ploughing the future
開 拓 未 來

九 龍 建 業 有 限 公 司
Kowloon Development Company Limited

Stock Code 股份代號: 34

Annual Report 2008 年報

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Corporate Information

Kowloon Development Company Limited

A member of the Polytec Group

Board of Directors

Executive Directors

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

Non-executive Directors

Keith Alan Holman *(Deputy Chairman)*
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

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

Principal Bankers

Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited

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
Tel: (852) 2396 2112
Fax: (852) 2789 1370

Stock Code

Hong Kong Stock Exchange: 34

Website

www.kdc.com.hk

Highlights

- The Group's net loss attributable to shareholders for 2008 is HK$629 million.

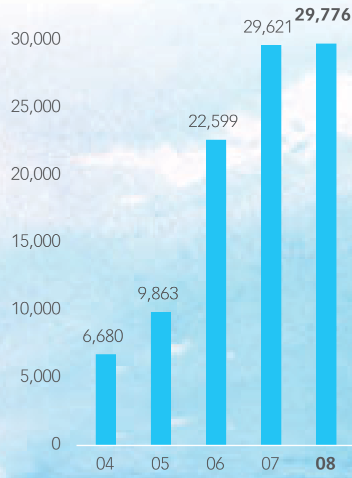
- Underlying net loss for 2008 amounts to HK$2,582 million due to a one-time heavy loss in its finance and investment activities during the year.

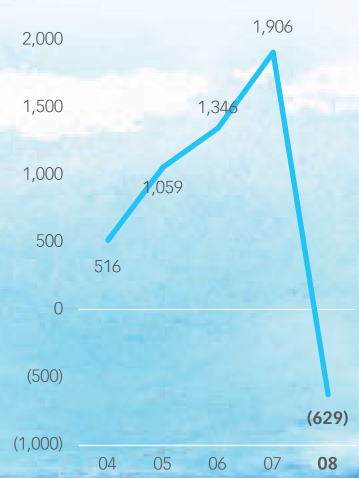
- Full year dividend per share amounts to HK$0.39.

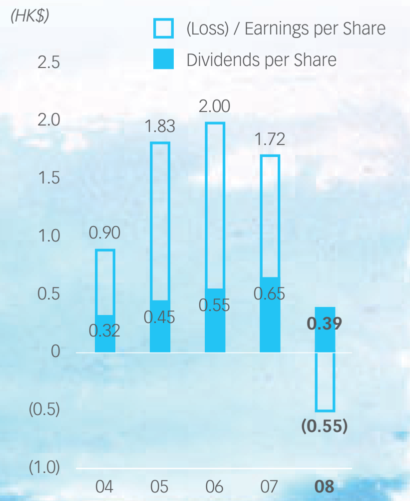
- At end-2008, the Group's financial investment portfolio is reduced to HK$236 million from HK$1,752 million and outstanding maximum commitments under forward agreements is reduced to HK$0.2 billion from HK$10.1 billion.

- The Group's core property business is expected to deliver good results in 2009.

Five-Year Financial Summary







Consolidated Balance Sheet

(HK$ million)	**2008**	2007	2006	2005	2004
Non-Current Assets	**17,895**	18,563	15,298	5,050	3,686
Current Assets	**11,881**	11,058	7,301	4,813	2,994
Total Assets	**29,776**	29,621	22,599	9,863	6,680
Current Liabilities	**(4,749)**	(2,958)	(2,117)	(1,542)	(1,244)
Non-Current Liabilities	**(5,922)**	(4,844)	(7,909)	(2,334)	(1,539)
Net Assets	**19,105**	21,819	12,573	5,987	3,897
Share Capital	**115**	115	77	57	57
Reserves	**15,900**	16,992	8,976	5,041	3,839
Shareholders' Equity	**16,015**	17,107	9,053	5,098	3,896
Minority Interests	**3,090**	4,712	3,520	889	1
Total Equity	**19,105**	21,819	12,573	5,987	3,897

Consolidated Income Statement

(HK$ million)	**2008**	2007	2006	2005	2004
Turnover	**8,793**	10,384	2,908	1,320	773
(Loss)/Profit from Operations	**(1,944)**	2,427	1,483	1,182	592
Finance Costs	**(96)**	(82)	(178)	(18)	(6)
(Loss)/Profit Attributable to Shareholders	**(629)**	1,906	1,346	1,059	516
(Loss)/Profit Attributable to Shareholders *(excluding revaluation of properties and negative goodwill)*	**(2,582)**	1,502	900	611	303
Dividends	**449**	748	572	255	181

Financial Highlights

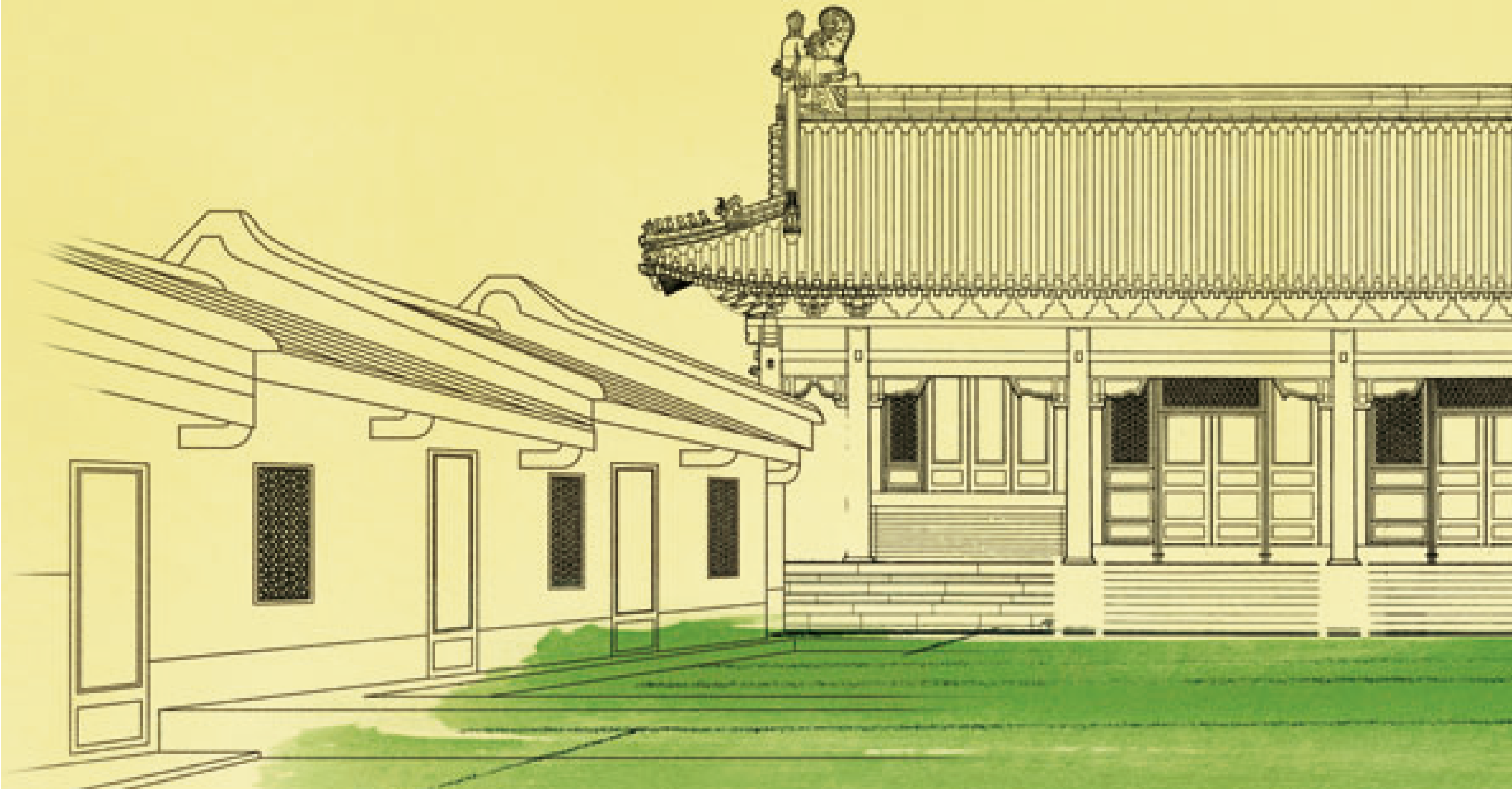
	2008	2007	2006	2005	2004
Net Asset Value per Share *(HK$)*	**13.92**	14.87	11.80	8.99	6.87
(Loss)/Earnings per Share *(HK$)* *(Note 2)*	**(0.55)**	1.72	2.00	1.83	0.90
(Loss)/Earnings per Share *(excluding revaluation of properties and negative goodwill)* *(HK$) (Note 2)*	**(2.24)**	1.36	1.33	1.06	0.53
Dividends per Share *(HK$)*	**0.39**	0.65	0.55	0.45	0.32
Gearing Ratio *(%) (Note 3)*	**32.60**	13.18	84.63	49.83	44.03

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

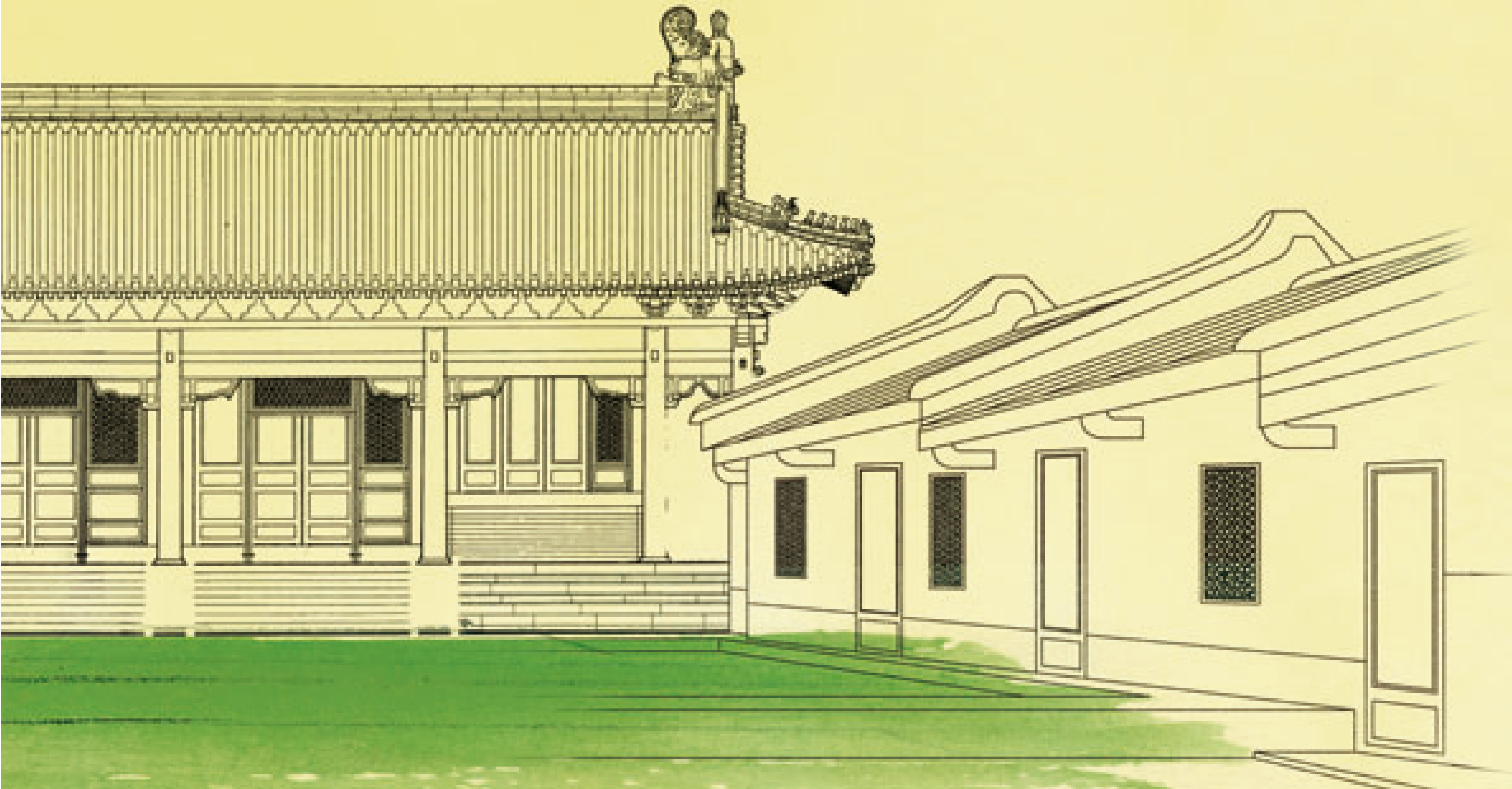
Group Results and Dividends

The Group's results for the year ended 31 December 2008 were significantly impaired by the effect of the downturn in financial markets on financial investments previously held by the Group. The net loss for 2008 attributable to shareholders was HK$629 million against a net profit of HK$1,906 million for 2007. Basic earnings per share of the Group fell from HK$1.72 to a loss of HK$0.55.

Excluding revaluation gains on investment properties net of deferred tax and a one-off gain on negative goodwill, resulting from the increase in the Company's shareholding in Polytec Asset Holdings Limited ("Polytec Asset"), the underlying net loss for the year amounted to HK$2,582 million as compared with the underlying net profit of HK$1,502 million for 2007.

As indicated above, the reason behind these disappointing results was the heavy losses incurred during the year through the Group's finance and investment activities, as to which the Company made an announcement on 27 October 2008.

Taking into account of the strength of the Group's core property business and the one-off nature of the investment losses made in 2008, the Board of Directors recommends the payment of a final dividend of HK$0.20 per share (2007: HK$0.48) for the year ended 31 December 2008 to shareholders whose names



balance resources
to maximize returns

appear on the Register of Members of the Company on 10 June 2009. The proposed final dividend is expected to be paid on 17 June 2009 if approved at the annual general meeting of the Company. The final dividend together with the interim dividend of HK$0.19 per share gives a total dividend payment of HK$0.39 per share (2007: HK$0.65) for the year.

Review of Major Business Segments

Property Sales and Development

Despite the global financial crisis negatively affecting the global economy in 2008, the Group's core property business has performed well during the year.

Given that the global economy has deteriorated rapidly over the past six months, the Group's sale of a portion of remaining luxury residential units at 31 Robinson Road in the fourth quarter was satisfactory, with total sales proceeds of the project for the year amounting to HK$497 million achieving an average selling price of over HK$16,000 per sq ft.

Together with the profit recognition of HK$507 million from the co-investment development project Villa de Mer in Macau and after netting off an impairment loss of a Hong Kong development project, this segment produced a combined operating profit of HK$683 million, which accounted for a substantial portion of the Group's operating results for the year.

With respect to the Villa de Mer project, the final distribution has been received subsequent to the balance sheet date which will result in a recognition of further profit for the Group in 2009.

The Group is committed to building quality properties incorporating modern, elegant and long-lasting design. I am therefore pleased that the project at 31 Robinson Road won the Top Ten Property Layouts Awards for year 2008 from the Hong Kong Institute of Surveyors.

31 Robinson Road, Mid-levels, Hong Kong

The Group has acquired approximately 120,000 sq m of attributable gross floor area for future development in Hong Kong and Zhongshan (Guangdong Province) at an aggregate cost of HK$1,671 million during the course of 2008. As at 31 December 2008, the Group owned approximately 4,500,000 sq m of attributable gross floor area, of which approximately 1,100,000 sq m was held for future development and approximately 3,400,000 sq m was under development.

Property Investment

The Group's gross rental income from its investment property portfolio rose to HK$256 million for the year ended 31 December 2008, an increase of 9.1% over the same period of 2007. The improvement in gross rental income was broad-based, with rental income from office spaces rising 19.3% and retail spaces rising 5.3% for the year. In addition, the overall occupancy rate of the Group's investment properties has remained high throughout the course of 2008, with the average occupancy rate for each property over 90%.

