated statement of comprehensive income. Corresponding amounts have been restated to conform to the new presentation.

– As a result of the adoption of the amendments to HKFRS 7, "Financial instruments: Disclosures – improving disclosures about financial instruments", the accounts include expanded disclosures in note 35(g) about the fair value measurement of the Group's financial instruments, categorizing these fair value measurements into a three-level fair value hierarchy according to the extent to which they are based on observable market data. The Group has taken advantage of the transitional provisions set out in the amendments to HKFRS 7, under which comparative information for the newly required disclosures about the fair value measurements of financial instruments has not been provided.

– As a result of amendments to HKAS 40, "Investment property", investment property which is under construction will be carried at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. Any gain or loss will be recognized in profit or loss, consistent with the policy adopted for all other investment properties carried at fair value. Previously such property was carried at cost until the construction was completed, at which time it was fair valued with any gain or loss being recognized in profit or loss. This change in policy has no impact on net assets or profit or loss for any of the periods presented.

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

– The amendments to HKAS 27, "Consolidated and separate financial statements – cost of an investment in a subsidiary, jointly controlled entity or associate", have removed the requirement that dividends out of pre-acquisition profits should be recognized as a reduction in the carrying amount of the investment in the investee, rather than as income. As a result, as from 1 January 2009 all dividends receivable from subsidiaries, associated companies and jointly controlled entities, whether out of pre- or post-acquisition profits, will be recognized in the Company's profit or loss and the carrying amount of the investment in the investee will not be reduced unless that carrying amount is assessed to be impaired as a result of the investee declaring the dividend. In such cases, in addition to recognizing dividend income in profit or loss, the Company would recognize an impairment loss. In accordance with the transitional provisions in the amendment, this new policy will be applied prospectively to any dividends receivable in the current or future periods and previous periods have not been restated.

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

## 3 Segment reporting

The Group manages its business by a mixture of both business lines and geography. On adoption of HKFRS 8, "Operating segments", and 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/Macau/Mainland China): 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.

– Finance and investments segment: the financial investments and the provision of finance services.

– Other businesses segment: mainly includes income from the sale of ice and the provision of cold storage services and treasury operations.

Turnover comprises mainly rental income from properties, gross proceeds from sales of properties and held for trading investments, income from interests in property development, dividend and interest income.

# 3 Segment reporting *(Continued)*

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.

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Property development | | | | | |
| | Consolidated $'000 | Hong Kong $'000 | Macau $'000 | Mainland China $'000 | Property investment $'000 | Finance and investments $'000 | Others $'000 |
| Turnover | 1,985,304 | 529,620 | 761,637 | – | 272,217 | 367,224 | 54,606 |
| Reportable segment profit | 1,497,313 | 304,738 | 749,856 | 30,707 | 280,092 | 118,653 | 13,267 |
| Other revenue | 46,859 | | | | | | |
| Other net income | 68,944 | | | | | | |
| Fair value changes on investment properties | 72,357 | – | – | – | 72,357 | – | – |
| Share of fair value changes on investment properties of a jointly controlled entity | (12,480) | – | – | – | (12,480) | – | – |
| Head office and corporate expenses | (81,735) | | | | | | |
| Finance costs | (23,154) | | | | | | |
| Profit before taxation | 1,568,104 | | | | | | |
| Share of profits of associated companies | 2,370 | – | – | – | – | – | 2,370 |
| Share of profits less losses of jointly controlled entities | 38,955 | – | – | 34,254 | 4,701 | – | – |
| Interest income | 19,721 | – | – | – | – | 19,324 | 397 |
| Depreciation and amortization | (11,485) | – | – | – | – | – | (11,485) |
| Impairment loss on inventories written back | 12,170 | 12,170 | – | – | – | – | – |
| Fair value changes on held for trading listed investments | 38,096 | – | – | – | – | 38,096 | – |
| Fair value changes on derivative financial instruments | 45,526 | – | – | – | – | 45,526 | – |

## 3 Segment reporting *(Continued)*

(a) Segment results and assets *(Continued)*

| | 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Property development | | | | | |
| | Consolidated $'000 | Hong Kong $'000 | Macau $'000 | Mainland China $'000 | Property investment $'000 | Finance and investments $'000 | Others $'000 |
| Turnover | 8,792,773 | 497,583 | 533,678 | – | 255,596 | 7,446,119 | 59,797 |
| Reportable segment profit | 444,267 | 193,325 | 498,676 | (14,535) | 280,436 | (526,954) | 13,319 |
| Fair value changes on investment properties | 878,833 | – | – | – | 878,833 | – | – |
| Share of fair value changes on investment properties of a jointly controlled entity | (80,000) | – | – | – | (80,000) | – | – |
| Unwinding cost for contingent forward transactions | (1,614,522) | – | – | – | – | (1,614,522) | – |
| Loss on disposal of available-for-sale investments | (1,588,710) | – | – | – | – | (1,588,710) | – |
| Negative goodwill | 1,205,914 | | | | | | |
| Head office and corporate expenses | (37,173) | | | | | | |
| Finance costs | (95,512) | | | | | | |
| Loss before taxation | (886,903) | | | | | | |
| Share of profits of associated companies | 206 | – | – | – | – | – | 206 |
| Share of profits less losses of jointly controlled entities | (53,455) | – | – | (5,269) | (48,186) | – | – |
| Interest income | 37,389 | – | – | – | – | 22,359 | 15,030 |
| Depreciation and amortization | (10,695) | – | – | – | – | – | (10,695) |
| Impairment loss on inventories | (179,207) | (166,940) | (12,267) | – | – | – | – |
| Fair value changes on held for trading listed investments | (96,947) | – | – | – | – | (96,947) | – |
| Fair value changes on derivative financial instruments | 131,117 | – | – | – | – | 131,117 | – |

# 3 Segment reporting *(Continued)*

(a) Segment results and assets *(Continued)*

| | 2009 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Property development | | | | | |
| | Consolidated $'000 | Hong Kong $'000 | Macau $'000 | Mainland China $'000 | Property investment $'000 | Finance and investments $'000 | Others $'000 |
| Reportable segment assets | **26,651,857** | **3,717,032** | **10,932,417** | **4,889,639** | **6,660,526** | **156,309** | **295,934** |
| Deferred tax assets | **30,266** | | | | | | |
| Time deposit (pledged) | **15,000** | | | | | | |
| Cash and cash equivalents | **575,237** | | | | | | |
| Head office and corporate assets | **21,674** | | | | | | |
| Consolidated total assets | **27,294,034** | | | | | | |
| Interest in associated companies | **1,286,726** | **–** | **–** | **1,276,773** | **–** | **–** | **9,953** |
| Interest in and amounts due from jointly controlled entities | **1,491,648** | **–** | **–** | **946,729** | **544,919** | **–** | **–** |

| | 2008 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Property development | | | | | |
| | Consolidated $'000 | Hong Kong $'000 | Macau $'000 | Mainland China $'000 | Property investment $'000 | Finance and investments $'000 | Others $'000 |
| Reportable segment assets | 28,559,441 | 3,577,944 | 12,615,890 | 5,156,141 | 6,596,184 | 321,765 | 291,517 |
| Deferred tax assets | 31,711 | | | | | | |
| Time deposit (pledged) | 18,810 | | | | | | |
| Cash and cash equivalents | 967,499 | | | | | | |
| Head office and corporate assets | 198,397 | | | | | | |
| Consolidated total assets | 29,775,858 | | | | | | |
| Interest in associated companies | 7,584 | – | – | – | – | – | 7,584 |
| Interest in and amounts due from jointly controlled entities | 2,238,357 | – | – | 1,676,828 | 561,529 | – | – |

## 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 | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Hong Kong (place of domicile) | **1,198,251** | 8,056,266 | **6,309,121** | 6,221,708 |
| Macau | **765,334** | 533,810 | **456,368** | 465,716 |
| Mainland China | **14,637** | 12,358 | **2,188,120** | 876,879 |
| North America | **–** | 179,808 | **–** | – |
| Others | **7,082** | 10,531 | **–** | – |
| | **1,985,304** | 8,792,773 | **8,953,609** | 7,564,303 |

In addition to the above non-current assets, the Group has interests in property development of $10,116,880,000 (2008: $10,251,062,000) in Macau.

(c) Major customers and suppliers

During the year, less than 30% of the Group's sales and less than 30% of the Group's purchases were attributable to the Group's five largest customers and five largest suppliers respectively.

## 4 Profit/(Loss) before taxation

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

(a) In 2009, other revenue included an aggregate amount of $46,859,000 being the compensation and interest received upon the termination of the proposed acquisition of Shenzhen Properties & Resources Development (Group) Limited ("Shenzhen Properties") by the Company.

## 4 Profit/(Loss) before taxation *(Continued)*

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

(b) In 2009, other net income represents fair value changes on held for trading listed investments of gain of $38,096,000 (2008: loss of $96,947,000), derivative financial instruments of gain of $45,526,000 (2008: $131,117,000) and net gain of $68,944,000 (2008: Nil) in relation to the disposal of 12% interest in a subsidiary (note 27(c)).