Total income generated from the Group's flagship property, Pioneer Centre, rose to HK$206 million for 2008, an increase of 10.2% over the corresponding period last year, with both retail and office spaces nearly fully let.

During the year, the Group accepted the provisional basic terms of the land exchange for Ngau Chi Wan project, for which the Company is now expecting an indication of land premium. The revaluation of the commercial portion contributed HK$594 million to the total revaluation gains on the Group's investment property portfolio. The amount together with revaluation gains on the Group's other investment properties of HK$285 million gave a total revaluation gain of HK$879 million (2007: HK$491 million) for the year.

Finance and Investments

The meltdown on Wall Street and the global financial markets in the fourth quarter last year significantly impaired the financial investment portfolio previously held by the Group.

Following the unexpected collapse of Lehman Brothers Holdings Inc, Management projected that such event could trigger a confidence crisis, which would have significantly impacted on the financial markets and therefore the Group's investment portfolio. Thus in early October last year, the Group took a prompt decision to contain its exposure to uncertainties by liquidating the majority of shares owned in its portfolio and unwinding most of its forward purchase and sale agreements.

As a result, the Group suffered a one-time operating loss of HK$3,730 million for 2008 in the finance and investment activities compared with an operating profit of HK$1,046 million in 2007.

As of 31 December 2008, the Group's investment portfolio included only insignificant outstanding derivative contracts, with the maximum commitments of the Group under forward agreements being reduced substantially to HK$0.2 billion from HK$10.1 billion at end-2007. Moreover, the total value of financial investments in the Group's portfolio was reduced to HK$236 million at end-2008 from HK$1,752 million at end-2007.

Prospects

The global economy may slow down further as fears are still mounting over economic uncertainties. The property markets in Hong Kong, Mainland China and Macau will likely remain under downward adjustment pressure over the short term. This is a challenging environment but one which provides an opportunity to strengthen the Group's land bank and holding of investment properties at relatively low prices.

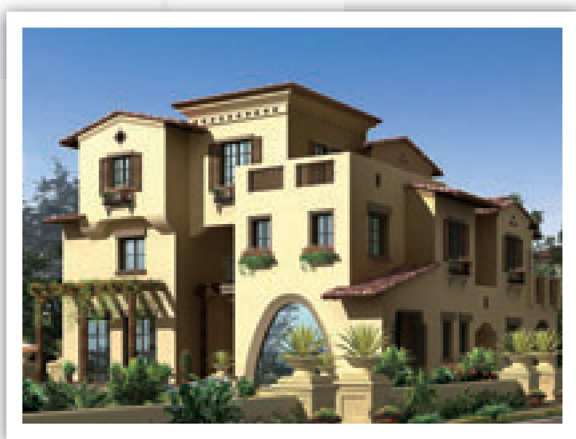
In order to face the challenges caused by this economic slowdown, the Group has taken various positive actions to bring its focus back to its core property business. In December 2008, it was mutually agreed with China Orient Asset Management Corporation to terminate the co-operation with respect to its a Sino-foreign joint venture. On 2 April 2009, a settlement agreement was entered into with respect to the Shenzhen Properties Resources Development (Group) Limited transaction, which was originally agreed in 2005, involving termination of the proposed acquisition and repayment of sums already paid and payment of certain other sums to the Group.

Foshan Project

The Master Plan

- the site, surrounded by natural waters and greenery, covers 7,000 Chinese acres
- within a 30-minute drive from the site to Guangzhou Baiyun International Airport and the central business district of Guangzhou – Tianhe District

1. Mt. Jiulong Forest Park
2. The Wetland Nature Reserve Zone
3. 1200-Mu of Quiet Lakes
4. HOPSCA Retail
5. Deluxe Five Star Hotel
6. The Fox Valley Golf Club
7. Lakeside Coffee Bar
8. Guangdong Experimental Nanhai School
9. Hanzhu District
10. Tianzhu District



First phase of Foshan project – A luxury villa

Management has committed to concentrate its efforts on its property business, aiming to create maximum value for its shareholders through property development and property investment. With respect to its finance and investment activities, the Group will take a conservative and prudent approach. Management has been directed to limit the scale of short-term financial investment trading activities and avoid derivative trading. The Group will focus on the medium- and long-term investment opportunities.

Management has also committed to enhance the Group’s competitive position in the property markets of Hong Kong, Macau and Mainland China with the aim of becoming one of very few listed companies to have the capability to grow significantly in all three markets.

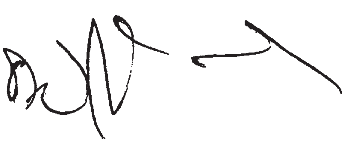
The Group has adjusted its business strategy. The financial investment portfolio and commitments under forward agreements, that incurred a one-time heavy loss during 2008, was substantially reduced. In 2009, it is expected the finance and investment business will not have a material impact on the Group’s overall performance, while the Group’s core property business is expected to deliver good results.

The Group’s earnings for 2009 will be largely supported by the distribution from the Villa de Mer project in Macau, as well as the sale of remaining luxury residential units at 31 Robinson Road in Hong Kong. From 2010 onwards, the Group’s various development projects in Mainland China will start contributing a significant portion to the Group’s results.

I am pleased to announce that the recent soft launch of the Group’s first Mainland China development project in Foshan (Guangdong Province) has been well received by the market. This is especially encouraging for the Group, broadening our successful experience both in the Hong Kong and Macau property markets.

Appreciation

I would like to take this opportunity to express my gratitude to my fellow directors for their advice and all the staff members of the Group for their hard work and dedication.



Or Wai Sheun
Chairman

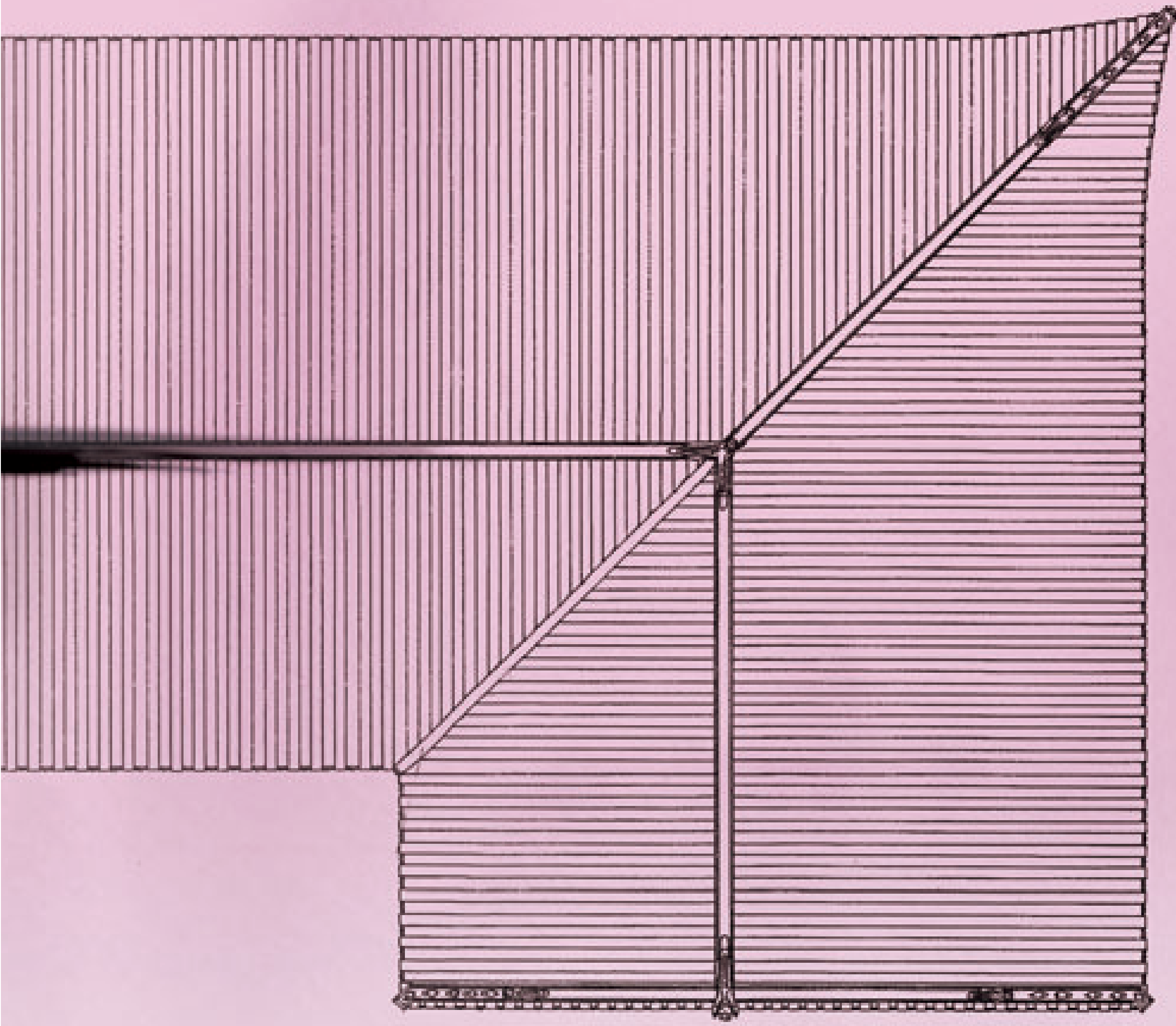
Hong Kong, 7 April 2009

Review of Operations

pivot on quality properties

Business Review

The Group's finance and investment activities were significantly affected by the financial crisis last year and the segment incurred a one-time operating loss of HK$3,730 million in 2008 compared with an operating profit of HK$1,046 million in 2007. However, the Group's core property business has been relatively less affected. Excluding the property revaluation gains, the underlying operating profit from the property development and property investment businesses amounted to HK$931 million, a slight decrease of 1.1% over the same period in 2007.



Property Sales

Property projects of the Group continued to bear fruit with residential and commercial units in Hong Kong and Macau being sold at satisfactory prices. In Hong Kong, the principal contributor to the operating profit in 2008 was the sale of residential units at 31 Robinson Road. In Macau, profit recognition from the Group's 58.8% interest in the Villa de Mer project amounted to HK$507 million in 2008.

Comparing with last year, the operating profit from the property development decreased by 5.3% to HK$683 million (2007: HK$721 million).

Major properties held for sale during the year were:

Location	Approx. Total Gross Floor Area	Group's Interest
Hong Kong		
No. 31 Robinson Road, Mid-Levels, Hong Kong	5,794 sq m and 87 car parking spaces	100%
Macau		
China Plaza Avenida de Praia Grande Nos. 730-804 and Avenida de D. Joao IV Nos. 2-6-B, Macau	4,392 sq m and 155 car parking spaces	52%

Property Development

Brief details of the Group's major development projects in Hong Kong, Mainland China and Macau are set out below:

Hong Kong

Clear Water Bay Road, 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

The site will be developed into a residential and commercial complex with retail and community facilities. The Company has agreed with the Hong Kong Government on the provisional basic terms of the land exchange and is now expecting an indication of land premium from the Government.

Belcher's Street, Kennedy Town, 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	Foundation work to commence
Expected Date of Completion	2011

This 564 sq m site will be developed into a gross floor area of approximately 5,600 sq m of multi-storey high-end residential units with retail, club house and car parking spaces included. The building plan has been approved and foundation work is about to commence.

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	Demolition works in progress
Expected Date of Completion	2012

This is a redevelopment project which was tendered from the Urban Renewal Authority. The project covers a site area of approximately 2,400 sq m with its development content made up of approximately 5,600 sq m of stadium and youth centre together with approximately 16,700 sq m and approximately 2,500 sq m for residential usage and commercial usage respectively. The gross floor area attributable to the Group is approximately 18,100 sq m. Development work will commence following completion of demolition.

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	2,200,000 sq m
Status	Building plan approval in progress
Expected Date of Completion	2010 (first phase)

As the local authorities were unable to deliver certain land lots as agreed before, the intended total gross floor area will be reduced from 2,900,000 sq m to 2,200,000 sq m. However, the total final total gross floor area figure is still subject to further adjustments. The relocation and resettlement of remaining inhabitants is in progress. The master layout plan for the first phase of the development (which includes low-rise and medium-rise residential blocks with a gross floor area of approximately 150,000 sq m) has been submitted to the local authorities for approval.

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 residential development in progress
Expected Date of Completion	2010 (first phase)

The first phase of the development project is underway. The residential portion is expected to be completed in the first half of 2010. A soft launch of the first phase of the residential development took place in early 2009 and has been well received by the market. A formal launch of the residential units is scheduled around April-May 2009.

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	61%
Approx. Total Gross Floor Area	930,000 sq m
Status	Site clearance in progress
Expected Date of Completion	2012 (first phase)

The Tianjin development project is located in a prime area of the central business district of Hedong. Site clearance is underway. The project envisages a composite development consisting of residential, office, hotel and retail elements with an aggregate gross floor area of approximately 930,000 sq m.

Shiqi District, Zhongshan	
Location	Xueyuan Road, Shiqi District, Zhongshan, China
Usage	Residential and Commercial
Group's Interest	70%
Approx. Total Gross Floor Area	126,600 sq m
Status	Demolition works in progress
Expected Date of Completion	2010

The Zhongshan development project, located in Shiqi District, will consist of high-end residential towers and retail spaces, with an aggregate gross floor area of approximately 126,600 sq m.

Macau

The Group's property interest in Macau is held through its listed subsidiary, Polytec Asset, 73.4% owned by the Company. Details of the development projects are as follows:

Villa de Mer, The Orient Pearl District	
Location	Lote V, Novos Aterros da Areia Preta, The Orient Pearl District, Macau
Usage	Residential and Commercial
Group's Interest	58.8%
Approx. Total Gross Floor Area	138,100 sq m
Status	Construction works in progress
Expected Date of Completion	2010

Villa de Mer, the Group's development project held by Polytec Asset which has an 80% interest under a co-investment agreement, covers a gross floor area of approximately 138,100 sq m and comprises five high-end residential towers with a total of about 1,300 units erected on top of a podium with retail, club house and car parking spaces. Foundation work has been completed. While construction work will only be completed in 2010, a final distribution under the terms of the co-investment agreement was received subsequent to the balance sheet date. As a result, the Company's interest in the project is concluded and that the remaining profits recognized from the final distribution will be booked in the first half of 2009.

Lote P, The Orient Pearl District	
Location	Lote P, Novos Aterros da Areia Preta, The Orient Pearl District, Macau
Usage	Residential and Commercial
Group's Interest	58.8%
Approx. Total Gross Floor Area	699,800 sq m
Status	Construction not yet commenced

Lote P, a development project in which Polytec Asset holds an 80% interest, covers an aggregate site area of approximately 68,000 sq m and will be developed by phases into various multi-storey luxury residential towers, together with a shopping mall and club house and car parking spaces, with an aggregate gross floor area of approximately 699,800 sq m. The layout plan will be submitted to relevant government authorities for approval shortly.

Lotes T & T1, The Orient Pearl District	
Location	Lotes T and T1, Novos Aterros da Areia Preta, The Orient Pearl District, Macau
Usage	Residential and Commercial
Group's Interest	58.8%
Approx. Total Gross Floor Area	187,000 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 owns an 80% interest, will be developed into a number of high-end residential blocks and ancillary shops, with an aggregate gross floor area of approximately 187,000 sq m. The building plan was submitted to relevant government authorities for approval.

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	Superstructure works in progress
Expected Date of Completion	2009

Pacifica Garden is Polytec Asset's 58% owned residential and commercial project in Taipa, with a gross floor area of approximately 35,900 sq m, comprising two buildings with a total of 295 residential units and a number of retail shops on the ground floor. All residential units were sold in 2007. Construction work of the project is expected to be completed in mid-2009.

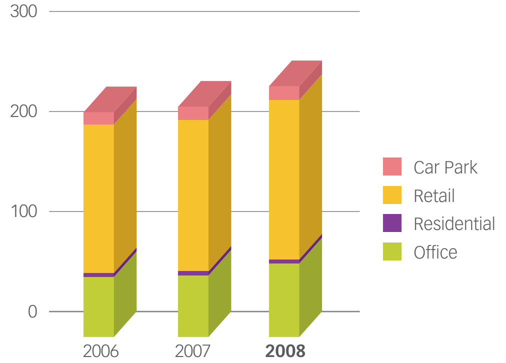
Property Investment

The Group's investment properties comprise mainly retail shops and offices in Hong Kong, amounting to approximately 75,000 sq m of attributable gross floor area at end-2008. Gross rental income generated from the investment property portfolio for the year was HK$256 million (2007: HK$234 million).

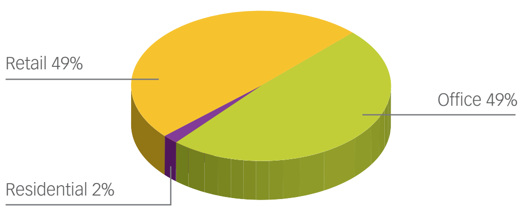
The improvement in rental income was mainly attributable to a decent increase in overall rental rates and occupancy levels for both the office and retail sectors at Pioneer Centre, the Group's flagship property, in 2008. Gross rental income generated from Pioneer Centre for the year rose to HK$206 million (2007: HK$187 million), an increase of 10.2% over the same period in 2007. Overall occupancy rates of the Group's properties remained high, with a nearly 100% occupancy at Pioneer Centre.

Total revaluation gains from the Group's investment property portfolio was HK$879 million (2007: HK$491 million), mainly attributable to the fair value change of the Ngau Chi Wan project following agreement in 2008 on the provisional basic terms of the land exchange thus allowing the dimensions of the retail element of the development, which is to be retained as an investment, to be finalized and revalued to reflect its investment potential.

Total Rental Income
(HK$ million)



Investment Property Portfolio 2008
(By attributable gross floor area)



Property Management

The Group offers a full range of property management services to both public and private housing including the Group's own property projects, luxury residential and serviced apartments, commercial buildings and public housing estates. The property management arm of the Group is committed to offer high standard and comprehensive management services to all clients. It has achieved satisfactory progress in enlarging the property management portfolio. It managed gross floor area of approximately 560,100 sq m (2007: 479,300 sq m) at the year end date.

Finance and Investments

The Group liquidated a majority of its financial investments in October 2008 including listed securities and derivatives obligations. The decision was made to avoid further losses triggered by a collapse of the global financial markets after the liquidation of Lehman Brothers Holdings Inc. Operating loss of finance and investments activities was HK$3,730 million for the year under review as compared with an operating profit of HK$1,046 million in corresponding period last year. As at 31 December 2008, the total value of the Group's financial investments was HK$236 million versus HK$1,752 million at end-2007. As at 31 December 2008, the aggregate maximum purchase commitments of the Group under the forward agreements to purchase certain listed equity investments was reduced to HK$0.2 billion (2007: HK$10.1 billion).

New Developments and Major Events in 2008

Hong Kong and Macau

(1) The Group's property development and investment activities in Macau are principally operated by Polytec Asset. Its group also engages in ice manufacturing and cold storage business which generated a steady operating profit of HK$14.8 million (2007: HK$13.5 million). During the year, the Company acquired on-market an additional 617,940,000 shares in Polytec Asset at total purchase price of HK$271 million. The Group shared its net loss of HK$327 million (2007: net profit of HK$80 million) for the year. The Group also recognized a one-off non-cash gain of HK$1,206 million as negative goodwill in its consolidated accounts following the acquisition of the additional shares in Polytec Asset. As at the balance sheet date, the Company owned approximately 73.4% of the total issued ordinary shares of Polytec Asset.

(2) The Group acquired Nos. 468-474, Sai Yeung Choi Street North, Kowloon, Hong Kong with a gross floor area of about 8,400 sq m. The site is designated for residential development.

(3) In July 2008, the Group entered into an agreement with the Urban Renewal Authority and Hong Kong Playground Association for the redevelopment of a site at the Macpherson Stadium, Mongkok. The gross floor area attributable to the Group is approximately 18,100 sq m.

(4) The Group acquired Nos. 59-65A, Pokfulam Road, Hong Kong with a gross floor area of about 5,000 sq m. The site is designated for residential development.

Mainland China

(1) On 23 December 2008, the Company and China Orient Asset Management Corporation agreed to terminate their cooperation in respect of a Sino-foreign joint venture that targeted the acquisition of distressed assets. Details were disclosed in an announcement of the Company dated 23 December 2008. The termination has a positive impact on the cash and gearing position of the Group.

(2) The Group acquired a 70% interest in a residential and commercial development project in Zhongshan, Guangdong. The total gross floor area of the development is about 126,600 sq m as described above.

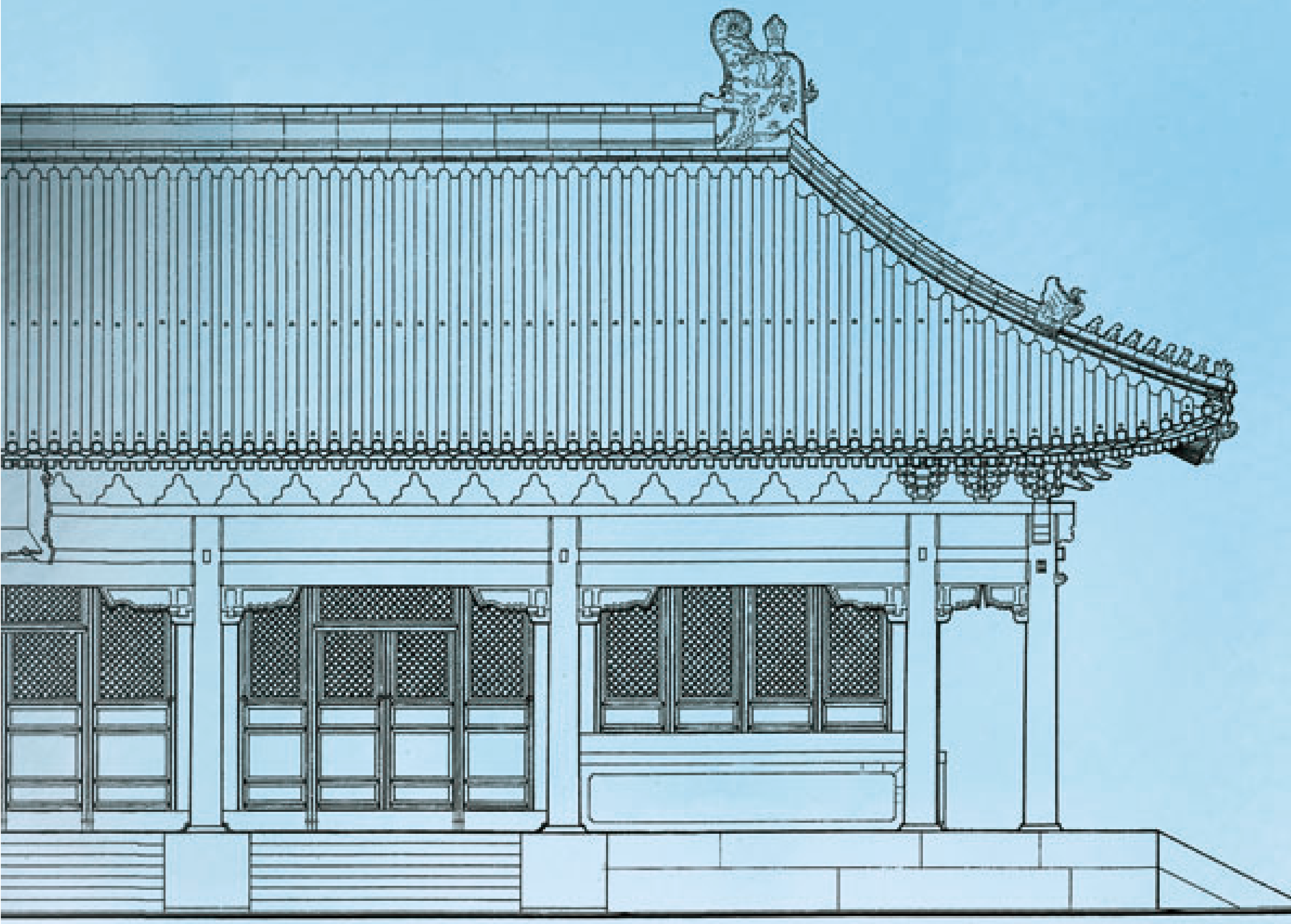
Human Resources

At 31 December 2008, the Group had a total of 362 employees (2007: 367 employees) in its various offices in Hong Kong, Macau and Mainland China. Total staff costs for the year amounted to HK$77 million (2007: HK$97 million). The Group's remuneration policy is based on the principle of pay for performance with the aim to attract, motivate and retain talented people.

The Group conducts a range of on-going training programmes 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

growth on solid foundation



Financial Resources and Bank Borrowings

As at 31 December 2008, the Group had total bank borrowings of HK$3,028 million with HK$1,166 million repayable within one year and HK$1,862 million repayable beyond one year. The net borrowings position of the Group as at the year end date was HK$2,061 million after taking into account cash and cash equivalent of HK$967 million. There was an increase of HK$1,204 million as compared with the net borrowings of HK$857 million as at 31 December 2007. Loan from/amount payable to the ultimate holding company amounted to HK$3,160 million as at year end 2008 (2007: HK$1,398 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 32.6% as at 31 December 2008 as compared with 13.2% at 2007 year-end. The increase in the Group's gearing ratio was attributed mainly to the losses incurred from the finance and investments business, the payment of land premium for the Group's newly acquired Macpherson Stadium project in Mongkok and the additional investments of the Group in Mainland China property projects during the year under review.

During year 2008, the sale of 31 Robinson Road generated a cash inflow of approximately HK$1,360 million and is expected to contribute positively to the cashflow of the Group in 2009.

All the Group's borrowings are arranged on a floating rate basis. The Group is continuously monitoring and managing its exposure to interest rate fluctuations. When appropriate, the Group will consider engaging relevant hedging arrangements suitable for its financing structure.

With the Group's investments in Mainland China projects, the Group is exposed to exchange fluctuations on Renminbi ("RMB"). The joint venture development in Foshan with CITIC South China (Group) Co Ltd has arranged RMB bank borrowings for its development needs. The Group is currently seeking appropriate RMB borrowings to finance the development commitments for other Mainland China projects in order to hedge against the exchange rate risk associated with RMB. The Group's exposure to other foreign currencies is minimal.

With the financing facilities in place, recurrent income from investment properties, property sales from the Group's development projects, cash on hand and the financial support of the ultimate holding company, the Group has sufficient financial resources to satisfy its funding requirements.

Capital Commitments

As at 31 December 2008, the Group had an outstanding commitment of HK$83 million for the acquisition of a subsidiary engaged in Mainland China property development. In connection to the Group's investment properties, the Group had commitments for construction work to enhance the property value which amounted to HK$131 million.

Pledge of Assets

As at balance sheet date, properties and financial investments amounted to HK$6,740 million and time deposits of HK$19 million were pledged to financial institutions to secure credit facilities and as margin for its financial investments.

Contingent Liabilities

The Group had contingent liabilities in respect of a guarantee for a banking facility extended to a jointly controlled entity in the amount of RMB200 million (equivalent to approximately HK$227 million). The banking facility was utilized to the extent of RMB120 million (equivalent to approximately HK$136 million) as at 31 December 2008.

Profile of Directors and Senior Management

Board of Directors

Executive Directors

OR Wai Sheun, aged 57, is the *Chairman* of the Board 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 the chairman of Polytec Asset Holdings Limited (listed on the Stock Exchange of Hong Kong), a subsidiary of the Company. He is also 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 within the meaning of Part XV of the Securities and Futures Ordinance. 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, Executive Directors of the Company.

NG Chi Man, aged 56, 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 a director of both Polytec Holdings International Limited and Intellinsight Holdings Limited, all being substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance. 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, the Chairman, and the mother of Mr Or Pui Kwan, Executive Director of the Company.

LAI Ka Fai, aged 44, 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 (listed on the Stock Exchange of Hong Kong), a subsidiary of the Company, and a director of Intellinsight Holdings Limited, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance. 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 in the United Kingdom.

OR Pui Kwan, aged 30, 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, United Kingdom. He is the son of Mr Or Wai Sheun, the Chairman, and Ms Ng Chi Man, Executive Director of the Company.

Non-executive Directors

Keith Alan HOLMAN, aged 64, is the *Deputy Chairman* of the Board 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, a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance, 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 in the United Kingdom and has a professional qualification as a solicitor.

TAM Hee Chung, aged 65, 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. Since 1988, he has been 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 50, has been a *Non-executive Director* of Company since January 2002. He is the managing director of Polytec Asset Holdings Limited (listed on the Stock Exchange of Hong Kong), a 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 in the United Kingdom.

Independent Non-executive Directors

LI Kwok Sing, Aubrey, aged 59, 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 59, 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 (United Kingdom) and the Hong Kong Institution of Engineers, and a fellow member of the Hong Kong Institute of Construction Managers.

SETO Gin Chung, John, aged 60, 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 (redomiciled from Bermuda to Cayman Islands effective on 25 April 2008), 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, U.S.A and has over 35 years of experience in the securities and futures industry.

David John SHAW, aged 62, 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 49, is the *General Project Manager, Land and Business Development*. Mr Au Yeung has over 25 years of 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 stages of works such as 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 36, is the *General Manager, Land and Business Development*. Ms Cheung has over 15 years of experience in strategic land conversion from inception to implementation stage, land acquisition/merging, financial planning and structuring for large scale property development and infrastructure projects in Hong Kong and Mainland China. Prior to joining the Company in July 2008, she had been a director of professional firms and 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.

LEUNG Chi Wai, Kelvin, aged 52, is the *Project Director, Property Development*. Mr Leung has over 27 years of experience in all aspects of engineering and development, ranging from planning, feasibility study, design and implementation of infrastructural and development projects in Hong Kong, Macau, Mainland China, Middle East, Vietnam, Thailand, The Philippines and Taiwan. Prior to joining the Company in November 2008, he had been a director of a transport consultancy company for over 10 years. Mr Leung holds a Master of Science degree in Civil Engineering from the University of Hong Kong. He is a Chartered Engineer in United Kingdom and is the corporate member of both Hong Kong Institution of Engineers and Institution of Civil Engineers in the United Kingdom.

LIU Bik Yuk, aged 39, is the *Executive Assistant to the Chairman*. Ms Liu has solid experience in leasing, sales, marketing and promotion. She joined the Company initially as Leasing Manager and was promoted to the current position in 2007. Prior to joining the Company in 2004, she had worked for the Cheung Kong Group for 8 years. She holds a Bachelor of Science degree in Business Administration.

LOOK Pui Fan, aged 43, is the *Company Secretary*. Ms Look joined the Company in January 2009 and 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 43, is the *General Manager, Finance.* Ms Lui has over 20 years of experience in finance and accounting. Ms Lui was employed by the Company from 1990 to 1993 and re-joined in 1996. She graduated from the University of Hong Kong with a Bachelor degree in Social Sciences. Prior to joining the Company, she had worked for an international accounting firm for several years. She is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and a member of CPA Australia.