(c) Unwinding cost for contingent forward transactions
In 2008, the Group had outstanding forward agreements to purchase or sell certain listed equity investments at fixed prices over 52-week periods from the dates of the agreements. Because of the global financial turmoil triggered by the sub-prime crisis, investment sentiment and the performance of the world financial and stock markets deteriorated drastically in 2008. In order to minimize losses and to reduce risk exposures associated with the outstanding forward agreements, a substantial portion of these agreements were unwound in October 2008. The aggregate costs in respect of the unwinding were approximately $1,615 million and were recognized in the income statement in 2008.

(d) Loss on disposal of available-for-sale investments
Listed equity investments had been acquired during prior years for long-term holding purpose and were classified as available-for-sale investments in the accounts. However, due to the unpredictable global financial conditions in the second half of 2008, the Group liquidated all of its listed available-for-sale investments in 2008 in order to contain its losses and minimize its risk exposure associated with its investment portfolio. The losses on disposal of available-for-sale investments were approximately $1,589 million and were recognized in the income statement in 2008.

(e) Negative goodwill
In 2008, the Group's interest in its listed subsidiary, Polytec Asset Holdings Limited ("Polytec Asset") increased from 59.52% to 73.44% by acquiring an aggregate 617,940,000 shares of Polytec Asset in the market at the prevailing market price, which was at a significant discount to the underlying net asset value. The total consideration for the acquisition was approximately $271 million with average cost of about $0.44 per share. Negative goodwill arose on consolidation represented the excess of the Group's additional interest in the net fair value of Polytec Asset's identifiable assets, liabilities and contingent liabilities, over the cost of the acquisition at the acquisition dates from October to December 2008. Negative goodwill of $1,205,914,000 was recognized in the income statement in 2008.

## 4 Profit/(Loss) before taxation *(Continued)*

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

(f) Finance costs

| | **2009 $'000** | 2008 $'000 |
|---|---|---|
| Interest on bank loans and overdrafts | **20,240** | 66,142 |
| Interest on loan from/amount payable to ultimate holding company | **16,598** | 61,054 |
| Less: Amount capitalized *(Note)* | **(13,684)** | (31,684) |
| | **23,154** | 95,512 |

Note: Borrowing costs were capitalized at rates of 0.55% – 2.06% (2008: 0.80% – 6.09%) per annum.

(g) Other items

| | **2009 $'000** | 2008 $'000 |
|---|---|---|
| Auditors' remuneration | **3,705** | 2,751 |
| Impairment loss for bad and doubtful debts | **7,591** | 3,310 |
| Impairment loss on inventories | **–** | 179,207 |
| Impairment loss on available-for-sale investments | **9,078** | – |
| Rentals receivable under operating leases less outgoings | **(264,373)** | (241,931) |
| Rental income | **(272,217)** | (255,596) |
| Less: Outgoings | **7,844** | 13,665 |
| Interest income | **(19,721)** | (37,389) |
| Dividend income from available-for-sale investments | **–** | (8,298) |
| Dividend income from held for trading listed equity investments | **(380)** | (41,478) |
| Income from bonds held for trading | **(7,072)** | (6,216) |
| Realized (gain)/loss on held for trading listed equity investments | **(31,798)** | 653,596 |
| Realized loss on available-for-sale investments | **–** | 1,588,710 |
| Realized gain on bonds held for trading | **–** | (9,079) |
| Impairment loss on inventories written back | **(12,170)** | – |
| Impairment loss for bad and doubtful debts written back | **(242)** | (947) |

## 4 Profit/(Loss) before taxation *(Continued)*

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

(h) The Group's share of profits for the year, after minority interests, dividend and taxation, retained by the associated companies was $2,370,000 (2008: $206,000).

(i) The Group's share of profits for the year, after minority interests, dividend and taxation, retained by the jointly controlled entities was $37,708,000 (2008: share of losses of $32,795,000).

## 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 | 2009 Total $'000 |
|---|---|---|---|---|---|
| ***Executive directors*** | | | | | |
| Or Wai Sheun | – | – | – | – | – |
| Ng Chi Man | – | – | – | – | – |
| Lai Ka Fai | 120 | 1,547 | 357 | 143 | 2,167 |
| Or Pui Kwan | – | 590 | 45 | 18 | 653 |
| ***Non-executive directors*** | | | | | |
| Keith Alan Holman | 200 | – | – | – | 200 |
| Tam Hee Chung | 200 | – | – | – | 200 |
| Yeung Kwok Kwong | 200 | 1,755 | 405 | 176 | 2,536 |
| ***Independent non-executive directors*** | | | | | |
| Li Kwok Sing, Aubrey | 200 | – | – | – | 200 |
| Lok Kung Chin, Hardy | 200 | – | – | – | 200 |
| Seto Gin Chung, John | 200 | – | – | – | 200 |
| David John Shaw | 200 | – | – | – | 200 |
| | 1,520 | 3,892 | 807 | 337 | 6,556 |

## 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 | 2008 Total $'000 |
|---|---|---|---|---|---|
| *Executive directors* | | | | | |
| Or Wai Sheun | – | – | – | – | – |
| Ng Chi Man | – | – | – | – | – |
| Lai Ka Fai | 120 | 1,526 | – | 141 | 1,787 |
| Or Pui Kwan | – | 583 | – | 18 | 601 |
| *Non-executive directors* | | | | | |
| Keith Alan Holman | 200 | – | – | – | 200 |
| Tam Hee Chung | 200 | – | – | – | 200 |
| Yeung Kwok Kwong | 200 | 1,731 | – | 173 | 2,104 |
| *Independent non-executive directors* | | | | | |
| Li Kwok Sing, Aubrey | 200 | – | – | – | 200 |
| Lok Kung Chin, Hardy | 200 | – | – | – | 200 |
| Seto Gin Chung, John | 200 | – | – | – | 200 |
| David John Shaw | 200 | – | – | – | 200 |
| | 1,520 | 3,840 | – | 332 | 5,692 |

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2008: two) are directors whose emoluments are disclosed in note 5(a). The aggregate of the emoluments in respect of the remaining three (2008: three) individuals are as follows:

| | **2009 $'000** | 2008 $'000 |
|---|---|---|
| Salaries and allowances | **5,233** | 3,697 |
| Performance related bonuses | **572** | – |
| Provident fund contributions | **51** | 214 |
| | **5,856** | 3,911 |

## 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:

| | **2009** | 2008 |
|---|---|---|
| $1,000,001 – $1,500,000 | **–** | 2 |
| $1,500,001 – $2,000,000 | **2** | 1 |
| $2,000,001 – $2,500,000 | **1** | – |

## 6 Income tax

(a) Taxation in the consolidated income statement represents:

| | **2009** **$'000** | 2008 $'000 |
|---|---|---|
| ***Current tax – Hong Kong*** | | |
| Provision for the year | **77,487** | 90,914 |
| Under/(Over) provision in respect of prior years | **35** | (2,602) |
| | **77,522** | 88,312 |
| ***Current tax – Overseas*** | | |
| Provision for the year | **17,952** | 3,035 |
| Over provision in respect of prior years | **–** | (1,737) |
| | **17,952** | 1,298 |
| ***Deferred tax*** | | |
| Origination and reversal of temporary differences | **6,860** | (24,029) |
| Change in fair value of investment properties | **11,897** | 144,046 |
| Effect on deferred tax balance at 1 January resulting from a change in tax rate | **–** | (38,496) |
| | **18,757** | 81,521 |
| | **114,231** | 171,131 |

## 6 Income tax *(Continued)*

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

The provision for Hong Kong profits tax for 2009 is calculated at 16.5% (2008: 16.5%) of the estimated assessable profits for the year.

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

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

| | **2009** **$'000** | 2008 $'000 |
|---|---|---|
| Profit/(Loss) before taxation | **1,568,104** | (886,903) |
| Tax at applicable tax rates | **140,103** | (216,277) |
| Non-deductible expenses | **5,324** | 14,140 |
| Non-taxable revenue | **(20,999)** | (215,051) |
| Under/(Over) provision in respect of prior years | **35** | (4,339) |
| Unrecognized tax losses | **1,646** | 630,021 |
| Previously unrecognized tax losses utilized | **(16,439)** | (1,766) |
| Previously unrecognized tax losses now recognized | **–** | (2,298) |
| Effect on deferred tax balance at 1 January resulting from a change in tax rate | **–** | (38,496) |
| Others | **4,561** | 5,197 |
| Actual tax expense | **114,231** | 171,131 |

## 7 Profit/(Loss) attributable to shareholders

The consolidated profit/(loss) attributable to shareholders of the Company includes a profit of $603,648,000 (2008: loss of $786,967,000) which has been dealt with in the accounts of the Company.

## 8 Earnings/(Loss) per share

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to shareholders of the Company of $1,213,541,000 (2008: loss of $629,266,000) and weighted average number of shares in issue during the year of 1,150,681,275 (2008: 1,150,681,275).

(b) Diluted earnings/(loss) per share

There are no dilutive potential shares in existence during the years ended 31 December 2009 and 2008.