MAK Kam Wah, aged 49, is the *General Project Manager, Property Development*. Mr Mak has over 24 years of experience in the field of architectural practice and property development. Prior to joining the Company in 2007, he had worked for a large property development company for 10 years. Mr Mak holds a Bachelor degree of Architecture and a Bachelor degree of Arts in Architectural Studies both from the University of Hong Kong. He is a member of the Hong Kong Institute of Architects. He is also an Authorized Person (List 1) registered under the Buildings Ordinance and a Registered Architect under the Architects Registration Ordinance.

YIP Kwok Fai, aged 41, is the *General Project Manager, Property Development*. Dr Yip has over 15 years of experience in property development projects in Hong Kong, Macau and Mainland China. Prior to joining the Company in 2002, he was a project manager in a large property development company and worked for architectural consultancy firms. Dr Yip 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.

Report of the Directors

The Directors submit herewith their annual report together with the audited statement of accounts for the year ended 31 December 2008.

Principal Place of Business

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

Principal Activities

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

Accounts

The loss of the Group for the year ended 31 December 2008 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 126.

Dividends

An interim dividend of HK$0.19 per share (2007: HK$0.17 per share) was paid on 27 November 2008. The Directors now recommend that a final dividend of HK$0.20 per share (2007: HK$0.48 per share) be paid in respect of the year ended 31 December 2008.

Share Capital

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

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

Neither the Company nor any of its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2008.

Reserves

Movements in reserves during the year are set out in note 25 on the accounts.

Fixed Assets

Movements in fixed assets during the year are set out in note 10 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 2008 are set out in notes 11, 21, 22, 23 and 24 on the accounts.

Finance Cost Capitalized

The amount of finance costs capitalized by the Group during the year is set out in note 3(e) on the accounts.

Donations

Charitable donations made by the Group during the year amounted to HK$390,252 (2007: HK$70,840).

Properties

Particulars of properties of the Group are shown on pages 128 to 131 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 4 to 5 of the annual report.

Management Contracts

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

Directors

The Directors of the Company during the year and up to the date of this report are as follows and their brief biographical details are set out on pages 27 to 29 of the annual report:

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 Keith Alan Holman, Ms Ng Chi Man and Mr Or Pui Kwan will retire by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

Each of the Independent Non-executive Director has given an annual confirmation of independence to the Company pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The Company is of the view that all Independent Non-executive Directors are independent and fulfil the independence guidelines set out in rule 3.13 of the Listing Rules.

Particulars of the Directors' emoluments as required disclosure under Section 161 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 4 on the accounts.

Director's Service Contracts

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company or any subsidiaries which is not determinable with one year without payment of compensation, other than statutory compensation.

Directors are subject to retirement by rotation as required by article 105 of the Company's Articles of Association.

Transactions in the Company's Securities

In connection with the establishment of a Sino-foreign joint venture company with China Orient Asset Management Corporation ("China Orient") to carry out the business of asset management in Mainland China, the Company and its subsidiary entered into a joint venture agreement and an assets transfer agreement with China Orient both on 22 August 2007. Pursuant to the assets transfer agreement, the Company issued to China Orient six-month zero coupon convertible bonds in the principal amount of HK$2,413,733,720 at an initial conversion price of HK$15.078 per share on 7 July 2008 as the consideration for the acquisition of a portfolio of non-performing loans which should be injected into the aforesaid joint venture as part of capital contribution and shareholder's loan after its establishment. The convertible bonds, if exercised in full during the conversion period from 8 July 2008 to 6 January 2009, could be converted into an aggregate of 160,085,801 shares of the Company.

Subsequently, as announced by the Company on 23 December 2008, the cooperation between the Company and China Orient in respect of the joint venture was terminated pursuant to the termination agreement dated 23 December 2008. Upon the completion of the termination agreement on 31 December 2008, the entire convertible bonds were surrendered and returned to the Company for cancellation. Neither conversion was made by, nor new shares was issued to, the holder of the convertible bonds. Accordingly, China Orient and its controlling shareholder ceased to have any interest in the underlying shares of the Company effective on 31 December 2008.

Directors' Interests and Short Positions

As at 31 December 2008, the interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or which were required, pursuant to the Model Code for the Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code"), to be notified to the Company and the Stock Exchange, were as follows:

1 Long Positions in the Shares of the Company

Name	Nature of interests	Number of shares	Approximate percentage of shareholding (Note 1)	Notes
Or Wai Sheun	Founder and beneficiary of a trust	802,830,124		2
	Corporate	277,500		3
		803,107,624	69.79%	
Ng Chi Man	Beneficiary of a trust	802,830,124	69.77%	2
Or Pui Kwan	Beneficiary of a trust	802,830,124		2
	Personal	43,500		
		802,873,624	69.77%	
Lok Kung Chin, Hardy	Founder and beneficiary of a trust	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	Corporate	300,000	0.03%	5
David John Shaw	Personal	133,500		
	Family	67,000		6
		200,500	0.02%	
Yeung Kwok Kwong	Personal	165,000	0.01%	

2 Long Positions in the Shares of Polytec Asset Holdings Limited

Name	Nature of interest	Number of ordinary shares	Approximate percentage of shareholding (Note 7)	Notes
Or Wai Sheun	Founder and beneficiary of a trust	3,260,004,812	73.44%	8
Ng Chi Man	Beneficiary of a trust	3,260,004,812	73.44%	8
Or Pui Kwan	Beneficiary of a trust	3,260,004,812	73.44%	8
Yeung Kwok Kwong	Personal	2,000,000	0.05%	
Tam Hee Chung	Corporate	1,100,000	0.02%	9
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 2008.

(2) Such interest in shares is owned 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 the 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 Shuen 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 Shuen.

(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 Larry H.C. Tam & Associates Limited which is 48% owned by Mr Tam Hee Chung.

(6) Such interest in shares is held by the spouse of Mr David John Shaw.

(7) 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 2008. Polytec Asset is an associated corporation of the Company.

(8) The three references to 3,260,004,812 shares in Polytec Asset relate to the same block of shares beneficially held by Marble King International Limited, a wholly-owned subsidiary of the Company. By virtue of the deemed interest in the shares of the Company as described in note (2) above, Mr Or Wai Sheun, Ms Ng Chi Man and Mr Or Pui Kwan are taken to be interested in the shares of Polytec Asset.

(9) Such interest in shares is held by Larry H.C. Tam & Associates Limited which is 48% owned by Mr Tam Hee Chung.

Save as disclosed above, none of the Directors or the chief executive of the Company had, as at 31 December 2008, any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests

So far as is known to any Director, as at 31 December 2008, shareholders (other than Directors) 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 were as follows:

Long Positions in the Shares of the Company

Name	Nature of interests	Number of shares	Approximate percentage of shareholding (Note 1)	Notes
HSBC International Trustee Limited	Trustee	803,512,624	69.83%	2
Or Family Trustee Limited Inc	Trustee	802,830,124	69.77%	2 & 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 2008.

(2) Out of 803,512,624 shares held by HSBC International Trustee Limited, 802,830,124 shares are held in its capacity as trustee of a discretionary trust as described in note (2) under the section headed "Directors' Interests and Short Positions".

(3) Such interest in the shares relates to the same block of shares as described in note (2) under the section headed "Directors' Interests and Short Positions".

Save as disclosed above and the section headed "Transactions in the Company's Securities", as at 31 December 2008, the Company has not been notified by any persons (other than Directors) 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) On 8 April 2006, Profit Sphere International Limited ("Profit Sphere"), a wholly-owned subsidiary of Polytec Asset, entered into an agreement pursuant to which Profit Sphere agreed to acquire from Polytec Holdings International Limited ("Polytec Holdings") the entire issued share capital of New Bedford Properties Limited ("New Bedford") at an aggregate consideration of HK$8,448 million (the "New Bedford Acquisition"). Polytec Holdings is ultimately wholly-owned by a family trust, the discretionary objects of which include Mr Or Wai Sheun, the Chairman, Ms Ng Chi Man and Mr Or Pui Kwan, Executive Directors of the Company.

The New Bedford Acquisition constitutes a very substantial acquisition and connected transactions for the Company and Polytec Asset under the Listing Rules. The provision of loans relating to participation in the development of three property projects in Macau after completion of the New Bedford Acquisition by New Bedford to Polytex Corporation Limited and to Fok Kiu - Properties Investment Limited, both being wholly-owned subsidiaries of Polytec Holdings, also constitutes connected transactions for the Company and Polytec Asset under the Listing Rules. The New Bedford Acquisition and the provision of loans by New Bedford both were approved by the independent shareholders of the Company on 12 June 2006. The New Bedford Acquisition was completed on 15 June 2006 and pursuant to the agreement, the settlement of consideration was extended and the outstanding balance due to Polytec Holdings from Polytec Asset was HK$686,497,000 as at 31 December 2008.

(2) On 24 July 2008, the Company executed a corporate guarantee in respect of the joint and several liabilities of a loan facility of up to RMB200 million extended by a Chinese financial institution (namely 佛山市南海區農村信用合作聯社里水信用社) for a period of 5 years to CITIC Polytec Property (Foshan) Company Limited, a 50:50 Sino-foreign equity joint venture operated by the Company and CITIC South China (Group) Co., Ltd. ("CITIC South China"), for its property development project in Foshan, China. A corresponding corporate guarantee under the same terms was executed by CITIC South China. Both corporate guarantees are backed up by a mutual indemnification agreement dated 24 July 2008. Pursuant to which, among other things, the guarantors shall be indemnified on a 50:50 basis for any loss which may be incurred by, in connection with or arising from the provision of the corporate guarantees.

CITIC South China is also a holding company of Tianjin CITIC Real Estate Investment Co., Ltd., a substantial shareholder holding 30% interest in Polytec CITIC Property (Tianjin) Co., Ltd. which is a 51% owned subsidiary of the Company. By virtue of the above, CITIC Polytec Property (Foshan) Company Limited is an associate of CITIC South China and thus a connected person of the Company. The provision of the aforesaid guarantee constitutes a financial assistance under the Listing Rules.

No payment has been or is provided by the Company under its guarantee of the loan facility in respect of the year under review.

(3) After the year-end, on 2 January 2009, the Company executed a corporate guarantee in an amount of up to RMB190 million of the loan principal (together with relevant interests, fees and expenses thereon) in respect of a RMB380 million loan facility extended by Bank of China Limited, Foshan Branch for a term of 3 years to CITIC Polytec Property (Foshan) Company Limited, whose particulars are described in item (2) above, for the purpose of releasing certain collateral securities provided under the loan facility. A corresponding corporate guarantee under the same terms was executed by CITIC South China.

This additional guarantee when aggregated with the guarantee already provided as described in item (2) above constitutes a financial assistance of the Company which was subject to the independent shareholders' approval requirement under the Listing Rules and the approval was obtained.

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

Share Option Scheme

The Company adopted a share option scheme (the "Scheme") on 21 May 2003. It is one of the ways to provide incentives and rewards to eligible persons who contribute to the success of the Group's operations. Eligible persons include any employee, director, supplier, customer, business partner, business associate, trading agent, consultant, adviser and holder of any securities (issued by any member of the Group or any entity in which the Group holds an equity interest (the "Invested Entity")) of any member of the Group or any Invested Entity who, in the discretion of the Directors, has contributed or will contribute to the growth and development of the Group or any Invested Entity.

The Scheme will remain valid for a period of 10 years commencing from its adoption, unless otherwise terminated or amended. Pursuant to the terms of the Scheme, 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. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting 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 Non-executive Directors. Besides, shareholders' approval is required if any grant of share options to an Independent Non-executive Director or a substantial shareholder of the Company (or any of 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. In addition, the exercise price for share options 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.

The total number of shares available for issue under the Scheme is 48,376,785 shares, being 10% of the total number of shares of the Company in issue as at the date of shareholders' approval in 2003. Since no share options has been granted since the adoption of the Scheme, the amount available for issue remains unchanged and represents 4.2% of total number of shares of the Company in issue at the date of this report.

Retirement Schemes

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

Arrangement to Purchase Shares and Debentures

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

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in Corporate Governance Report on pages 44 to 50.

Review of Accounts

The Audit Committee has reviewed the Group's consolidated accounts for the year ended 31 December 2008, including the accounting principles and practices adopted by the Group, in conjunction with the Company's auditors.

Public Float

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

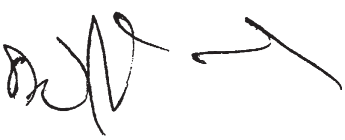
Closure of Register of Members

The Register of Members of the Company will be closed from Monday, 8 June 2009 to Wednesday, 10 June 2009, both dates inclusive. During which period, no transfer of shares would 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 not later than 4:30 pm on Friday, 5 June 2009.

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, 7 April 2009

Corporate Governance Report

Corporate Governance Practices

The Company recognizes the importance of and benefit from good corporate governance practices which assists the Company in effective supervision and further enhance the corporate and shareholders value, by making continuous improvement to promoting corporate governance and complying with, where appropriate, all code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules.

The Company has complied with the code provisions of the Code throughout the year ended 31 December 2008, save for code provision A.2.1 described below.

Under code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. In the Company's existing corporate structure, both the positions of the chairman and chief executive officer are held by Mr Or Wai Sheun. The Board considers that this structure is beneficial to the Company as it enables the Company to make prompt and efficient decisions. Moreover, all major decisions are made in consultation with members of the Board and appropriate Board committees comprising experienced and high calibre individuals. Hence, the operations of the Board committees ensure the balance of power and authority. The corporate governance principles of the Company emphasize the importance of a quality Board and accountability to all shareholders.

The Board

As at 31 December 2008, the Board comprises 11 members: 4 Executive Directors, Mr Or Wai Sheun (Chairman), Ms Ng Chi Man, Mr Lai Ka Fai and Mr Or Pui Kwan; 3 Non-executive Directors, Mr Keith Alan Holman (Deputy Chairman), Mr Tam Hee Chung and Mr Yeung Kwok Kwong; and 4 Independent Non-executive Directors, Mr Li Kwok Sing, Aubrey, Mr Lok Kung Chin, Hardy, Mr Seto Gin Chung, John and Mr David John Shaw. Their biographical details which include relationships among members of the Board are set out on pages 27 to 29 of this annual report. In accordance with the Listing Rules, every Independent Non-executive Directors has provided an annual confirmation of his independence to the Company.

The role of the Board is to provide high-level guidance and oversight. Apart from exercising all the powers and authorities and discharges its duties under the law, the Board is responsible for formulating the overall strategic direction, monitoring and controlling the performance of the Group. It also reviews and approves annual budgets and major transactions. The Board delegates the power to manage and administer the day-to-day affairs of the Group to the management.

The proceedings of the Board follow all the relevant code provisions. The Board meets regularly and board meetings are held at least four times a year. At least 14 days' formal notice is given before each regular meeting. All Directors have access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations, are followed. The company secretary has kept all the minutes of Board meetings. All Directors are entitled to have access to Board papers and related materials. Draft and final versions of minutes of Board meetings are sent to all Directors for their comments and records respectively. Directors or any of their associates having a material interest in a matter to be considered will not be counted in the quorum of the meeting and will abstain from voting on the relevant resolution according to Articles of Association of the Company and the requirement under the Listing Rules.

The Board has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the Company's code of conduct regarding securities dealing. All Directors confirmed they have complied with that code throughout 2008 and no incidence of non-compliance was noted by the Company. The Company has also established written guidelines on no less than exacting terms than that code for relevant employees in respect of their dealing in the securities. Employees, who are likely to be in possession of unpublished price sensitive information in relation to the Company or relevant securities, are requested to comply with the guidelines.

The Company has arranged appropriate insurance cover in respect of legal action against the Directors and officers.

Appointment and Re-election

Currently, the Company does not have a nomination committee. The Board will identify individuals suitably qualified to become Board members when necessary. The Board will give due consideration to the suitability of a candidate for directorship after taking into account his experience, qualification and other relevant factors, including the standards as set forth in rules 3.08 and 3.09 of the Listing Rules. A candidate who is to be appointed as an Independent Non-executive Director should also meet the independence guidelines set out in rule 3.13 of the Listing Rules.