## 9 Dividends

(a) Dividends attributable to the year

| | **2009** | 2008 |
|---|---|---|
| | **$'000** | $'000 |
| Interim dividend declared and paid of $0.20 (2008: $0.19) per share | **230,136** | 218,629 |
| Final dividend proposed after the balance sheet date of $0.32 (2008: $0.20) per share | **368,218** | 230,136 |
| | **598,354** | 448,765 |

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

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

| | **2009** | 2008 |
|---|---|---|
| | **$'000** | $'000 |
| Final dividend in respect of the previous financial year, approved and paid during the year, of $0.20 (2008: $0.48) per share | **230,136** | 552,327 |

## 10 Deferred taxation

(a) The components of deferred tax assets/(liabilities) recognized 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 2008 | 15,787 | (770,617) | (34,858) | 2,775 | (786,913) |
| Credited/(Charged) to income statement | 28,777 | (106,490) | (1,416) | (2,392) | (81,521) |
| At 31 December 2008 | 44,564 | (877,107) | (36,274) | 383 | (868,434) |
| At 1 January 2009 | **44,564** | **(877,107)** | **(36,274)** | **383** | **(868,434)** |
| Through acquisition of subsidiaries | **–** | **(153,807)** | **–** | **–** | **(153,807)** |
| Credited/(Charged) to income statement | **(1,240)** | **(11,897)** | **(5,793)** | **173** | **(18,757)** |
| At 31 December 2009 | **43,324** | **(1,042,811)** | **(42,067)** | **556** | **(1,040,998)** |

**Company**

| | Revaluation of properties $'000 | Accelerated depreciation allowances $'000 | Total $'000 |
|---|---|---|---|
| At 1 January 2008 | (554,562) | (24,181) | (578,743) |
| Charged to income statement | (17,475) | (1,368) | (18,843) |
| At 31 December 2008 | (572,037) | (25,549) | (597,586) |
| At 1 January 2009 | **(572,037)** | **(25,549)** | **(597,586)** |
| Charged to income statement | **(7,723)** | **(2,373)** | **(10,096)** |
| At 31 December 2009 | **(579,760)** | **(27,922)** | **(607,682)** |

## 10 Deferred taxation *(Continued)*

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

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Net deferred tax asset recognized on the balance sheet | **30,266** | 31,711 | **–** | – |
| Net deferred tax liability recognized on the balance sheet | **(1,071,264)** | (900,145) | **(607,682)** | (597,586) |
| | **(1,040,998)** | (868,434) | **(607,682)** | (597,586) |

(b) Deferred tax assets not recognized

The Group has not recognized deferred tax assets in respect of cumulative tax losses of $3,766,464,000 (2008: $3,850,984,000) as the probability of generating future taxable profits in order to utilize the tax losses is uncertain at this point of time. The tax losses do not expire under current tax legislation.

## 11 Fixed assets

(a) **Group**

| | Investment properties $'000 | Leasehold land held for own use $'000 | Other property, plant and equipment Buildings $'000 | Others $'000 | Total $'000 |
|---|---|---|---|---|---|
| ***Cost or valuation*** | | | | | |
| At 1 January 2008 | 4,991,830 | 270,206 | 33,060 | 41,606 | 5,336,702 |
| Exchange adjustments | – | – | – | 70 | 70 |
| Additions | | | | | |
| – Through acquisition of a subsidiary | – | – | – | 981 | 981 |
| – Transfer from properties under development | 156,292 | – | – | – | 156,292 |
| – Others | 1,035 | – | – | 5,457 | 6,492 |
| Disposals | – | – | – | (2,528) | (2,528) |
| Revaluation surplus | 878,833 | – | – | – | 878,833 |
| At 31 December 2008 | 6,027,990 | 270,206 | 33,060 | 45,586 | 6,376,842 |
| *Representing* | | | | | |
| Professional valuation | 6,027,990 | – | – | – | 6,027,990 |
| Cost | – | 270,206 | 33,060 | 45,586 | 348,852 |
| | 6,027,990 | 270,206 | 33,060 | 45,586 | 6,376,842 |
| At 1 January 2009 | **6,027,990** | **270,206** | **33,060** | **45,586** | **6,376,842** |
| Exchange adjustments | **–** | **–** | **–** | **2** | **2** |
| Additions | | | | | |
| – Through acquisition of a subsidiary | **–** | **–** | **–** | **188** | **188** |
| – Others | **7,663** | **–** | **–** | **2,230** | **9,893** |
| Disposals | | | | | |
| – Through disposal of a subsidiary | **–** | **–** | **–** | **(436)** | **(436)** |
| – Others | **–** | **–** | **–** | **(231)** | **(231)** |
| Revaluation surplus | **72,357** | **–** | **–** | **–** | **72,357** |
| At 31 December 2009 | **6,108,010** | **270,206** | **33,060** | **47,339** | **6,458,615** |
| *Representing* | | | | | |
| Professional valuation | **6,108,010** | **–** | **–** | **–** | **6,108,010** |
| Cost | **–** | **270,206** | **33,060** | **47,339** | **350,605** |
| | **6,108,010** | **270,206** | **33,060** | **47,339** | **6,458,615** |

## 11 Fixed assets *(Continued)*

(a) **Group** *(Continued)*

| | Investment properties $'000 | Leasehold land held for own use $'000 | Other property, plant and equipment: Buildings $'000 | Other property, plant and equipment: Others $'000 | Total $'000 |
|---|---|---|---|---|---|
| ***Aggregate depreciation and amortization*** | | | | | |
| At 1 January 2008 | – | 17,714 | 3,060 | 31,896 | 52,670 |
| Exchange adjustments | – | – | – | 10 | 10 |
| Through acquisition of a subsidiary | – | – | – | 180 | 180 |
| Charge for the year | – | 6,531 | 785 | 3,379 | 10,695 |
| Written back on disposals | – | – | – | (2,389) | (2,389) |
| At 31 December 2008 | – | 24,245 | 3,845 | 33,076 | 61,166 |
| At 1 January 2009 | **–** | **24,245** | **3,845** | **33,076** | **61,166** |
| Through acquisition of a subsidiary | **–** | **–** | **–** | **95** | **95** |
| Charge for the year | **–** | **6,530** | **785** | **4,170** | **11,485** |
| Written back on disposals | | | | | |
| – Through disposal of a subsidiary | **–** | **–** | **–** | **(22)** | **(22)** |
| – Others | **–** | **–** | **–** | **(166)** | **(166)** |
| At 31 December 2009 | **–** | **30,775** | **4,630** | **37,153** | **72,558** |
| ***Carrying value*** | | | | | |
| At 31 December 2009 | **6,108,010** | **239,431** | **28,430** | **10,186** | **6,386,057** |
| At 31 December 2008 | 6,027,990 | 245,961 | 29,215 | 12,510 | 6,315,676 |

In 2009, an amount of $197,000 (2008: $98,000) included in depreciation and amortization charge for the year was capitalized under inventories.

## 11 Fixed assets *(Continued)*

(b) **Company**

| | Investment properties $'000 | Other property, plant and equipment $'000 | Total $'000 |
|---|---|---|---|
| ***Cost or valuation*** | | | |
| At 1 January 2008 | 3,968,000 | 22,747 | 3,990,747 |
| Additions | 1,035 | 3,147 | 4,182 |
| Disposals | – | (650) | (650) |
| Revaluation surplus | 297,965 | – | 297,965 |
| At 31 December 2008 | 4,267,000 | 25,244 | 4,292,244 |
| *Representing* | | | |
| Professional valuation | 4,267,000 | – | 4,267,000 |
| Cost | – | 25,244 | 25,244 |
| | 4,267,000 | 25,244 | 4,292,244 |
| At 1 January 2009 | **4,267,000** | **25,244** | **4,292,244** |
| Additions | **4,192** | **594** | **4,786** |
| Disposals | **–** | **(113)** | **(113)** |
| Revaluation surplus | **46,808** | **–** | **46,808** |
| At 31 December 2009 | **4,318,000** | **25,725** | **4,343,725** |
| *Representing* | | | |
| Professional valuation | **4,318,000** | **–** | **4,318,000** |
| Cost | **–** | **25,725** | **25,725** |
| | **4,318,000** | **25,725** | **4,343,725** |

## 11 Fixed assets *(Continued)*

(b) **Company** *(Continued)*

| | Investment properties $'000 | Other property, plant and equipment $'000 | Total $'000 |
|---|---|---|---|
| ***Aggregate depreciation and amortization*** | | | |
| At 1 January 2008 | – | 20,879 | 20,879 |
| Charge for the year | – | 818 | 818 |
| Written back on disposals | – | (621) | (621) |
| At 31 December 2008 | – | 21,076 | 21,076 |
| At 1 January 2009 | **–** | **21,076** | **21,076** |
| Charge for the year | **–** | **1,167** | **1,167** |
| Written back on disposals | **–** | **(90)** | **(90)** |
| At 31 December 2009 | **–** | **22,153** | **22,153** |
| ***Carrying value*** | | | |
| At 31 December 2009 | **4,318,000** | **3,572** | **4,321,572** |
| At 31 December 2008 | 4,267,000 | 4,168 | 4,271,168 |

## 11 Fixed assets *(Continued)*

(c) Analysis of carrying value of properties

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **$'000** | $'000 | **$'000** | $'000 |
| ***Investment properties*** | | | | |
| In Hong Kong | | | | |
| – Long leases | **4,979,210** | 4,896,490 | **4,318,000** | 4,267,000 |
| – Medium-term leases | **1,042,800** | 1,031,500 | **–** | – |
| Outside Hong Kong | | | | |
| – Medium-term leases | **86,000** | 100,000 | **–** | – |
| | **6,108,010** | 6,027,990 | **4,318,000** | 4,267,000 |
| ***Other properties*** | | | | |
| In Hong Kong | | | | |
| – Long leases | **954** | 963 | **–** | – |
| – Medium-term leases | **266,907** | 274,213 | **–** | – |
| | **267,861** | 275,176 | **–** | – |

(d) The investment properties of the Group and of the Company were revalued at 31 December 2009 by Vigers Appraisal and Consulting Limited and DTZ Debenham Tie Leung Limited, independent qualified professional valuers, who have appropriate qualifications and experiences in the valuation of similar properties in the relevant locations, on a market value basis in their existing states by reference to comparable market transactions and where appropriate on the basis of capitalization of the net income allowing for reversionary income potential.