All Non-executive Directors have a formal letter of appointment, modeled on the letter of appointment in the "Higgs Report" in the United Kingdom on the "Review of the Role and Effectiveness of Non-executive Directors".

Newly appointed Directors are subject to election by shareholders at the first annual general meeting after their appointment. The Company's Articles of Association provides that every Director is required to retire by rotation at the conclusion of the third annual general meeting of the Company after his last election or re-election. Retiring Directors shall be eligible for re-election.

Board Committees

The Board set up 3 Board committees to oversee particular aspect of the Company's affairs. The Executive Committee has been established, with written terms of reference approved by the Board, to oversee daily operations of the Company. Its terms of reference can be found on the Company's website. The Committee members are Mr Or Wai Shuen, Ms Ng Chi Man, Mr Lai Ka Fai, Mr Or Pui Kwan and Mr Yeung Kwok Kwong. Information on Remuneration Committee and Audit Committee is set out below.

Remuneration Committee

In 2005, the Company established a Remuneration Committee with specific written terms of reference which deal clearly with its authority and duties. The role of the Remuneration Committee is to formulate remuneration policy for approval by the Board and monitor the implementation of such policy.

The terms of reference of the Remuneration Committee have included the specific duties as set out in code provision B.1.3 of the Code, with appropriate modifications where necessary. This document has been posted up at the Company's website and is available upon written request to the company secretary.

The Remuneration Committee comprises 4 members. A majority of the Committee members are Independent Non-executive Directors. This Committee is chaired by Mr Seto Gin Chung, John and its members include Mr Li Kwok Sing, Aubrey, Mr Lok Kung Chin, Hardy and Mr Lai Ka Fai.

The Remuneration Committee met twice in 2008. The work performed during the year under review is summarized below:

- review of existing remuneration policy, organizational structure and human resources deployment;
- review of emoluments of Executive Directors and senior management for the financial year 2007;
- review of management's proposal on fees payable to Non-executive Directors for the year 2008;
- review of survey of remuneration benchmarks in the industry and related market trends and information; and
- compliance review on adherence with no Director or any of his associates is involved in deciding his own remuneration.

Non-executive Directors of the Company are paid fees generally in line with market practice taking into account the responsibilities and time spent by the Non-executive Directors on the Company's affairs. The levels of remuneration for the Non-executive Directors are recommended by the management, reviewed by the Remuneration Committee and then submitted to the shareholders for approval at the annual general meeting or determined by the Board upon approval by the shareholders at the annual general meeting.

The remuneration structure of the Executive Directors and the senior management is determined by the Remuneration Committee in consultation with the Chairman of the Board after giving due consideration to market trend, responsibilities, performance and achievements of the individual with a view to attract, motivate and retain high performing individuals. Directors and management's emoluments for the financial year 2008 are set out in note 4 on the accounts.

Audit Committee

The Audit Committee of the Company was established in 1998. Its role is to 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 auditors.

The Audit Committee has specific written terms of reference which deal clearly with its authority and duties. Its terms of reference modeled on code provision C.3.3 of the Code, with appropriate modification. It has been posted up at the Company's website and is also available upon written request to the company secretary.

The Committee comprises 4 members. A majority of them are Independent Non-executive Directors. This Committee is chaired by Mr Li Kwok Sing, Aubrey and its members include Mr Lok Kung Chin, Hardy, Mr Seto Gin Chung, John and Mr Yeung Kwok Kwong.

The Audit Committee met twice in 2008. The work performed by the Audit Committee during the year under review is summarized below:

- review of the audited accounts and annual results announcement for the financial year 2007;
- review of the interim report and interim results announcement for the six months ended 30 June 2008;
- review of the Corporate Governance Report for the financial year 2007;
- review the financial and accounting policies and practices;
- discuss with the auditors and management on issues arising from the annual audit and/or interim review of accounts;
- review of the engagement of auditors to supply non-audit services and their remuneration for audit and non-audit services;
- review of the effectiveness of the system of internal control covering financial, operational and compliance controls and risk management; and
- review of auditor's independence, objectivity and effectiveness of the audit process.

Meeting Attendance

The individual attendance records of the Directors at the meetings of the Board, Remuneration Committee, Audit Committee and annual general meeting during the year ended 31 December 2008 are set out below:

	Attendance/Number of Meetings			
	Board Meeting	Remuneration Committee Meeting	Audit Committee Meeting	2008 Annual General Meeting
Executive Directors				
Or Wai Sheun *(Chairman)*	4/4	N/A	N/A	1/1
Ng Chi Man	4/4	N/A	N/A	1/1
Lai Ka Fai	4/4	2/2	N/A	1/1
Or Pui Kwan	4/4	N/A	N/A	1/1
Non-executive Directors				
Keith Alan Holman *(Deputy Chairman)*	4/4	N/A	N/A	0/1
Tam Hee Chung	3/4	N/A	N/A	1/1
Yeung Kwok Kwong	4/4	N/A	2/2	1/1
Independent Non-executive Directors				
Li Kwok Sing, Aubrey	4/4	2/2	2/2	1/1
Lok Kung Chin, Hardy	4/4	2/2	2/2	1/1
Seto Gin Chung, John	4/4	2/2	2/2	1/1
David John Shaw	3/4	N/A	N/A	0/1
Average Attendance Rate	95%	100%	100%	82%

Financial Reporting

The Directors acknowledge their responsibilities for keeping proper accounting records and preparing accounts of each financial period, which give a true and fair view of the state of affairs of the Group and of the results and cash flow for that period. In preparing the accounts for the year under review, the Directors have:

- adopted all applicable Hong Kong Financial Reporting Standards in all material respects;
- selected and applied consistently appropriate accounting policies and standards;
- made judgements and estimates that are prudent and reasonable; and
- ensured that the accounts were prepared on the going concern basis.

The Company recognizes that high quality, transparent and timely presentation of financial reports is crucial in maintaining confidence of stakeholders in the Company. The Company aims to present a clear, balanced and understandable assessment of its financial position and prospects. Annual and interim results are announced as early as possible after the end of the relevant financial periods.

A statement by the auditors about their reporting responsibilities is included in the Independent Auditors' Report on page 127 of the annual report.

Auditors' Remuneration

Auditors' remuneration in respect of the financial year 2008 is summarized below:

Fees for audit services – HK$2,750,877

Fees for non-audit services – HK$502,282
(Tax and business advisory services of HK$388,932 and
other services of HK$113,350)

Internal Controls

The Board has the overall responsibilities of maintaining a sound and effective internal control system for the Group. The Group's system of internal control includes a defined management structure with limits of authority. The system is designed to assist the Group to achieve business objectives, safeguard assets against unauthorized use, ensure the maintenance of proper accounting records for the provision of reliable financial information, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable assurance against material misstatement or loss and to manage risks of failure in operational systems and foster achievement of corporate objectives.

The system of internal control is under regular review by the management and is modified from time to time to ensure it remains efficient and effective. The Board through the Audit Committee assesses the effectiveness of the Group's internal control system by reviewing the work, findings and rectification done as reported by the management. These reviews and reports are taken into consideration by the Audit Committee when it makes its recommendation to the Board for approval of the Group's accounts.

Management has reviewed the need for an internal audit function and concluded that the function is necessary in view of the diversified geographical coverage, nature and growth of the Group's business and operations. The Company's internal audit department was established at end-2008. The head of the internal audit is responsible for carrying out specific tasks and control related tasks which include audits and inspection, monitoring activities and risk assessment. He reports directly to the Chairman and also has an indirect reporting line to the Audit Committee.

Shareholders' Rights and Investors Relation

The Company's Articles of Association contain the rights of shareholders to demand and the procedures for a poll voting on resolutions at shareholders' meeting. In 2009, notice of annual general meeting will be circulated to all shareholders at least 20 clear business days before the meeting, and the Chairman will demand poll voting at the annual general meeting. The Company will engage an independent party as scrutineer for vote-taking. The poll results will be posted up at both the websites of The Stock Exchange of Hong Kong Limited and the Company.

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board and the Chairmen of the Board committees, or in their absence, other members of the respective committees, are available to answer questions at the annual general meetings.

As a channel to further promote effective communication, the Company maintains a website (www.kdc.com.hk) where announcements, business developments and operations, financial information, corporate governance practices and other information are posted.

Corporate Citizenship

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

WWF
Pearl Member
珍珠會員2008
HONG KONG

Consolidated Income Statement

for the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Turnover	2	**8,792,773**	10,384,080
Cost of sales		**(8,171,721)**	(8,211,550)
Other revenue		**41,282**	10,430
Other net income/(expenses)	3(a)	**34,170**	(46,013)
Depreciation and amortization		**(10,597)**	(10,280)
Staff costs		**(76,541)**	(97,048)
Other operating expenses		**(229,023)**	(93,867)
Fair value changes on investment properties	10	**878,833**	490,922
Unwinding cost for contingent forward transactions	3(b)	**(1,614,522)**	–
Loss on disposal of available-for-sale investments	3(c)	**(1,588,710)**	–
(Loss)/Profit from operations		**(1,944,056)**	2,426,674
Finance costs	3(e)	**(95,512)**	(81,685)
Share of profits of associated companies	3(g)	**206**	1,396
Share of profits less losses of jointly controlled entities	3(h)	**(53,455)**	11,886
Negative goodwill	3(d)	**1,205,914**	–
(Loss)/Profit before taxation	3	**(886,903)**	2,358,271
Income tax	5(a)	**(171,131)**	(385,367)
(Loss)/Profit for the year		**(1,058,034)**	1,972,904
Attributable to:			
Shareholders of the Company	25	**(629,266)**	1,906,398
Minority interests	25	**(428,768)**	66,506
(Loss)/Profit for the year		**(1,058,034)**	1,972,904
(Loss)/Earnings per share – Basic/Diluted	7	**($0.55)**	$1.72
Dividend per share	8(a)	**$0.39**	$0.65

The notes on pages 57 to 126 form part of these accounts.

Consolidated Balance Sheet

at 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2008 $'000	2007 $'000	2007 $'000
Non-current assets					
Fixed assets					
– Investment properties			**6,027,990**		4,991,830
– Leasehold land held for own use			**245,961**		252,492
– Other property, plant and equipment			**41,725**		39,710
	10		**6,315,676**		5,284,032
Interests in property development	12		**10,251,062**		12,013,954
Interest in jointly controlled entities	13		**1,241,043**		1,072,470
Interest in associated companies	14		**7,584**		7,378
Financial investments	15		**33,681**		148,329
Loans and advances	16		**14,085**		27,654
Deferred tax assets	9(a)		**31,711**		9,028
			17,894,842		18,562,845
Current assets					
Inventories	17	**5,854,969**		4,331,389	
Interests in property development	12	**1,601,329**		–	
Trade and other receivables	18	**2,196,512**		2,935,869	
Loans and advances	16	**42,407**		47,708	
Amounts due from jointly controlled entities	13	**997,314**		608,480	
Derivative financial instruments	19	**–**		40,335	
Financial investments	15	**202,176**		1,603,789	
Time deposits (pledged)	29	**18,810**		582,473	
Cash and cash equivalents		**967,499**		907,961	
		11,881,016		11,058,004	
Current liabilities					
Trade and other payables	20	**2,676,052**		1,413,068	
Amount due to ultimate holding company		**1,380**		2,662	
Amounts due to minority shareholders	21	**461,158**		333,305	
Derivative financial instruments	19	**45,526**		216,978	
Bank loans	24	**1,166,000**		623,000	
Current taxation		**398,870**		368,927	
		4,748,986		2,957,940	
Net current assets			**7,132,030**		8,100,064
Total assets less current liabilities			**25,026,872**		26,662,909

	Note	2008 $'000	2008 $'000	2007 $'000	2007 $'000
Non-current liabilities					
Other payable	32(e)	–		1,508,000	
Loan from ultimate holding company	22	**2,473,789**		495,964	
Amount payable to ultimate holding company	23	**686,497**		902,020	
Bank loans	24	**1,862,000**		1,141,700	
Deferred tax liabilities	9(a)	**900,145**		795,941	
			5,922,431		4,843,625
Net assets			**19,104,441**		21,819,284
Capital and reserves					
Share capital			**115,068**		115,068
Reserves			**15,899,606**		16,992,195
Total equity attributable to the shareholders of the Company			**16,014,674**		17,107,263
Minority interests			**3,089,767**		4,712,021
Total equity	25		**19,104,441**		21,819,284

Approved and authorized for issue by the board of directors on 7 April 2009.

Or Wai Sheun
Director

Lai Ka Fai
Director

The notes on pages 57 to 126 form part of these accounts.

Balance Sheet

at 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2008 $'000	2007 $'000	2007 $'000
Non-current assets					
Fixed assets					
– Investment properties			**4,267,000**		3,968,000
– Other property, plant and equipment			**4,168**		1,868
	10		**4,271,168**		3,969,868
Interest in subsidiaries	11		**10,828,434**		10,070,344
Interest in jointly controlled entities	13		**584,079**		584,079
			15,683,681		14,624,291
Current assets					
Trade and other receivables	18	**319,651**		335,218	
Amount due from a jointly controlled entity	13	**383,700**		2,120	
Cash and cash equivalents		**540,704**		255,630	
		1,244,055		592,968	
Current liabilities					
Amount due to ultimate holding company		**1,380**		895	
Trade and other payables	20	**84,060**		100,088	
Bank loans	24	**255,000**		255,000	
Current taxation		**3,496**		31,953	
		343,936		387,936	
Net current assets			**900,119**		205,032
Total assets less current liabilities			**16,583,800**		14,829,323
Non-current liabilities					
Loan from ultimate holding company	22	**2,473,789**		495,964	
Bank loans	24	**1,862,000**		1,105,000	
Deferred tax liabilities	9(a)	**597,586**		578,743	
			4,933,375		2,179,707
Net assets			**11,650,425**		12,649,616
Capital and reserves					
Share capital			**115,068**		115,068
Reserves			**11,535,357**		12,534,548
Total equity	25		**11,650,425**		12,649,616

Approved and authorized for issue by the board of directors on 7 April 2009.