The cost or valuation of other properties has been apportioned between land, buildings and other assets on the basis of estimates made by the directors.

## 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 $523,000 was recognized in 2009 (2008: $588,000).

The gross carrying amounts of investment properties of the Group held for use in operating leases were $5,353,010,000 (2008: $5,277,990,000). The gross carrying amounts of other fixed assets of the Group held for use in operating leases were $6,942,000 (2008: $6,883,000) and the related accumulated depreciation charges were $6,841,000 (2008: $6,842,000).

The gross carrying amounts of investment properties of the Company held for use in operating leases were $4,318,000,000 (2008: $4,267,000,000). The gross carrying amounts of other fixed assets of the Company held for use in operating leases were $1,008,000 (2008: $951,000) and the related accumulated depreciation charges were $956,000 (2008: $950,000).

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** | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Within 1 year | **199,333** | 240,541 | **160,234** | 196,194 |
| After 1 year but within 5 years | **136,697** | 213,365 | **103,062** | 176,575 |
| After 5 years | **–** | 1,788 | **–** | – |
| | **336,030** | 455,694 | **263,296** | 372,769 |

## 11 Fixed assets *(Continued)*

(f) In 2008, the Group had accepted the provisional basic terms of the proposed land exchange put forth by the Hong Kong Government in respect of a property development in Ngau Chi Wan. The areas of domestic and non-domestic development of the site are governed by the provisional basic terms and it is the Group's intention to hold the non-domestic development for future use as investment properties. In accordance with the Group's accounting policy, the leasehold land under development held to earn long-term rental income is classified as investment properties and is stated at fair value. With the acceptance of the provisional basic terms, the area for the non-domestic development can be ascertained and its fair value can be objectively measured. The non-domestic portion of the land for the Ngau Chi Wan project is transferred from properties under development to investment properties in 2008.

## 12 Interest in subsidiaries

| | **Company** | |
|---|---|---|
| | **2009** | 2008 |
| | **$'000** | $'000 |
| Unlisted shares, at cost | **1,784,826** | 1,748,932 |
| Loans to subsidiaries | | |
| – interest free | **7,900,643** | 8,990,805 |
| – interest bearing | **2,475,680** | 1,955,364 |
| Loans from subsidiaries | | |
| – interest free | **(267,773)** | (115,068) |
| – interest bearing | **(27,872)** | (28,010) |
| Amounts due from subsidiaries | **9,413** | 3,977 |
| Less: Impairment losses | **(1,644,623)** | (1,727,566) |
| | **10,230,294** | 10,828,434 |

Loans to and from subsidiaries are unsecured and have no fixed terms of repayment. Interest is charged at Hong Kong Interbank Offer Rate ("HIBOR") plus a margin per annum.

Amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment.

Details of the principal subsidiaries are shown in note 31.

## 13 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 34(e).

During the year, pursuant to one of the co-investment agreements, distributions of $1,601,399,000 (2008: $930,000,000) were made by a wholly owned subsidiary of Polytec Holdings in relation to the property project at Lote V, The Orient Pearl District, Novos Aterros da Areia Preta, Macau which were applied against the amount received from interests in property development. Income from interests in property development recognized in profit or loss from the distributions during the year amounted to $751,168,000 (2008: $506,760,000).

As at 31 December 2008, out of the interests in property development, an amount of $1,601,329,000 was expected to be recoverable within one year and was classified as current assets.

## 14 Interest in jointly controlled entities

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Unlisted shares, at cost | **–** | – | **584,079** | 584,079 |
| Share of net assets | **1,061,326** | 1,021,543 | **–** | – |
| Loan to a jointly controlled entity | **219,500** | 219,500 | **–** | – |
| | **1,280,826** | 1,241,043 | **584,079** | 584,079 |
| Amounts due from jointly controlled entities | **210,822** | 997,314 | **31,835** | 383,700 |
| | **1,491,648** | 2,238,357 | **615,914** | 967,779 |

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 are unsecured, interest free and repayable on demand.

## 14 Interest in jointly controlled entities *(Continued)*

Details of the jointly controlled entities as at 31 December 2009 are as follows:

| Jointly controlled entity | Place of incorporation and operation | Proportion of nominal value of shares: Group's effective interest | held by the Company | held by a subsidiary | Principal activities |
|---|---|---|---|---|---|
| CITIC Polytec Property (Foshan) Company Limited *(Remark 1)* | Mainland China | 50.0% *(Remark 2)* | 50.0% *(Remark 2)* | – | Property development |
| South Bay Centre Company Limited | Macau | 36.7% | – | 50.0% | Property investment and trading |

Remarks:

(1) CITIC Polytec Property (Foshan) Company Limited is an equity joint venture in Mainland China. It has a wholly owned subsidiary incorporated in Mainland China namely 佛山市南海區山語湖教育投資有限公司 whose principal business is provision of educational services. The Group's effective interest in that company is 50%.

(2) Percentage represented the Group's equity interest of the jointly controlled entity.

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

| Income Statement | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Revenue | **295,515** | 22,504 |
| Expenses | **(257,807)** | (57,478) |

| Balance Sheet | 2009 $'000 | 2008 $'000 |
|---|---|---|
| Non-current assets | **460,893** | 384,922 |
| Current assets | **3,102,702** | 2,135,258 |
| Current liabilities | **(1,163,555)** | (590,351) |
| Non-current liabilities | **(1,437,046)** | (1,056,251) |
| Net assets | **962,994** | 873,578 |

## 15 Interest in associated companies

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Unlisted shares, at cost | **–** | – | **151,063** | – |
| Share of net assets | **218,423** | 7,584 | **–** | – |
| Loan to an associated company | **1,068,303** | – | **1,068,303** | – |
| | **1,286,726** | 7,584 | **1,219,366** | – |

Loan to an associated company is unsecured, interest free and has no fixed terms of repayment.

In July 2009, the Company entered into an equity transfer agreement for the disposal of 12% interest in a subsidiary, namely Polytec CITIC Property (Tianjin) Co., Ltd., which has been renamed as CITIC Polytec Property (Tianjin) Co., Ltd. and has become an associated company since the completion of the disposal.

Details of the associated companies as at 31 December 2009 are shown as follows:

| | Place of incorporation/ | Proportion of nominal value of shares held | | Principal |
|---|---|---|---|---|
| **Associated company** | **operation** | **Direct** | **Indirect** | **activities** |
| CITIC Polytec Property (Tianjin) Co., Ltd. *(Remark 1)* | Mainland China | 39.0% *(Remark 2)* | – | 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 |
| Asiasoft Hong Kong Limited | Hong Kong/ Asia | – | 26.0% | Provision of information system products and services |

## 15 Interest in associated companies *(Continued)*

Remarks:

(1) The associated company is formerly known as Polytec CITIC Property (Tianjin) Co., Ltd.

(2) In accordance with an agreement in relation to the acquisition of a property development site in Tianjin, 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 2009, the Group has 49% effecitve interest in the associated company.

Summary of financial information on significant associated companies:

**Group**

| | Assets $'000 | Liabilities $'000 | Equity $'000 | Revenue $'000 | Profit $'000 |
|---|---|---|---|---|---|
| **2009** | | | | | |
| Aggregate on associated companies' accounts | **2,720,295** | **2,290,494** | **429,801** | **106,807** | **4,837** |
| Group's effective interest | **1,332,944** | **1,114,521** | **218,423** | **52,335** | **2,370** |
| 2008 | | | | | |
| Aggregate on associated company's accounts | 23,581 | 8,106 | 15,475 | 70,979 | 420 |
| Group's effective interest | 11,555 | 3,971 | 7,584 | 34,779 | 206 |

## 16 Financial investments

| | Group 2009 $'000 | 2008 $'000 |
|---|---|---|
| ***Non-current assets*** | | |
| Available-for-sale investments | | |
| – Investment fund, unlisted | **27,096** | 33,681 |
| ***Current assets*** | | |
| Held for trading listed investments | | |
| – Equity shares, listed in Hong Kong | **19,565** | 168,656 |
| – Bonds, listed outside Hong Kong | **60,451** | 33,520 |
| | **80,016** | 202,176 |
| | **107,112** | 235,857 |
| Market value of financial investments | | |
| – Listed in Hong Kong | **19,565** | 168,656 |
| – Listed outside Hong Kong | **60,451** | 33,520 |

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

## 17 Loans and advances

(a)

| | Group 2009 $'000 | 2008 $'000 |
|---|---|---|
| Loans and advances | **63,489** | 71,976 |
| Less: Allowance for doubtful debts | **(22,829)** | (15,484) |
| | **40,660** | 56,492 |
| Analyzed as | | |
| – Non-current | **9,338** | 14,085 |
| – Current | **31,322** | 42,407 |
| | **40,660** | 56,492 |

## 17 Loans and advances *(Continued)*

(b) Allowance for doubtful debts

Impairment losses in respect of loans and advances 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 loans and advances directly.

The movement for the Group in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **$'000** | $'000 |
| At 1 January | **15,484** | 16,324 |
| Impairment loss recognized | **7,587** | 978 |
| Impairment loss written back | **(242)** | (947) |
| Uncollectible amounts written off | **–** | (871) |
| At 31 December | **22,829** | 15,484 |

At 31 December 2009, the Group's loans and advances of $23,580,000 (2008: $23,728,000) was individually determined to be impaired. Consequently, specific allowances for doubtful debts of $19,462,000 (2008: $13,164,000) was recognized. The Group holds collateral of $3,259,000 (2008: $9,685,000) over these balances.

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

Loans and advances 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.

## 18 Inventories

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **$'000** | $'000 |
| Land held for future development | **387,461** | 460,070 |
| Properties under development | **6,528,618** | 5,021,713 |
| Properties held for sale | **150,793** | 373,010 |
| Trading goods | **154** | 176 |
| | **7,067,026** | 5,854,969 |

The amount of properties held for future development and under development expected to be recovered after more than one year is $387,461,000 (2008: $460,070,000) and $5,765,400,000 (2008: $4,325,996,000) 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 | |
|---|---|---|
| | **2009** | 2008 |
| | **$'000** | $'000 |
| In Hong Kong | | |
| – Long leases | **766,375** | 1,404,180 |
| – Medium-term leases | **2,495,709** | 1,556,758 |
| | **3,262,084** | 2,960,938 |
| Outside Hong Kong | | |
| – Freehold/Unspecified | **487,163** | 490,706 |
| – Long leases | **200,000** | 200,000 |
| – Medium-term leases | **2,273,175** | 1,512,256 |
| | **2,960,338** | 2,202,962 |
| | **6,222,422** | 5,163,900 |

## 18 Inventories *(Continued)*

The Group leases certain of its properties held for sales under operating leases arrangement with lease terms of not more than one year. As at 31 December 2009, total future minimum lease payments under non-cancellable operating leases are receivable as follows:

| | Group | |
|---|---|---|
| | **2009** | 2008 |
| | **$'000** | $'000 |
| Within 1 year | **3,660** | 3,698 |
| After 1 year but within 5 years | **–** | 6 |
| | **3,660** | 3,704 |

## 19 Trade and other receivables

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Current | **59,614** | 188,449 | **–** | – |
| Less than 3 months past due | **6,032** | 3,414 | **1,214** | 909 |
| 3 months to 6 months past due | **351** | 624 | **6** | 22 |
| More than 6 months past due | **7,399** | 8,597 | **3** | 4 |
| Amounts past due | **13,782** | 12,635 | **1,223** | 935 |
| Trade receivables | **73,396** | 201,084 | **1,223** | 935 |
| Utility and other deposits | **6,691** | 4,185 | **1,934** | 1,922 |
| Other receivables and prepayments | **89,535** | 1,991,243 | **9,601** | 316,794 |
| | **169,622** | 2,196,512 | **12,758** | 319,651 |

## 19 Trade and other receivables *(Continued)*

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

Utility and other deposits of the Group and of the Company of $6,303,000 (2008: $4,016,000) and $1,929,000 (2008: $1,914,000) respectively are expected to be recovered after more than one year.

At 31 December 2008, prepayments of the Group of an amount of $225,743,000 represented the deposit paid for the acquisition of approximately 70.3% of the issued shares of Shenzhen Properties. During the year, an agreement was signed between the Group and the relevant parties to discontinue the acquisition of Shenzhen Properties. Accordingly, the aforesaid deposit was returned from the vendor.

At 31 December 2008, prepayments of the Group and of the Company of an amount of approximately $1,700,892,000 and $303,392,000 respectively represented payments made for the acquisition of a composite property development site located in Tianjin, China. 12% interest of the subsidiary holding the development property was disposed of in 2009 and such subsidiary became an associated company of the Group thereafter (note 27(c)).

Receivables and prepayments of the Group of $281,000 (2008: $281,000) 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 2009, the Group's trade and other receivables of $4,411,000 (2008: $4,398,000) was individually determined to be impaired and specific allowances for doubtful debts of $4,184,000 (2008: $4,183,000) was recorded. Impairment loss of an amount of $4,000 (2008: $2,332,000) was recognized 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 Derivative financial instruments

(a) The carrying value of the asset arising from derivative financial instrument as at 31 December 2009 represented the fair value of a deed of call option entered into by the Group and an independent third party (the "Seller") on 7 December 2009. Pursuant to the deed, the Group has an irrevocable option to acquire from the Seller (i) all of the issued share capital of a company principally engaged in the production of oil from hydrocarbon deposits in Kazakhstan (the "Target Company") and (ii) the debt owed by the Target Company to the Seller at a cash consideration of US$139,600,000. The option may be exercised at the discretion of the Group at any time within four months from the date of the deed.

(b) The carrying value of the liability arising from derivative financial instruments as at 31 December 2008 represented the fair value of the Group's outstanding forward agreements to purchase certain listed equity securities at a fixed price over 52-week period from the date of the agreements. The listed equity securities were shares listed in Hong Kong. According to the agreements, the purchase commitments of the Group would be terminated when the market price of the equity securities rises to a predetermined price level and, as at 31 December 2008, the aggregated maximum purchase commitments of the Group under the agreements were $0.2 billion.

As at 31 December 2009, the Group has no outstanding forward agreement to purchase or sell any listed equity securities.

## 21 Trade and other payables

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Not yet due or on demand | **152,783** | 85,372 | **319** | 397 |
| Within 3 months | **10,789** | 57,700 | **1,442** | 1,277 |
| 3 months to 6 months | **–** | 27,624 | **–** | – |
| More than 6 months | **69,086** | 17,300 | **–** | – |
| Trade payables | **232,658** | 187,996 | **1,761** | 1,674 |
| Rental and other deposits | **65,039** | 63,994 | **46,664** | 46,148 |
| Other payables and accrued expenses | **174,160** | 1,937,367 | **54,689** | 36,238 |
| Deposits received on sale of properties | **589,473** | 486,695 | **–** | – |
| | **1,061,330** | 2,676,052 | **103,114** | 84,060 |

## 21 Trade and other payables *(Continued)*

Rental and other deposits of the Group and of the Company of $61,459,000 (2008: $60,335,000) and $46,368,000 (2008: $45,536,000) respectively are expected to be refunded after more than one year.

Other payables and accrued expenses of the Group and of the Company of $19,964,000 (2008: $123,893,000) and $102,000 (2008: $86,000) respectively are expected to be settled after more than one year.

As at 31 December 2008, other payables and accrued expenses of the Group included an amount of $1,613,516,000 received from a subsidiary of Polytec Holdings in respect of the Group's interests in property development in Macau which was settled during the year.

Deposits received on sale of properties of the Group of $532,196,000 (2008: $486,695,000) are expected to be recognized as income within one year.

## 22 Amounts due to minority shareholders

In 2008, amounts due to minority shareholders of subsidiaries were unsecured and had no fixed terms of repayment, of which $1,622,000 was interest bearing at HIBOR plus a margin per annum and $459,536,000 was interest free.

## 23 Amount payable to ultimate holding company

In 2009, an amount payable to ultimate holding company of $766,506,000 represents the amount payable for the partial settlement of the consideration for the acquisiton of the entire share capital together with assignment of related shareholder's loans of two wholly owned subsidiaries of Polytec Holdings. The amount payable is unsecured, interest free, repayable within one year and is recorded under current liabilities.

In 2009, an amount payable to ultimate holding company of $566,374,000 (2008: $686,497,000) represents balance payable to Polytec Holdings for the acquisition of a subsidiary from Polytec Holdings in relation to the Group's certain interests in property development in Macau. The balance payable is unsecured, interest bearing with interest charged at HIBOR plus a margin per annum, is not expected to settle within one year and is recorded under non-current liabilities.

## 24 Loan from ultimate holding company

Loan from ultimate holding company is unsecured, interest bearing at HIBOR plus a margin per annum and has no fixed terms of repayment.

## 25 Bank loans

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Within 1 year or on demand | **3,117,500** | 1,166,000 | **2,100,000** | 255,000 |
| After 1 year but within 2 years | **–** | 1,862,000 | **–** | 1,862,000 |
| After 2 years but within 5 years | **150,000** | – | **–** | – |
| | **150,000** | 1,862,000 | **–** | 1,862,000 |
| | **3,267,500** | 3,028,000 | **2,100,000** | 2,117,000 |

Interest on bank loans is charged at HIBOR plus a margin per annum.

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

On 22 January 2010, the Company has arranged a facility of $2,568 million with a bank for the purposes of refinancing the existing loans and financing the general working capital of the Company.