Or Wai Sheun
Director

Lai Ka Fai
Director

The notes on pages 57 to 126 form part of these accounts.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2008
(Expressed in Hong Kong dollars)

		2008		2007	
	Note	$'000	$'000	$'000	$'000
Total equity at 1 January			**21,819,284**		12,572,531
Net income for the year recognized directly in equity					
Exchange difference on translation of accounts of overseas subsidiaries and jointly controlled entities	25	**187,888**		128,168	
Changes in fair value of available-for-sale investments	25	**(1,625,213)**		1,927	
Changes in fair value of interests in property development	25	**768,437**		2,662,047	
Transfer to income statement upon disposal of available-for-sale investments	25	**1,588,710**		–	
Transfer to income statement upon recognition from interests in property development	25	**(506,760)**		(234,110)	
Net income for the year recognized directly in equity		**413,062**		2,558,032	
Net (loss)/profit for the year	25	**(1,058,034)**		1,972,904	
Total net (loss)/income recognized for the year			**(644,972)**		4,530,936
Attributable to:					
Shareholders of the Company		**(321,633)**		3,442,030	
Minority interests		**(323,339)**		1,088,906	
		(644,972)		4,530,936	
Issue of shares	25		**–**		38,356
Net share premium on issue of shares	25		**–**		5,252,995
Issue of shares of a subsidiary attributable to minority interests	25		**–**		55,373
Final dividend declared and paid	8(b)		**(552,327)**		(483,286)
Interim dividend declared and paid	8(a)		**(218,629)**		(195,616)
Dividend paid to minority interests	25		**(46,897)**		(59,824)
Loans from minority shareholders	25		**165,090**		3,624
Minority interests of a subsidiary acquired	25		**60,014**		–
(Decrease)/Increase in minority interests attributable to an (increase)/decrease in shareholding of a subsidiary	25		**(1,477,122)**		104,195
Total equity at 31 December			**19,104,441**		21,819,284

The notes on pages 57 to 126 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 December 2008
(Expressed in Hong Kong dollars)

	Note	2008 $'000	2007 $'000
Net cash used in operating activities	26(a)	**(2,411,268)**	(655,206)
Investing activities			
Sale of fixed assets		**10**	155
Additions to fixed assets and properties		**(8,894)**	(9,429)
Additional investment in jointly controlled entities		**–**	(195,033)
Decrease in loan to an associated company		**–**	4,098
Dividend received from an associated company		**–**	1,960
Increase in loan to a jointly controlled entity		**(183,500)**	(36,000)
Additional investment in a subsidiary		**(263,174)**	–
Acquisition of a subsidiary	26(b)	**(129,302)**	(3,978)
Net cash used in investing activities		**(584,860)**	(238,227)
Financing activities			
Increase/(Decrease) in bank loans		**1,263,300**	(414,843)
Increase/(Decrease) in loan from ultimate holding company	26(c)	**2,601,825**	(105,514)
Decrease in amount payable to ultimate holding company	26(c)	**–**	(548,430)
Net proceeds from shares issued by the Company	26(c)	**–**	3,035,281
Net proceeds from shares issued by a subsidiary		**–**	159,568
Dividend paid to shareholders of the Company		**(770,243)**	(678,240)
Dividend paid to minority shareholders		**(46,897)**	(59,824)
Increase in loans from minority shareholders	26(c)	**–**	3,624
Net cash from financing activities		**3,047,985**	1,391,622
Net increase in cash and cash equivalents		**51,857**	498,189
Cash and cash equivalents at 1 January		**907,961**	401,830
Effect of foreign exchange rate changes		**7,681**	7,942
Cash and cash equivalents at 31 December		**967,499**	907,961
Analysis of balances of cash and cash equivalents at 31 December			
Deposits with banks and other financial institutions		**616**	369,645
Cash at bank and in hand		**966,883**	538,316
		967,499	907,961

The notes on pages 57 to 126 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 a number of new Interpretations and an amendment to HKFRSs that are first effective for the current accounting period of the Group and the Company. However, none of these developments are relevant to the Group's or the Company's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (note 36).

(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 33.

(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. 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 as an allocation of the total profit or loss 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 and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of associated company's net assets, unless it is classified as held for sale. The consolidated income statement reflects the Group's share of the post-acquisition and post-tax results of the associated company.

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 sheets 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. Unless the interest in a jointly controlled entity is classified as held for sale, an investment in a jointly controlled entity is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of jointly controlled entity's net assets. The consolidated income statement reflects the Group's share of the post-acquisition and post-tax results of the jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in jointly controlled entities recognized for the year.

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. They have been valued annually by independent firms of professional valuers on an open market value basis. Investment properties are stated in the balance sheet at fair value. 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.

(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.

1 Significant accounting policies *(continued)*

(h) Properties *(continued)*

(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 cost, 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 and stated at fair value. 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.

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.

1 Significant accounting policies *(continued)*

(j) Financial assets *(continued)*

Financial assets which do not fall into any of the above categories are classified as available-for-sale investments and are initially recognized at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognized directly in equity, 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 previously recognized directly in equity is recognized in 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 charged immediately to 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 and the ineffective part of any unrealized gain or loss on the instrument is recognized directly in equity and in the income statement respectively. The cumulative gain or loss associated with the effective part of cash flow hedge is removed from equity and is generally recognized in 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.

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.

1 Significant accounting policies *(continued)*

(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 are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalized as being 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. 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 for the amount by which the asset's carrying amount 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 recognized only if the carrying amount of an asset exceeds its recoverable amount. 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 equity.

– 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.

(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 directly in equity, in which case they are recognized in equity.

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

Deferred 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.

1 Significant accounting policies *(continued)*

(p) Income tax *(continued)*

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

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 execution of a binding sale agreement or when the relevant occupation permit is issued by the respective building authority, whichever is later. Payments received from the purchasers prior to this stage are recorded as deposits received on sale of properties in the balance sheet.

(iii) Income from interests in property development
Revenue from interests in property development is 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.

1 Significant accounting policies *(continued)*

(q) Recognition of revenue *(continued)*

(v) Dividend 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.

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 foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognized directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognized in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(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.

1 Significant accounting policies *(continued)*

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

(i) Financial guarantees issued (continued)

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.

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.

1 Significant accounting policies *(continued)*

(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

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment capital expenditure is the total cost incurred during the year to acquire segment assets (both tangible and intangible) that are expected to be used for more than one year. Unallocated items mainly comprise financial and corporate assets, loans, borrowings, corporate and financing expenses.

2 Segment information

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting.

The Group comprises the following main business segments:

- Property development includes the development and sales of properties.
- Property investment includes 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 include the financial investments and the provision of finance services.
- Other businesses mainly include income from the sale of ice and the provision of cold storage services and treasury operations.

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

2 Segment information *(continued)*

(a) Business segments

	2008				
	Consolidated $'000	Property development $'000	Property investment $'000	Finance and investments $'000	Others $'000
Turnover	8,792,773	1,031,261	255,596	7,446,119	59,797
Contribution from operations	417,516	682,735	248,622	(526,954)	13,113
Fair value changes on investment properties	878,833	–	878,833	–	–
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)	–
Unallocated group expenses	(37,173)				
Loss from operations	(1,944,056)				
Finance costs	(95,512)				
Share of profits of associated companies	206	–	–	–	206
Share of profits less losses of jointly controlled entities	(53,455)	(5,269)	(48,186)	–	–
Negative goodwill	1,205,914				
Loss before taxation	(886,903)				
Income tax	(171,131)				
Loss for the year	(1,058,034)				
Segment assets	26,313,500	19,673,147	6,034,655	321,765	283,933
Interest in jointly controlled entities	2,238,357	1,676,828	561,529	–	–
Interest in associated companies	7,584	–	–	–	7,584
Unallocated	1,216,417				
Total assets	29,775,858				
Segment liabilities	2,889,879	2,506,847	88,967	276,010	18,055
Unallocated	7,781,538				
Total liabilities	10,671,417				
Capital expenditure incurred during the year	3,633	1,566	1,035	–	1,032
Fair value changes on held for trading listed investments	96,947	–	–	96,947	–
Depreciation and amortization	10,695	–	–	–	10,695
Impairment loss on inventories	179,207	179,207	–	–	–

2 Segment information *(continued)*

(a) Business segments *(continued)*

	2007				
	Consolidated $'000	Property development $'000	Property investment $'000	Finance and investments $'000	Others $'000
Turnover	10,384,080	1,514,777	234,171	8,555,927	79,205
Contribution from operations	2,020,027	721,480	219,844	1,046,271	32,432
Fair value changes on investment properties	490,922	–	490,922	–	–
Unallocated group expenses	(84,275)				
Profit from operations	2,426,674				
Finance costs	(81,685)				
Share of profits of associated companies	1,396	–	–	–	1,396
Share of profits less losses of jointly controlled entities	11,886	(2,887)	14,773	–	–
Profit before taxation	2,358,271				
Income tax	(385,367)				
Profit for the year	1,972,904				
Segment assets	26,658,587	18,890,836	4,999,552	2,474,288	293,911
Interest in jointly controlled entities	1,680,950	1,050,807	630,143	–	–
Interest in associated companies	7,378	–	–	–	7,378
Unallocated	1,273,934				
Total assets	29,620,849				
Segment liabilities	3,066,533	2,511,849	81,391	452,339	20,954
Unallocated	4,735,032				
Total liabilities	7,801,565				
Capital expenditure incurred during the year	6,709	–	6,566	–	143
Fair value changes on derivative financial instruments	196,127	–	–	196,127	–
Depreciation and amortization	10,280	–	–	–	10,280
Impairment loss on inventories	13,531	13,531	–	–	–
Impairment loss on goodwill	16,994				

2 Segment information *(continued)*

(a) Business segments *(continued)*

An asset amount of $225,743,000 (2007: $225,743,000) represented the deposit paid for the acquisition of approximately 70.3% of the issued shares of Shenzhen Properties & Resources Development (Group) Limited ("Shenzhen Properties") and $Nil (2007: $120,000,000) represented the deposit paid for general offer for the remaining 29.7% of the issued shares of Shenzhen Properties were not allocated to business segments as subsequent to the balance sheet date, an agreement was signed between the Group and the relevant parties to discontinue the acquisition of Shenzhen Properties.

(b) Geographical segments

	Group turnover		Group (loss)/profit from operations	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Hong Kong	**8,056,266**	9,943,948	**(2,390,426)**	2,201,466
Macau	**533,810**	369,040	**449,989**	193,879
Mainland China	**12,358**	2,821	**(2,931)**	(12,038)
North America	**179,808**	52,919	**12,516**	28,474
Others	**10,531**	15,352	**(13,204)**	14,893
	8,792,773	10,384,080	**(1,944,056)**	2,426,674

	Segment assets		Capital expenditure incurred during the year	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Hong Kong	**10,049,977**	10,715,497	**2,067**	6,709
Macau	**12,715,890**	13,105,358	**–**	–
Mainland China	**3,479,313**	2,627,367	**1,566**	–
North America	**33,681**	208,417	**–**	–
Others	**34,639**	1,948	**–**	–
	26,313,500	26,658,587	**3,633**	6,709

(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.

3 (Loss)/Profit before taxation

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

(a) Other net income/(expenses) represents fair value changes on held for trading listed investments of loss $96,947,000 (2007: gain $150,114,000) and derivative financial instruments of gain $131,117,000 (2007: loss $196,127,000).

(b) Unwinding cost for contingent forward transactions

During the year, 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 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 for the year.

(c) Loss on disposal of available-for-sale investments

Listed equity investments had been acquired during the current year and 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 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 for the year.

(d) Negative goodwill

During the year, 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 arises on consolidation represents 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 during the year in the income statement.

3 (Loss)/Profit before taxation *(continued)*

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

(e) Finance costs

	2008 $'000	2007 $'000
Interest on bank loans and overdrafts	**66,142**	99,056
Interest on loan from/amount payable to ultimate holding company	**61,054**	89,463
Less: Amount capitalized (Note)	**(31,684)**	(106,834)
	95,512	81,685

Note: Borrowing costs were capitalized at rates of 0.80% – 6.09% (2007: 3.39% – 6.12%) per annum.

(f) Other items

	2008 $'000	2007 $'000
Auditors' remuneration	**2,751**	2,209
Impairment loss for bad and doubtful debts	**3,310**	63
Impairment loss on goodwill	**–**	16,994
Impairment loss on inventories	**179,207**	13,531
Rentals receivable under operating leases less outgoings	**(241,931)**	(219,669)
Rental income	**(255,596)**	(234,171)
Less: Outgoings	**13,665**	14,502
Interest income	**(5,282)**	(24,433)
Dividend income from available-for-sale investments	**(8,298)**	(163)
Dividend income from held for trading listed equity investments	**(41,478)**	(18,821)
Income from other unlisted investments	**–**	(10,036)
Income from bonds held for trading	**(6,216)**	(7,615)
Realized loss/(gain) on held for trading listed equity investments	**653,596**	(998,009)
Realized loss on available-for-sale investments	**1,588,710**	–
Realized gain on bonds held for trading	**(9,079)**	–
Impairment loss for bad and doubtful debts written back	**(947)**	(4,031)

3 (Loss)/Profit before taxation *(continued)*

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

(g) The Group's share of profits for the year, after minority interests and after taxation, retained by the associated companies was $206,000 (2007: $1,396,000) less a dividend paid of $Nil (2007: $1,960,000).

(h) The Group's share of losses for the year, after minority interests and after the declaration of dividend and taxation, sustained by the jointly controlled entities was $32,795,000 (2007: profits of $5,906,000).

4 Directors' and management's emoluments

(a) Directors' emoluments

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

	2008				
	Directors' fees $'000	Salaries and allowances $'000	Performance related bonuses $'000	Provident fund contributions $'000	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

4 Directors' and management's emoluments *(continued)*

(a) Directors' emoluments *(continued)*

	2007				
	Directors' fees $'000	Salaries and allowances $'000	Performance related bonuses $'000	Provident fund contributions $'000	Total $'000
Executive directors					
Or Wai Sheun	–	–	–	–	–
Ng Chi Man	–	–	–	–	–
Lai Ka Fai	120	1,439	1,200	132	2,891
Or Pui Kwan	–	561	1,200	18	1,779
Non-executive directors					
Keith Alan Holman	200	364	–	–	564
Tam Hee Chung	200	–	–	–	200
Yeung Kwok Kwong	200	1,672	680	163	2,715
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 (Note)	117	–	–	–	117
	1,437	4,036	3,080	313	8,866

Note: Mr David John Shaw has been appointed as an independent non-executive director of the Company with effective from 1 June 2007.

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2007: three) are directors whose emoluments are disclosed in note 4(a). The aggregate of the emoluments in respect of the remaining three (2007: two) individuals are as follows:

	2008 $'000	2007 $'000
Salaries and allowances	**3,697**	2,380
Performance related bonuses	**–**	940
Provident fund contributions	**214**	12
	3,911	3,332

4 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:

	2008	**2007**
$0 - $1,000,000	**–**	–
$1,000,001 - $1,500,000	**2**	1
$1,500,001 - $2,000,000	**1**	1

5 Income tax

(a) Taxation in the consolidated income statement represents:

	2008 $'000	**2007 $'000**
Current tax – Hong Kong		
Provision for the year	**90,914**	306,849
(Over)/Under provision in respect of prior years	**(2,602)**	11,031
	88,312	317,880
Current tax – Overseas		
Provision for the year	**3,035**	11,695
Over provision in respect of prior years	**(1,737)**	–
	1,298	11,695
Deferred tax		
Origination and reversal of temporary differences	**(24,029)**	(29,820)
Change in fair value of investment properties	**144,046**	85,612
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**(38,496)**	–
	81,521	55,792
	171,131	385,367

5 Income tax *(continued)*

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

In February 2008, the Hong Kong Government announced a decrease in the Profits Tax rate from 17.5% to 16.5% applicable to the Group's operations in Hong Kong as from the year ended 31 December 2008 and a one-off reduction of 75% of the tax payable for the 2007/08 assessment subject to a ceiling of $25,000. This decrease is taken into account in the preparation of the Group's 2008 accounts. Accordingly, the provision for Hong Kong profits tax for 2008 is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits for the year and the opening balances of deferred tax have been re-estimated accordingly.

Overseas tax is calculated at the applicable tax rates ruling in the respective jurisdictions.

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

	2008 $'000	2007 $'000
(Loss)/Profit before taxation	**(886,903)**	2,358,271
Tax at applicable tax rates	**(216,277)**	420,526
Non-deductible expenses	**14,140**	9,598
Non-taxable revenue	**(215,051)**	(54,301)
(Over)/Under provision in respect of prior years	**(4,339)**	11,031
Unrecognized tax losses	**630,021**	1,992
Previously unrecognized tax losses utilized	**(1,766)**	(2,006)
Previously unrecognized tax losses now recognized	**(2,298)**	(1,157)
Effect on deferred tax balances at 1 January resulting from a change in tax rate	**(38,496)**	–
Others	**5,197**	(316)
Actual tax expense	**171,131**	385,367

6 (Loss)/Profit attributable to shareholders

The consolidated loss attributable to shareholders of the Company includes a loss of $786,967,000 (2007: profit of $1,406,819,000) which has been dealt with in the accounts of the Company.

7 (Loss)/Earnings per share

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to shareholders of the Company of $629,266,000 (2007: profit of $1,906,398,000) and weighted average number of shares in issue during the year of 1,150,681,275 (2007: 1,108,345,343).

(b) Diluted (loss)/earnings per share

There are no dilutive potential shares in existence during the years ended 31 December 2008 and 2007.