## 26 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 2008 | | 115,068 | 8,302,404 | 4,232,144 | 12,649,616 |
| Final dividend declared and paid | 9(b) | – | – | (552,327) | (552,327) |
| Interim dividend declared and paid | 9(a) | – | – | (218,629) | (218,629) |
| Loss for the year | | – | – | (228,235) | (228,235) |
| At 31 December 2008 | | 115,068 | 8,302,404 | 3,232,953 | 11,650,425 |
| At 1 January 2009 | | **115,068** | **8,302,404** | **3,232,953** | **11,650,425** |
| Final dividend declared and paid | 9(b) | **–** | **–** | **(230,136)** | **(230,136)** |
| Interim dividend declared and paid | 9(a) | **–** | **–** | **(230,136)** | **(230,136)** |
| Profit for the year | | **–** | **–** | **662,941** | **662,941** |
| At 31 December 2009 | | **115,068** | **8,302,404** | **3,435,622** | **11,853,094** |

The Group's share of profits retained in the accounts of the associated companies at 31 December 2009 after minority interests were $2,067,000 (share of losses sustained at 31 December 2008: $303,000).

The Group's share of profits retained in the accounts of the jointly controlled entities at 31 December 2009 after minority interests were $17,177,000 (share of losses sustained at 31 December 2008: $20,531,000).

## 26 Total equity *(Continued)*

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

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 realized 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 2009 amounted to $501,684,000 (2008: $338,100,000).

(b) Share capital

| | **2009** | | 2008 | |
|---|---|---|---|---|
| | **No. of shares of $0.1 each** | **Amount $'000** | No. of shares of $0.1 each | Amount $'000 |
| ***Authorized*** | **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 maximizing the return to shareholders through the optimization 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 2009 is 32.4% (2008: 32.6%).

## 27 Notes to consolidated cash flow statement

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

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| **Profit/(Loss) before taxation** | **1,568,104** | (886,903) |
| Adjustments for: | | |
| Unclaimed dividend written back | **(438)** | (256) |
| Loss on disposal of other fixed assets | **22** | 129 |
| Profit on disposal of interest in a subsidiary | **(68,944)** | – |
| Share of profits of associated companies | **(2,370)** | (206) |
| Share of profits less losses of jointly controlled entities | **(38,955)** | 53,455 |
| Negative goodwill | **–** | (1,205,914) |
| Income from interests in property development | **(751,168)** | (506,760) |
| (Impairment loss written back)/Impairment loss on inventories | **(12,170)** | 179,207 |
| Impairment loss on available-for-sale investments | **9,078** | – |
| Fair value changes on investment properties | **(72,357)** | (878,833) |
| Fair value changes on derivative financial instruments | **(45,526)** | (131,117) |
| Interest income | **(378)** | (5,282) |
| Interest expenses | **23,154** | 95,512 |
| Depreciation and amortization | **11,288** | 10,597 |
| **Operating profit/(loss) before working capital changes** | **619,340** | (3,276,371) |
| Decrease in financial investments | **122,160** | 1,479,758 |
| Decrease in loans and advances | **15,832** | 18,870 |
| Increase in inventories | **(137,392)** | (1,487,876) |
| Decrease in trade and other receivables | **176,621** | 739,411 |
| Decrease/(Increase) in amounts due from jointly controlled entities | **786,492** | (388,834) |
| Decrease in time deposits (pledged) | **3,810** | 563,663 |
| Increase/(Decrease) in trade and other payables | **23,689** | (29,286) |
| (Decrease)/Increase in amount due to ultimate holding company | **(1,380)** | 485 |
| Increase in amounts due to minority shareholders | **173,542** | 127,853 |
| **Cash generated from/(used in) operations** | **1,782,714** | (2,252,327) |
| Interest received | **395** | 5,286 |
| Interest paid | **(62,086)** | (104,560) |
| Profits tax paid | **(220,898)** | (59,886) |
| Profits tax refunded | **675** | 219 |
| **Net cash from/(used in) operating activities** | **1,500,800** | (2,411,268) |

## 27 Notes to consolidated cash flow statement *(Continued)*

(b) Acquisition of subsidiaries

| | 2009 $'000 | 2008 $'000 |
|---|---|---|
| ***Fair value of assets of subsidiaries acquired*** | | |
| Fixed assets | **93** | 801 |
| Inventories | **1,046,775** | 200,000 |
| Trade and other receivables | **40,663** | 62 |
| Cash and cash equivalents | **4,142** | 10,684 |
| Trade and other payables | **(81,360)** | (11,547) |
| Deferred taxation | **(153,807)** | – |
| Net assets acquired | **856,506** | 200,000 |
| Amount of net assets attributable to minority shareholders | **–** | (60,014) |
| Cash consideration on acquisition of subsidiaries | **856,506** | 139,986 |
| Cash and bank balances acquired | **(4,142)** | (10,684) |
| Amount payable to ultimate holding company *(note 23)* | **(766,506)** | – |
| Cash outflow on acquisition of subsidiaries | **85,858** | 129,302 |

During the year, the Group entered into an agreement with Polytec Holdings for the acquisition of the entire share capital of two wholly owned subsidiaries of Polytec Holdings together with the assignment of related shareholder's loans at an aggregate consideration of $857 million. The assets held by the two subsidiaries are substantially two development projects located in Hong Kong and Shenyang, China, respectively. This acquisition has been accounted for using the purchase method. The subsidiaries acquired did not have any contribution to the turnover and profit of the Group for 2009. If the acquisition had occurred on 1 January 2009, the subsidiaries' turnover and net profit to the Group would not be significantly different to that reported above.

In 2008, the Group acquired 70% of the issued share capital of a company for a consideration of $140 million. This acquisition had been accounted for using the purchase method. The subsidiary acquired did not have any contribution to the turnover and profit of the Group for 2008. If the acquisition had occurred on 1 January 2008, the subsidiary's turnover and net profit to the Group would not be significantly different to that reported above.

## 27 Notes to consolidated cash flow statement *(Continued)*

(c) Disposal of interest in a subsidiary (now become an associated company)

| | 2009<br>$'000 |
|---|---|
| ***Net assets disposed of*** | |
| Fixed assets | **414** |
| Trade and other receivables | **1,890,919** |
| Cash and cash equivalents | **4,915** |
| Trade and other payables | **(117,779)** |
| Amount due to a minority shareholder | **(634,700)** |
| | **1,143,769** |
| Amount of net assets attributable to a minority shareholder | **(52,026)** |
| Amount of net assets and loan attributable to the Group now accounted for as an associated company | **(831,141)** |
| | **260,602** |
| Gain on disposal | **68,944** |
| Exchange reserve released upon disposal | **(21,520)** |
| Total sale proceeds | **308,026** |
| Cash and cash equivalents disposed of | **(4,915)** |
| Cash inflow on disposal | **303,111** |

During the year, the Company entered into an equity transfer agreement to dispose its 12% interest in a subsidiary incorporated in Tianjin, China. The total proceeds in connection with the disposal was approximately RMB271 million. The Company's effective interest in the project company was reduced from 61% to 49% thereafter.

(d) Major non-cash transactions

(i) During the year, non-refundable distributions from interests in property development of totalling $1,601,399,000 (2008: $930,000,000) were obtained by offsetting the amount received from interests in property development and accordingly, a related amount of $751,168,000 (2008: $506,760,000) was transferred from the fair value reserve to the income statement during the year.

In 2008, amount received from interests in property development of totalling $699,216,000 were obtained by offsetting loan from ultimate holding company and the amount payable to ultimate holding company and a further settlement of $165,090,000 for the amount payable to ultimate holding company was made by offsetting loans from minority shareholders.

## 27 Notes to consolidated cash flow statement *(Continued)*

(d) Major non-cash transactions *(Continued)*

(ii) On 7 July 2008, in connection with the establishment of a joint venture with China Orient Asset Management Corporation ("China Orient"), the Company issued six month zero coupon convertible bonds ("Convertible Bonds") in the principal amount of $2,413,773,720 as a consideration and settlement for the intended acquisition of a non-performing loans portfolio from China Orient.

Due to uncertainty of the financial market, the intended acquisition of the non-performing loans portfolio was not completed and in December 2008, the cooperation between the Company and China Orient was terminated. The entire Convertible Bonds were surrendered and returned to the Company for cancellation. There was no cash impact or financial impact on the accounts of the Company as a result of the issue and cancellation of the Convertible Bonds and of the termination of the cooperation with China Orient save for the related expenses incurred for the above arrangements.

## 28 Capital commitments

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

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2009** | 2008 | **2009** | 2008 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Contracted for | | | | |
| – Formation of subsidiaries | **–** | 83,144 | **–** | 83,144 |
| – Investment properties | **3,983** | 8,242 | **3,983** | 8,242 |
| | **3,983** | 91,386 | **3,983** | 91,386 |
| Authorized but not contracted for | | | | |
| – Investment properties | **123,764** | 123,000 | **123,764** | 123,000 |

## 29 Contingent liabilities

As at 31 December 2009, the Group and the Company has given three guarantees in respect of banking facilities and other obligations of a jointly controlled entity in Mainland China. One guarantee is provided on a joint and several basis with the other joint venture partner in respect of RMB200,000,000 loan facility (2008: RMB200,000,000). 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 in connection from the provision of the guarantee. The facility was subsequently reduced and utilized to the extent of RMB80,000,000 at 31 December 2009. At 31 December 2008, the facility was utilized to the extent of RMB120,000,000. The other two guarantees amounted to RMB365,000,000 (2008: Nil) representing a 50% proportional guarantee in respect of an aggregate of RMB730,000,000 term loan facilities (2008: Nil). The facilities were subsequently reduced and utilized to the extent of RMB600,000,000 (2008: Nil) at 31 December 2009.

The Company has given guarantees in respect of banking facilities and other obligations of certain subsidiaries to the extent of $1,557,500,000 (2008: $1,384,300,000). The banking facilities and other obligations were utilized to the extent of $1,107,500,000 (2008: $874,300,000) at 31 December 2009.

## 30 Pledge of assets

At 31 December 2009, properties of the Group with an aggregate carrying value of approximately $7,520,923,000 (2008: $6,740,495,000) and time deposits of $15,000,000 (2008: $18,810,000) were pledged to banks under fixed charges mainly to secure general banking facilities granted to the Group.

## 31 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 |

## 31 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 | |
| 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 |
| Brilliant Idea Investments Limited | British Virgin Islands | US$100 | 85.0% | – | 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 |

## 31 Subsidiaries *(Continued)*

| Subsidiary | Place of incorporation/ operation | Nominal value of issued ordinary share capital | Proportion of nominal value of shares held: Direct | Proportion of nominal value of shares held: Indirect | Principal activities |
|---|---|---|---|---|---|
| Elegant Florist Limited | British Virgin Islands | US$1,000 | 100.0% | – | Investment holding |
| Fullco 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 |
| Jumbo Power Enterprises Limited | Hong Kong | $2 | – | 100.0% | Property development |

## 31 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 Star Limited | British Virgin Islands | US$1 | 100.0% | – | Investment holding |
| King's City Holdings Limited | Hong Kong | $2 | – | 100.0% | Property development |
| 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 |
| Polytec Asset Holdings Limited *(Listed in Hong Kong, Stock code: 208)* | Cayman Islands/ Hong Kong and Macau | $443,896,784 | – | 73.4% | Investment holding |
| Polytec Binhai Property (Tianjin) Co., Ltd. *(Remark 1)* | Mainland China | US$2,979,792 *(Remark 2)* | 90.0% | – | Property development |

## 31 Subsidiaries *(Continued)*

| Subsidiary | Place of incorporation/ operation | Nominal value of issued ordinary share capital | Proportion of nominal value of shares held: Direct | Proportion of nominal value of shares held: Indirect | Principal activities |
|---|---|---|---|---|---|
| Polytec Property Good Companion (Shenyang) Limited *(Remark 3)* | Mainland China | US$109,800,000 *(Remark 2)* | – | 100.0% | Property development |
| Polytec Property Lucky City (Shenyang) Limited *(Remark 3)* | Mainland China | $102,100,000 *(Remark 2)* | – | 100.0% | Property development |
| Roe Investment Limited | Hong Kong | $500,000 | 100.0% | – | Investment holding |
| 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 |
| 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 |

## 31 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 | |
| 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 3)* | Mainland China | $80,000,000 *(Remark 2)* | – | 70.0% | Property development |
| 保利達地產(瀋陽)高悦有限公司 *(Remark 3)* | Mainland China | US$59,599,974 *(Remark 2)* | – | 100.0% | Property development |

Remarks:

(1) Equity joint venture incorporated in Mainland China.

(2) The amount represented the registered capital paid up.

(3) Wholly foreign owned enterprises incorporated in Mainland China.

## 32 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 utilized to reduce the Group's ongoing contributions during the year 2009 and 2008. There were no unutilized forfeited contributions at the balance sheet date of both years. The Group's annual contribution for the year was $609,000 (2008: $696,000).

Contributions to the Mandatory Provident Funds of $2,613,000 (2008: $2,518,000) as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance were charged to the income statement for the year.

## 33 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, China.

(b) During the year, an amount of $1,601,399,000 (2008: $930,000,000) was distributed from a subsidiary of Polytec Holdings for the Group's interests in property development in Macau (note 13). Profit of $751,168,000 (2008: $506,760,000) was recognized during the year.

(c) During the year, interest of $16,598,000 (2008: $61,054,000) was paid to Polytec Holdings.

(d) As at 31 December 2008, an amount of $1,613,516,000 was received from a subsidiary of Polytec Holdings in respect of the Group's interests in property development in Macau and was recorded under "Trade and other payables" of current liabilities.

(e) As at 31 December 2009, certain assets of a jointly controlled entity were pledged to a bank to secure a banking facility granted to the Group to the extent of $195,000,000 (2008: Nil).

(f) As at 31 December 2009, the Group has given guarantees to an insurance company in respect of performance bonds entered into by an associated company to the extent of $8,949,000 (2008: $6,532,000).

(g) During the year, the remuneration for key management personnel being short-term employee benefits amounted to $12,412,000 (2008: $9,603,000) as disclosed in notes 5(a) and 5(b). The remuneration of directors and senior management is determined by the Remuneration Committee having regard to the performance and responsibilities of individuals and market trends.

## 34 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 recognized in the accounts.

(a) Depreciation and amortization

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.

(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, realizable 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 at the balance sheet date, which 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 capitalization rate.

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

Management determines the net realizable 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 realizable 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.

## 34 Critical accounting judgements and key sources of estimation uncertainty *(Continued)*

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

Interests in property development are stated at 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 suitable discount rate in order to calculate the present values. 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, management's expectations for the market development and terms provided under the co-investment agreements.

(f) Estimation of fair value of over-the-counter contingent forward transactions

Over-the-counter contingent forward transactions are classified as derivative financial instruments and are stated at fair value at the balance sheet date. The fair value of outstanding over-the-counter contingent forward transactions is calculated based on market value quotations from financial institutions.

The assumptions adopted in fair value of over-the-counter contingent forward transactions are based on the pricing model using the market closing prices of the underlying stocks and/or index, the volatilities, correlations and interest rates at the balance sheet date.

(g) 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.

## 35 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 Hong Kong dollar interest rates arising from the Group's Hong Kong dollar denominated borrowings.

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 2009, 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 $14 million (2008: $36 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 2008.

(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 2009 in relation to each class of recognized 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 minimize 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 and transactions involving derivative financial instruments are with counterparties with sound credit ratings to minimize credit exposure.

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

## 35 Financial risk management and fair values *(Continued)*

(c) Liquidity risk

Cash management of the Company and wholly owned subsidiaries of the Group are substantially centralized 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 and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash, readily realizable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

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 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | Balance sheet carrying amount $'000 |
| At 31 December 2009 | | | | | | |
| Trade and other payables | **383,906** | **19,862** | **–** | **61,560** | **465,328** | **465,328** |
| Bank loans | **3,117,500** | **–** | **154,351** | **–** | **3,271,851** | **3,267,500** |
| Loan from ultimate holding company | **–** | **–** | **–** | **1,200,559** | **1,200,559** | **1,200,559** |
| Amount payable to ultimate holding company | **766,506** | **–** | **–** | **566,374** | **1,332,880** | **1,332,880** |
| | **4,267,912** | **19,862** | **154,351** | **1,828,493** | **6,270,618** | **6,266,267** |
| At 31 December 2008 | | | | | | |
| Trade and other payables | 379,010 | 2,906 | 8,643 | 1,786,195 | 2,176,754 | 2,176,754 |
| Amount due to ultimate holding company | 1,380 | – | – | – | 1,380 | 1,380 |
| Amounts due to minority shareholders | – | – | – | 461,158 | 461,158 | 461,158 |
| Bank loans | 1,166,000 | 1,876,883 | – | – | 3,042,883 | 3,028,000 |
| Derivative financial instruments | 45,526 | – | – | – | 45,526 | 45,526 |
| Loan from ultimate holding company | – | – | – | 2,473,789 | 2,473,789 | 2,473,789 |
| Amount payable to ultimate holding company | – | – | – | 686,497 | 686,497 | 686,497 |
| | 1,591,916 | 1,879,789 | 8,643 | 5,407,639 | 8,887,987 | 8,873,104 |

## 35 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 | | | | | |
|---|---|---|---|---|---|---|
| | 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 | Balance sheet carrying amount $'000 |
| At 31 December 2009 | | | | | | |
| Trade and other payables | **50,116** | **–** | **–** | **46,470** | **96,586** | **96,586** |
| Bank loans | **2,100,000** | **–** | **–** | **–** | **2,100,000** | **2,100,000** |
| Loan from ultimate holding company | **–** | **–** | **–** | **1,200,559** | **1,200,559** | **1,200,559** |
| Amount payable to ultimate holding company | **766,506** | **–** | **–** | **–** | **766,506** | **766,506** |
| | **2,916,622** | **–** | **–** | **1,247,029** | **4,163,651** | **4,163,651** |
| At 31 December 2008 | | | | | | |
| Trade and other payables | 30,585 | – | – | 45,621 | 76,206 | 76,206 |
| Amount due to ultimate holding company | 1,380 | – | – | – | 1,380 | 1,380 |
| Bank loans | 255,000 | 1,876,883 | – | – | 2,131,883 | 2,117,000 |
| Loan from ultimate holding company | – | – | – | 2,473,789 | 2,473,789 | 2,473,789 |
| | 286,965 | 1,876,883 | – | 2,519,410 | 4,683,258 | 4,668,375 |

(d) Currency risk

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

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 foreign currency risk is minimized.

## 35 Financial risk management and fair values *(Continued)*

(e) Equity price risk

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

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 2009, 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 $4 million (2008: $8 million). The analysis is performed on the same basis for 2008.