8 Dividends

(a) Dividends attributable to the year

	2008 $'000	2007 $'000
Interim dividend declared and paid of $0.19 (2007: $0.17) per share	**218,629**	195,616
Final dividend proposed after the balance sheet date of $0.20 (2007: $0.48) per share	**230,136**	552,327
	448,765	747,943

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

	2008 $'000	2007 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.48 (2007: $0.42) per share	**552,327**	483,286

9 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 2007	14,574	(698,346)	(31,537)	(14,951)	(730,260)
Through acquisition of a subsidiary	–	(861)	–	–	(861)
Credited/(Charged) to income statement	1,213	(71,410)	(3,321)	17,726	(55,792)
At 31 December 2007	15,787	(770,617)	(34,858)	2,775	(786,913)
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)**

Company

	Revaluation of properties $'000	Accelerated depreciation allowances $'000	Total $'000
At 1 January 2007	(473,539)	(21,533)	(495,072)
Charged to income statement	(81,023)	(2,648)	(83,671)
At 31 December 2007	(554,562)	(24,181)	(578,743)
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)**

9 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	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Net deferred tax asset recognized on the balance sheet	**31,711**	9,028	**–**	–
Net deferred tax liability recognized on the balance sheet	**(900,145)**	(795,941)	**(597,586)**	(578,743)
	(868,434)	(786,913)	**(597,586)**	(578,743)

(b) Deferred tax assets not recognized

The Group has not recognized deferred tax assets in respect of cumulative tax losses of $3,850,984,000 (2007: $68,032,000) 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.

10 Fixed assets

(a) Group

	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
Cost or valuation					
At 1 January 2007	4,494,630	270,206	33,060	39,463	4,837,359
Exchange adjustments	–	–	–	21	21
Additions	6,278	–	–	2,721	8,999
Disposals	–	–	–	(599)	(599)
Revaluation surplus	490,922	–	–	–	490,922
At 31 December 2007	4,991,830	270,206	33,060	41,606	5,336,702
Representing:					
Professional valuation	4,991,830	–	–	–	4,991,830
Cost	–	270,206	33,060	41,606	344,872
	4,991,830	270,206	33,060	41,606	5,336,702
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**

10 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 2007	–	11,184	2,274	29,509	42,967
Exchange adjustments	–	–	–	1	1
Charge for the year	–	6,530	786	2,964	10,280
Written back on disposals	–	–	–	(578)	(578)
At 31 December 2007	–	17,714	3,060	31,896	52,670
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**
Carrying value					
At 31 December 2008	**6,027,990**	**245,961**	**29,215**	**12,510**	**6,315,676**
At 31 December 2007	4,991,830	252,492	30,000	9,710	5,284,032

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

10 Fixed assets *(continued)*

(b) Company

	Investment properties $'000	Other property, plant and equipment $'000	Total $'000
Cost or valuation			
At 1 January 2007	3,500,000	22,084	3,522,084
Additions	5,009	1,065	6,074
Disposals	–	(402)	(402)
Revaluation surplus	462,991	–	462,991
At 31 December 2007	3,968,000	22,747	3,990,747
Representing:			
Professional valuation	3,968,000	–	3,968,000
Cost	–	22,747	22,747
	3,968,000	22,747	3,990,747
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**
Aggregate depreciation and amortization			
At 1 January 2007	–	20,821	20,821
Charge for the year	–	452	452
Written back on disposals	–	(394)	(394)
At 31 December 2007	–	20,879	20,879
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**
Carrying value			
At 31 December 2008	**4,267,000**	**4,168**	**4,271,168**
At 31 December 2007	3,968,000	1,868	3,969,868

10 Fixed assets *(continued)*

(c) Analysis of carrying value of properties

	Group		Company	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Investment properties				
In Hong Kong				
– Long leases	**4,896,490**	4,557,530	**4,267,000**	3,968,000
– Medium-term leases	**1,031,500**	284,300	**–**	–
Outside Hong Kong				
– Medium-term leases	**100,000**	150,000	**–**	–
	6,027,990	4,991,830	**4,267,000**	3,968,000
Other properties				
In Hong Kong				
– Long leases	**963**	972	**–**	–
– Medium-term leases	**274,213**	281,520	**–**	–
	275,176	282,492	**–**	–

(d) The investment properties of the Group and of the Company were revalued at 31 December 2008 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.

(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 $588,000 was recognized in 2008 (2007: $560,000).

10 Fixed assets *(continued)*

(e) Fixed assets leased out under operating leases *(continued)*

The gross carrying amounts of investment properties of the Group held for use in operating leases were $5,277,990,000 (2007: $4,991,830,000). The gross carrying amounts of other fixed assets of the Group held for use in operating leases were $6,883,000 (2007: $6,899,000) and the related accumulated depreciation charges were $6,842,000 (2007: $6,847,000).

The gross carrying amounts of investment properties of the Company held for use in operating leases were $4,267,000,000 (2007: $3,968,000,000). The gross carrying amounts of other fixed assets of the Company held for use in operating leases were $951,000 (2007: $956,000) and the related accumulated depreciation charges were $950,000 (2007: $953,000).

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	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Within 1 year	**240,541**	205,007	**196,194**	169,141
After 1 year but within 5 years	**213,365**	241,315	**176,575**	207,203
After 5 years	**1,788**	3,307	**–**	3,307
	455,694	449,629	**372,769**	379,651

(f) During the year, 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 during the year.

11 Interest in subsidiaries

	Company	
	2008	2007
	$'000	$'000
Unlisted shares, at cost	**1,748,932**	1,748,932
Loans to subsidiaries		
– interest free	**8,990,805**	5,970,087
– interest bearing	**1,955,364**	3,041,567
Loans from subsidiaries		
– interest free	**(115,068)**	(415,611)
– interest bearing	**(28,010)**	(109,110)
Amounts due from subsidiaries	**3,977**	250
Less: Impairment losses	**(1,727,566)**	(165,771)
	10,828,434	10,070,344

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 30.

12 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 33(e).

During the year, pursuant to one of the co-investment agreements, distributions of $930,000,000 (2007: $Nil) 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. Subsequent to the balance sheet date, distribution of $1,601,329,000 has been further made in relation to such property project, which has been applied against the amount received from interests in property development of $1,613,516,000 recorded under "Other payables and accrued expenses" (note 20) of the current liabilities at the balance sheet date.

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

13 Interest in jointly controlled entities

	Group 2008 $'000	Group 2007 $'000	Company 2008 $'000	Company 2007 $'000
Unlisted shares, at cost	**–**	–	**584,079**	584,079
Share of net assets	**1,021,543**	1,036,470	**–**	–
Loan to a jointly controlled entity	**219,500**	36,000	**–**	–
	1,241,043	1,072,470	**584,079**	584,079
Amounts due from jointly controlled entities	**997,314**	608,480	**383,700**	2,120
	2,238,357	1,680,950	**967,779**	586,199

Loan to a jointly controlled entity is unsecured, interest bearing at fixed rate with reference to bank lending rate (2007: HIBOR plus a margin) per annum and is not expected to repay within one year.

The amounts due from jointly controlled entities are unsecured, interest free and repayable on demand.

Details of the jointly controlled entities are as follows:

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

Notes:

(1) Equity joint venture in Mainland China.

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

13 Interest in jointly controlled entities *(continued)*

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

	2008 $'000	2007 $'000
Income statement		
Revenue	**22,504**	19,795
Expenses	**(57,478)**	(14,738)
Balance sheet		
Non-current assets	**384,922**	429,260
Current assets	**2,135,258**	1,718,735
Current liabilities	**(590,351)**	(1,000,276)
Non-current liabilities	**(1,056,251)**	(278,720)
Net assets	**873,578**	868,999

14 Interest in associated companies

	Group	
	2008 $'000	2007 $'000
Share of net assets	**7,584**	7,378

14 Interest in associated companies *(continued)*

Details of the associated companies are shown as follows:

Associated company	Place of incorporation/ operation	Proportion of nominal value of ordinary shares indirectly held	Principal activities
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

Summary of financial information on a significant associated company:

	Assets $'000	Liabilities $'000	Equity $'000	Revenue $'000	Profit $'000
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**
2007					
Aggregate on associated company's accounts	21,181	6,125	15,056	57,538	2,849
Group's effective interest	10,379	3,001	7,378	28,194	1,396

15 Financial investments

	Group	
	2008	**2007**
	$'000	**$'000**
Non-current assets		
Available-for-sale investments		
– Equity shares, listed in Hong Kong	–	108,920
– Investment fund, unlisted	**33,681**	39,409
	33,681	148,329
Current assets		
Held for trading listed investments		
– Equity shares, listed in Hong Kong	**168,656**	1,437,662
– Bonds, listed outside Hong Kong	**33,520**	166,127
	202,176	1,603,789
	235,857	1,752,118
Market value of financial investments		
– Listed in Hong Kong	**168,656**	1,546,582
– Listed outside Hong Kong	**33,520**	166,127

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

During the year, the Group incurred a loss on the trading of listed equity investments amounting to $653,596,000 (2007: gain of $998,009,000). The Group also acquired certain available-for-sale listed equity investments during the year, which were subsequently disposed of as a result of the drastic changes in the financial market conditions. Loss on disposal of available-for-sale investments amounted to $1,589 million (2007: $Nil) which is further explained in note 3(c).

16 Loans and advances

(a)

	Group 2008 $'000	Group 2007 $'000
Loans and advances	**71,976**	91,686
Less: Allowance for doubtful debts	**(15,484)**	(16,324)
	56,492	75,362
Analyzed as		
– Non-current	**14,085**	27,654
– Current	**42,407**	47,708
	56,492	75,362

(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 2008 $'000	Group 2007 $'000
At 1 January	**16,324**	19,683
Impairment loss recognized	**978**	–
Impairment loss written back	**(947)**	(3,359)
Uncollectible amounts written off	**(871)**	–
At 31 December	**15,484**	16,324

At 31 December 2008, the Group's loans and advances of $23,728,000 (2007: $25,041,000) was individually determined to be impaired. Consequently, specific allowances for doubtful debts of $13,164,000 (2007: $13,289,000) was recognized. The Group holds collateral of $9,685,000 (2007: $10,664,000) over these balances.

16 Loans and advances *(continued)*

(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.

17 Inventories

	Group	
	2008	2007
	$'000	$'000
Land held for future development	**460,070**	16,475
Properties under development	**5,021,713**	3,747,354
Properties held for sale	**373,010**	565,312
Trading goods	**176**	2,248
	5,854,969	4,331,389

For the development of a property in Ngau Chi Wan, the Group had been granted the exclusive right for the development by The Little Sisters of the Poor ("The Little Sisters") in prior years. Pursuant to the development agreement with The Little Sisters, the Group was responsible for bearing all costs and expenses of carrying out the development and in return, the Group was entitled to all sales proceeds derived from the completed development. As at 31 December 2007, the Group had an outstanding payable to The Little Sisters under the development agreement of approximately $4 million.

During the year, the Group had entered into a settlement and release agreement with The Little Sisters whereby the Group was released from all obligations under the development agreement by making an additional payment of $50 million to The Little Sisters. Subsequent to the payment of the $50 million, the legal title of the Ngau Chi Wan property was transferred to the Group.

The amount of properties held for future development and under development expected to be recovered after more than one year is $460,070,000 and $4,325,996,000 respectively (2007: $16,475,000 and $3,247,531,000 respectively). All of the other inventories are expected to be recovered within one year.

17 Inventories *(continued)*

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

	Group	
	2008	**2007**
	$'000	**$'000**
In Hong Kong		
– Long leases	**1,404,180**	361,541
– Medium-term leases	**1,556,758**	1,268,792
	2,960,938	1,630,333
Outside Hong Kong		
– Freehold/Unspecified	**490,706**	502,108
– Long leases	**200,000**	–
– Medium-term leases	**1,512,256**	1,430,422
	2,202,962	1,932,530
	5,163,900	3,562,863

The Group leases certain of its properties held for sale under operating lease arrangements with lease terms of less than three years. As at 31 December 2008, total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	Group	
	2008	**2007**
	$'000	**$'000**
Within 1 year	**3,698**	2,348
After 1 year but within 5 years	**6**	28
	3,704	2,376

18 Trade and other receivables

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

	Group		Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Current	**188,449**	1,331,699	**–**	–
Less than 3 months past due	**3,414**	20,979	**909**	775
3 months to 6 months past due	**624**	637	**22**	38
More than 6 months past due	**8,597**	9,181	**4**	2
Amounts past due	**12,635**	30,797	**935**	815
Trade receivables	**201,084**	1,362,496	**935**	815
Utility and other deposits	**4,185**	4,721	**1,922**	1,976
Other receivables and prepayments	**1,991,243**	1,568,652	**316,794**	332,427
	2,196,512	2,935,869	**319,651**	335,218

Utility and other deposits of the Group and of the Company of $4,016,000 (2007: $4,277,000) and $1,914,000 (2007: $1,908,000) respectively are expected to be recovered after more than one year.

Prepayments of the Group of an amount of $225,743,000 (2007: $225,743,000) which represents the deposit paid for the acquisition of approximately 70.3% of the issued shares of Shenzhen Properties and $Nil (2007: $120,000,000) represents deposit paid for general offer for the remaining 29.7% of the issued shares of Shenzhen Properties. The deposit for general offer of $120,000,000 has been refunded to the Group during the year. Subsequent to the balance sheet date, an agreement was signed between the Group and the relevant parties to discontinue the acquisition of Shenzhen Properties. The amount of the deposit paid for the acquisition of $225,743,000 will be returned from the vendor.

Prepayments of the Group and of the Company of an amount of approximately $1,700,892,000 (2007: $1,152,406,000) and $303,392,000 (2007: $303,392,000) respectively represents payments made for the acquisition of a composite property development site located in Tianjin of the Mainland China.

Receivables and prepayments of the Group and of the Company of $281,000 (2007: $1,094,000) and $Nil (2007: $813,000) respectively are expected to be recovered after more than one year.

As at 31 December 2007, trade receivables of the Group of an amount of $300,527,000 represented the receivable from a subsidiary of Polytec Holdings being entitlement of one of the Group's interests in property development in Macau.

18 Trade and other receivables *(continued)*

(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 2008, the Group's trade and other receivables of $4,398,000 (2007: $7,345,000) was individually determined to be impaired and specific allowances for doubtful debts of $4,183,000 (2007: $5,983,000) was recorded. Impairment loss of an amount of $2,332,000 (2007: $63,000) 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.

19 Derivative financial instruments

	Group			
	2008		2007	
	Assets $'000	Liabilities $'000	Assets $'000	Liabilities $'000
Over-the-counter contingent forward transactions	–	**45,526**	40,335	216,978

The Group has entered into forward agreements to purchase or sell certain listed equity investments at fixed prices over 52-week periods from the dates of the agreements. The listed equity investments represent shares listed in Hong Kong. According to the agreements, the purchase or sale commitments of the Group will be terminated when the market price of the equity investments rises or falls to a pre-determined price level. During the year, as a result of the drastic changes in the financial market conditions, the Group has unwound a number of the forward agreements. The aggregate costs in respect of the unwinding were approximately $1,615 million (2007: $Nil) which is further explained in note 3(b). As at the balance sheet date, the Group holds four (2007: eighty-one) such forward agreements. Two of the forward agreements expired in January 2009 and remaining two forward agreements will be expired in September 2009. As at the balance sheet date, the aggregated maximum purchase commitments of the Group under the agreements, assuming the market prices of the equity investments remain below the fixed purchase price were $0.2 billion (2007: $10.1 billion).

Further details of the Group's management of equity price risk arising from the forward agreements are set out in note 34(e).