At 31 December 2009, no sensitivity analysis has been performed on derivative financial instruments as all the derivative financial instruments expired in the year. At 31 December 2008, it is estimated that an increase/decrease of 5% in market value of the underlying securities of the Group's derivative financial instruments, with all other variables held constant, result attributable to shareholders of the Company and retained profits would increase/decrease by $7 million.

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 and derivative financial instruments 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.

## 35 Financial risk management and fair values *(Continued)*

(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 2009, 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 $473,452,000/$473,451,000 (2008: $540,621,000/$540,624,000). 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 2008.

(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 categorized 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

## 35 Financial risk management and fair values *(Continued)*

(g) Fair values *(Continued)*

**2009**

| | Group | | | |
|---|---|---|---|---|
| | Level 1<br>$'000 | Level 2<br>$'000 | Level 3<br>$'000 | Total<br>$'000 |
| ***Assets*** | | | | |
| Available-for-sale investment fund | – | – | 27,096 | 27,096 |
| Trading securities | 80,016 | – | – | 80,016 |
| Derivative financial instrument | – | – | 7,800 | 7,800 |
| Interests in property development | – | – | 10,116,880 | 10,116,880 |
| | 80,016 | – | 10,151,776 | 10,231,792 |

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

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

| | Group<br>$'000 |
|---|---|
| At 1 January | 11,886,072 |
| Payment for purchase | 7,800 |
| Loss recognized in other comprehensive income | (140,697) |
| Settlement | (1,601,399) |
| At 31 December | 10,151,776 |
| Total gains or losses for the year reclassified from other comprehensive income | 742,090 |

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2009 and 2008.

Certain amounts due from/to subsidiaries of the Company, amounts due to minority shareholders and amount received from a subsidiary of Polytec Holdings are unsecured, interest-free and have no fixed repayment terms. Given these terms it is not meaningful to disclose their fair values.

## 36 Comparative figures

As a result of the application of HKAS 1 (revised 2007), "Presentation of financial statements", and HKFRS 8, "Operating segments", certain comparative figures have been adjusted to conform to current year's presentation and to provide comparative amounts in respect of items disclosed for the first time in 2009. Further details of these developments are disclosed in note 2.

## 37 Parent and ultimate holding company

At 31 December 2009, 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.

## 38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2009

Up to the date of issue of these accounts, the HKICPA has issued the amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2009 and which have not been adopted in these accounts.

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

# 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") set out on pages 51 to 127, which comprise the consolidated and Company balance sheets as at 31 December 2009, and 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 notes.

**Directors' responsibility for the accounts**

The directors of the Company are responsible for the preparation and the true and fair presentation of these accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

**Auditor's responsibility**

Our responsibility is to express an opinion on these 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 as to whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts 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 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 2009 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

Hong Kong, 1 March 2010

# Particulars of Properties

31 December 2009

## A. Major Investment Properties

| Location | Usage | Category of Lease | Approximate Total Gross Floor Area (sq m) | Group's Interest (%) |
|---|---|---|---|---|
| **Hong Kong** | | | | |
| Pioneer Centre<br>750 Nathan Road<br>Mongkok | Commercial | Long lease | 44,926 sq m and 124 Carparking Spaces | 100.0 |
| 127 Shop Units on<br>1st Floor and 2nd Floor<br>New Mandarin Plaza<br>14 Science Museum Road<br>Tsim Sha Tsui | Commercial | Long lease | 9,816 | 100.0 |
| 20th Floor of<br>Argyle Centre Phase 1<br>688 Nathan Road and<br>65 Argyle Street<br>Mongkok | Commercial | Long lease | 1,465 | 100.0 |
| 2nd to 23rd Floor and<br>the Roof of The Elgin<br>51 Elgin Street<br>Central | Residential | Long lease | 1,327 | 100.0 |
| The Whole Shop Spaces<br>on Basement<br>Peninsula Centre<br>67 Mody Road<br>Tsim Sha Tsui | Commercial | Long lease | 1,767 sq m and 10 Carparking Spaces | 100.0 |
| 51 Shop Units on Basement,<br>Ground Floor,<br>Mezzanine Floor and 1st Floor<br>Sino Centre<br>582-592 Nathan Road<br>Mongkok | Commercial | Medium-term lease | 1,016 | 100.0 |
| **Macau** | | | | |
| 38 Shop Units<br>Va long<br>Praca da Amizade Nos. 6-52,<br>Avenida do Infante D. Henrique<br>Nos. 25-31 and<br>Avenida Doutor Mario Soares<br>Nos. 227-259 | Commercial | Medium-term lease | 1,887 sq m and 14 Carparking Spaces | 73.4 |

## B. Major Properties Under Development

| Location | Usage | Approximate Total Site Area (sq m) | Approximate Total Gross Floor Area (sq m) | Status | Expected Date of Completion | Group's Interest (%) |
|---|---|---|---|---|---|---|
| **Hong Kong** | | | | | | |
| 150-162 Belcher's Street<br>Kennedy Town | Residential and Commercial | 564 | 5,600 | Acquisition of adjacent buildings | *(Note 1)* | 100.0 |
| 35 Clear Water Bay Road<br>Ngau Chi Wan | Residential and Commercial | 19,335 | 196,400 | Land exchange under process | *(Note 2)* | 100.0 |
| 10 Yim Po Fong Street<br>Mongkok | Stadium, Youth Centre, Residential and Commercial | 2,400 | 24,800<br>*(Note 3)* | Basement excavation work in progress | 2012 | Joint Venture with Urban Renewal Authority and Hong Kong Playground Association |
| 468-474<br>Sai Yeung Choi Street North | Residential | 1,114 | 8,400 | Foundation work in progress | 2012 | 100.0 |
| *Mount East*<br>24-32 Ming Yuen Western Street<br>North Point | Residential and Commercial | 706 | 5,700 | Superstructure work in progress | 2011 | 100.0 |
| **Macau** | | | | | | |
| *Pacifica Garden*<br>Lotes TN25b and TN26d<br>near Estrada Coronel<br>Nicolau de Mesquita<br>Taipa | Residential and Commercial | 5,208 | 35,900 | Construction work completed | 2010 | 42.6 |
| **Mainland China** | | | | | | |
| West of Daba Road<br>Dongling District<br>Shenyang | Residential and Commercial | 1,100,000 | 2,000,000 | Building plan approval in progress | 2011<br>(first phase) | 100.0 |
| Xueyuan Road<br>Shiqi District<br>Zhongshan | Residential and Commercial | 18,334 | 129,000 | Foundation work in progress | 2011 | 70.0 |
| Northern side of<br>Hun Nan Er Road<br>Hun Nan Xin District<br>Shenyang | Residential and Commercial | 171,339 | 579,000 | Construction work in progress | 2011<br>(first phase) | 100.0 |

Notes:
(1) Development plan to be finalized
(2) Subject to finalization of land premium
(3) Attributable gross floor area to the Group is approximately 18,100 sq m

## C. Major Land Held for Future Development

| Location | Usage | Approximate Total Site Area (sq m) | Approximate Total Gross Floor Area (sq m) | Group's Interest (%) |
|---|---|---|---|---|
| **Hong Kong** | | | | |
| 59-65A Pokfulam Road | Residential | 595 | 5,000 | 100.0 |
| **Macau** | | | | |
| Lotes T and T1<br>The Orient Pearl District<br>Novos Aterros da Areia Preta<br>*(Note)* | Residential and Commercial | 17,969 | 186,800 | 58.8 |
| Lote P<br>The Orient Pearl District<br>Novos Aterros da Areia Preta<br>*(Note)* | Residential and Commercial | 68,000 | 699,700 | 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 Total Gross Floor Area (sq m) | Group's Interest (%) |
|---|---|---|---|---|
| **Macau** | | | | |
| 208 Shop Units and<br>208 Office Units<br>The Macau Square,<br>Rua do Dr. Pedro Jose Lobo<br>Nos. 2-16A,<br>Avenida do Infante D. Henrique<br>Nos. 43-53A and<br>Avenida Doutor Mario Soares<br>Nos. 81-113 | Commercial | Medium-term lease | 36,553 sq m<br>and<br>265 Carparking<br>Spaces | 36.7 |

## E. Properties Under Development of Jointly Controlled Entities

| Location | Usage | Approximate Total Site Area (sq m) | Approximate Total Gross Floor Area (sq m) | Status | Expected Date of Completion | Group's Interest (%) |
|---|---|---|---|---|---|---|
| **Mainland China** | | | | | | |
| Heshun Meijing Shuiku Sector<br>Lishui Town<br>Nanhai District<br>Foshan | Residential<br>and<br>Commercial | 4,020,743 | 1,600,000 | Construction<br>work in progress | 2010<br>(first phase) | 50.0 |

## F. Land Held for Future Development of Associated Company

| Location | Usage | Approximate Total Site Area (sq m) | Approximate Total Gross Floor Area (sq m) | Group's Interest (%) |
|---|---|---|---|---|
| **Mainland China** | | | | |
| Lot No. Jin Dong Liu<br>2004-066 intersection of<br>Shiyijing Road and<br>Liuwei Road<br>Hedong District<br>Tianjin<br>*(Note)* | Residential<br>and<br>Commercial | 137,940 | 930,000 | 49.0 |

Note: Transfer of title of the composite property development site to project company to be arranged.

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