20 Trade and other payables

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

	Group		Company	
	2008	2007	2008	2007
	$'000	$'000	$'000	$'000
Not yet due or on demand	**85,372**	487,083	**397**	522
Within 3 months	**57,700**	35,197	**1,277**	1,688
3 months to 6 months	**27,624**	658	**–**	–
More than 6 months	**17,300**	272	**–**	–
Trade payables	**187,996**	523,210	**1,674**	2,210
Rental and other deposits	**63,994**	53,926	**46,148**	38,359
Other payables and accrued expenses	**1,937,367**	416,298	**36,238**	59,519
Deposits received on sale of properties	**486,695**	419,634	**–**	–
	2,676,052	1,413,068	**84,060**	100,088

Trade payables of the Group of an amount of $1,039,000 (2007: $212,831,000) represent outstanding consideration for the acquisition of a piece of land in Mainland China.

Rental and other deposits of the Group and of the Company of $60,335,000 (2007: $50,129,000) and $45,536,000 (2007: $37,937,000) respectively are expected to be refunded after more than one year.

Other payables and accrued expenses of the Group and of the Company of $123,893,000 (2007: $85,061,000) and $86,000 (2007: $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 is expected to be settled within one year. In 2007, amount of $1,508,000,000 received was recorded under "Other payable" of non-current liabilities (note 32(e)).

Deposits received on sale of properties of the Group of $486,695,000 (2007: $419,634,000) are expected to be recognized as income within one year.

21 Amounts due to minority shareholders

The amounts due to minority shareholders of subsidiaries are unsecured and have no fixed terms of repayment, of which $1,622,000 (2007: $4,913,000) is interest bearing at HIBOR plus a margin per annum and $459,536,000 (2007: $328,392,000) is interest free.

22 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.

23 Amount payable to ultimate holding company

This 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 and is not expected to settle within one year.

24 Bank loans

At 31 December, bank loans were repayable as follows:

	Group		Company	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Within 1 year or on demand	**1,166,000**	623,000	**255,000**	255,000
After 1 year but within 2 years	**1,862,000**	291,700	**1,862,000**	255,000
After 2 years but within 5 years	**–**	850,000	**–**	850,000
	1,862,000	1,141,700	**1,862,000**	1,105,000
	3,028,000	1,764,700	**2,117,000**	1,360,000

24 Bank loans *(continued)*

Bank loans were classified in the balance sheets as follows:

	Group		Company	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Current liabilities				
Secured	**1,166,000**	423,000	**255,000**	255,000
Unsecured	**–**	200,000	**–**	–
	1,166,000	623,000	**255,000**	255,000
Non-current liability				
Secured	**1,862,000**	1,141,700	**1,862,000**	1,105,000
	3,028,000	1,764,700	**2,117,000**	1,360,000

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

25 Total equity

(a) Group

		Attributable to shareholders of the Company								
	Note	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
Exchange difference on translation of accounts of overseas subsidiaries and jointly controlled entities		–	–	–	–	188,386	–	188,386	(498)	187,888
Changes in fair value of available-for-sale investments		–	–	–	(1,350,179)	–	–	(1,350,179)	(275,034)	(1,625,213)
Changes in fair value of interests in property development		–	–	–	457,374	–	–	457,374	311,063	768,437
Transfer to income statement upon disposal of available-for-sale investments		–	–	–	1,313,676	–	–	1,313,676	275,034	1,588,710
Transfer to income statement upon recognition from interests in property development		–	–	–	(301,624)	–	–	(301,624)	(205,136)	(506,760)
Final dividend declared and paid	8(b)	–	–	–	–	–	(552,327)	(552,327)	–	(552,327)
Interim dividend declared and paid	8(a)	–	–	–	–	–	(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)
Loss for the year		–	–	–	–	–	(629,266)	(629,266)	(428,768)	(1,058,034)
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

25 Total equity *(continued)*

(a) Group *(continued)*

	Note	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
		Attributable to shareholders of the Company								
At 1 January 2007		76,712	3,049,409	2,154	731,265	15,148	5,178,096	9,052,784	3,519,747	12,572,531
Issue of shares		38,356	–	–	–	–	–	38,356	–	38,356
Premium on issue of shares		–	5,254,778	–	–	–	–	5,254,778	–	5,254,778
Expenses on issue of shares		–	(1,783)	–	–	–	–	(1,783)	–	(1,783)
Issue of share of a subsidiary attributable to minority interests		–	–	–	–	–	–	–	55,373	55,373
Exchange difference on translation of accounts of overseas subsidiaries and jointly controlled entities		–	–	–	–	128,168	–	128,168	–	128,168
Changes in fair value of available-for-sale investments		–	–	–	1,927	–	–	1,927	–	1,927
Changes in fair value of interests in property development		–	–	–	1,639,647	–	–	1,639,647	1,022,400	2,662,047
Transfer to income statement upon recognition from interest in property development		–	–	–	(234,110)	–	–	(234,110)	–	(234,110)
Final dividend declared and paid	8(b)	–	–	–	–	–	(483,286)	(483,286)	–	(483,286)
Interim dividend declared and paid	8(a)	–	–	–	–	–	(195,616)	(195,616)	–	(195,616)
Dividend paid to minority interests		–	–	–	–	–	–	–	(59,824)	(59,824)
Loan from a minority shareholder		–	–	–	–	–	–	–	3,624	3,624
Increase in minority interests attributable to a decrease in shareholding of a subsidiary		–	–	–	–	–	–	–	104,195	104,195
Profit for the year		–	–	–	–	–	1,906,398	1,906,398	66,506	1,972,904
At 31 December 2007		115,068	8,302,404	2,154	2,138,729	143,316	6,405,592	17,107,263	4,712,021	21,819,284

Loans from minority shareholders is classified as equity being the capital contributions on subsidiaries by the minority shareholders.

25 Total equity *(continued)*

(b) **Company**

	Note	Share capital $'000	Share premium $'000	Retained profits $'000	Total $'000
At 1 January 2007		76,712	3,049,409	3,126,527	6,252,648
Issue of shares		38,356	–	–	38,356
Premium on issue of shares		–	5,254,778	–	5,254,778
Expenses on issue of shares		–	(1,783)	–	(1,783)
Final dividend declared and paid	8(b)	–	–	(483,286)	(483,286)
Interim dividend declared and paid	8(a)	–	–	(195,616)	(195,616)
Profit for the year		–	–	1,784,519	1,784,519
At 31 December 2007		115,068	8,302,404	4,232,144	12,649,616
At 1 January 2008		**115,068**	**8,302,404**	**4,232,144**	**12,649,616**
Final dividend declared and paid	8(b)	**–**	**–**	**(552,327)**	**(552,327)**
Interim dividend declared and paid	8(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**

The Group's share of losses sustained in the accounts of the associated companies at 31 December 2008 after minority interests were $303,000 (2007: $509,000).

The Group's share of losses sustained in the accounts of the jointly controlled entities at 31 December 2008 after minority interests were $20,531,000 (share of profits retained at 31 December 2007: $12,264,000).

The application of the share premium and the capital reserve is governed by Sections 48B and 49H respectively of the Hong Kong Companies Ordinance. The fair value reserves set up in respect of available-for-sale investments and interests in property development are not available for distribution to shareholders because they do not constitute 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 2008 amounted to $338,100,000 (2007: $1,617,781,000).

25 Total equity *(continued)*

(c) Share capital

	2008		2007	
	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				
At 1 January	**1,150,681,275**	**115,068**	767,120,850	76,712
Issue of shares	**–**	**–**	383,560,425	38,356
At 31 December	**1,150,681,275**	**115,068**	1,150,681,275	115,068

On 18 January 2007, the authorized share capital of the Company was increased to $500,000,000 by the creation of an additional 4,000,000,000 shares of $0.10 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

On 5 February 2007, 383,560,425 fully paid rights shares were issued at a price of $13.80 per rights share on the basis of one rights share for every two shares held on 18 January 2007.

(d) 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 2008 is 32.6% (2007: 13.2%).

26 Notes to consolidated cash flow statement

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

	2008 $'000	2007 $'000
(Loss)/Profit before taxation	**(886,903)**	2,358,271
Adjustments for:		
Unclaimed dividend written back	**(256)**	(221)
Loss/(Profit) on disposal of other fixed assets	**129**	(134)
Share of profits of associated companies	**(206)**	(1,396)
Share of profits less losses of jointly controlled entities	**53,455**	(11,886)
Negative goodwill	**(1,205,914)**	–
Impairment loss on goodwill	**–**	16,994
Impairment loss on inventories	**179,207**	13,531
Fair value changes on investment properties	**(878,833)**	(490,922)
Fair value changes on derivative financial instruments	**(131,117)**	196,127
Interest income	**(5,282)**	(24,433)
Interest expenses	**95,512**	81,685
Depreciation and amortization	**10,597**	10,280
Operating (loss)/profit before working capital changes	**(2,769,611)**	2,147,896
Decrease in interests in property development	**423,240**	26,170
Decrease/(Increase) in financial investments	**1,479,758**	(340,804)
Decrease in loans and advances	**18,870**	22,010
Increase in inventories	**(1,487,876)**	(66,232)
Decrease/(Increase) in trade and other receivables	**739,411**	(1,888,918)
Increase in amounts due from jointly controlled entities	**(388,834)**	(383,941)
Decrease in amount due from an associated company	**–**	185
Decrease/(Increase) in time deposits (pledged)	**563,663**	(516,479)
(Decrease)/Increase in trade and other payables	**(959,286)**	332,182
Increase in amount due to ultimate holding company	**485**	1,570
Increase in amounts due to minority shareholders	**127,853**	308,223
Cash used in operations	**(2,252,327)**	(358,138)
Interest received	**5,286**	24,597
Interest paid	**(104,560)**	(266,654)
Profits tax paid	**(59,886)**	(55,011)
Profits tax refunded	**219**	–
Net cash used in operating activities	**(2,411,268)**	(655,206)

26 Notes to consolidated cash flow statement *(continued)*

(b) Acquisition of a subsidiary

	2008 $'000	2007 $'000
Fair value of assets of the subsidiary acquired:		
Fixed assets	**801**	–
Inventories	**200,000**	37,258
Trade and other receivables	**62**	1,222
Cash and cash equivalents	**10,684**	11
Trade and other payables	**(11,547)**	(127)
Deferred taxation	**–**	(861)
Amount due to a fellow subsidiary	**–**	(33,514)
Net assets acquired	**200,000**	3,989
Amount of net assets attributable to minority shareholders	**(60,014)**	–
Cash consideration on acquisition of a subsidiary	**139,986**	3,989
Cash and cash balances acquired	**(10,684)**	(11)
Cash outflow on acquisition of a subsidiary	**129,302**	3,978

During the year, the Group acquired 70% of the issued share capital of a company for a consideration of $140 million. This acquisition has been accounted for using the purchased method. The subsidiary acquired did not have any contribution to the turnover and profit of the Group for the year.

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.

The acquired subsidiary in 2007 was formerly a jointly controlled entity of the Group and became a subsidiary of the Group on 6 June 2007.

26 Notes to consolidated cash flow statement *(continued)*

(c) Major non-cash transactions

(i) During the year, amount received from interests in property development of totalling $699,216,000 (2007: $1,508,000,000) were obtained by offsetting loan from ultimate holding company and the amount payable to ultimate holding company. A further settlement of $165,090,000 (2007: $Nil) for the amount payable to ultimate holding company was made by offsetting loans from minority shareholders.

During the year, non-refundable distributions from interests in property development of totalling $930,000,000 (2007: $Nil) were obtained by offsetting the amount received from interests in property development and accordingly, a related amount of $506,760,000 was transferred from the fair value reserve to the income statement during the year.

(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.

(iii) During the year ended 31 December 2007, 224,119,041 shares were issued and allotted to the immediate holding company. Part of the proceeds from the allotment was off-set against the loan from ultimate holding company of $2,256,070,000.

27 Capital commitments

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

	Group		Company	
	2008	**2007**	**2008**	**2007**
	$'000	**$'000**	**$'000**	**$'000**
Contracted for				
– Acquisition/Formation of subsidiaries	**83,144**	813,969	**83,144**	83,672
– Investment properties	**8,242**	6,537	**8,242**	6,537
	91,386	820,506	**91,386**	90,209
Authorized but not contracted for				
– Investment properties	**123,000**	94,302	**123,000**	94,302

28 Contingent liabilities

In 2008, the Group and the Company has given a guarantee in respect of a banking facility and other obligations of a jointly controlled entity to the extent of RMB200,000,000 (equivalent to $226,786,000). The banking facility was utilized to the extent of RMB120,000,000 (equivalent to $136,071,000) at 31 December 2008.

The Company has given guarantees in respect of banking facilities and other obligations of certain subsidiaries to the extent of $1,384,300,000 (2007: $672,450,000). The banking facilities were utilized to the extent of $874,300,000 (2007: $352,450,000) at 31 December 2008.

29 Pledge of assets

At 31 December 2008, properties and financial investments of the Group with an aggregate carrying value of approximately $6,740,495,000 (2007: $6,464,446,000) and time deposits of $18,810,000 (2007: $582,473,000) were pledged to banks under fixed charges to secure general banking facilities granted to the Group or as margin deposits for the Group's over-the-counter contingent forward transactions.

30 Subsidiaries

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

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
Able Talent Investments Limited	British Virgin Islands/Macau	US$1	100.0%	–	Financial investment
Asia Turbo Limited	Hong Kong	$1	100.0%	–	Property development
Atlantic Capital Limited	Hong Kong	$10,000	100.0%	–	Investment holding
Best Power (Asia) Limited	Hong Kong	$2	–	100.0%	Property development
Bestcare Management Limited	British Virgin Islands	US$1	–	100.0%	Investment holding
Brilliant Way Holdings Limited	British Virgin Islands	US$12,000	–	100.0%	Investment holding
Charm World Limited	British Virgin Islands/Hong Kong	US$1	100.0%	–	Property development
Country House Property Management Limited	Hong Kong	$10,000	–	100.0%	Property management and security services
Dansend International Limited	British Virgin Islands/Hong Kong	US$1	100.0%	–	Property development
Elegant Florist Limited	British Virgin Islands	US$1,000	100.0%	–	Investment holding

30 Subsidiaries *(continued)*

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held Direct	Indirect	Principal activities
Eversound Investments Limited	Hong Kong	$1,000,000	–	100.0%	Property investment
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
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
Jumbo Power Enterprises Limited	Hong Kong	$2	–	100.0%	Property development
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 Engineering Limited	Hong Kong	$2	100.0%	–	Construction
Kowloon Development Finance Limited	Hong Kong	$2,000,000	100.0%	–	Financial services

30 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
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
Pak Hop Shing Company, Limited	Hong Kong	$1,300,000	–	100.0%	Property development
Polytec Property Good Companion (Shenyang) Limited (Note 1)	Mainland China	US$109,800,000 (Note 3)	–	100.0%	Property development
Polytec Property Lucky City (Shenyang) Limited (Note 1)	Mainland China	$102,100,000 (Note 3)	–	100.0%	Property development
Roe Investment Limited	Hong Kong	$500,000	100.0%	–	Investment holding
Searson (Hong Kong) Limited	Hong Kong	$2	100.0%	–	Property development
Spark Team Limited	Hong Kong	$2	100.0%	–	Retail
Sunny Pacific Group Limited	British Virgin Islands/Hong Kong	US$1	100.0%	–	Property development
To Kwa Wan Properties Limited	Hong Kong	$2	–	100.0%	Property investment

30 Subsidiaries *(continued)*

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
Top Milestone Developments Limited	British Virgin Islands/ Macau	US$100	–	100.0%	Financial investment
Town House Development Limited	Hong Kong	$10,000	100.0%	–	Property 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
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
Polytec Binhai Property (Tianjin) Co., Ltd. (Note 2)	Mainland China	US$2,979,792 (Note 3)	90.0%	–	Property development

30 Subsidiaries *(continued)*

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held Direct	Indirect	Principal activities
Brilliant Idea Investments Limited	British Virgin Islands	US$100	85.0%	–	Investment holding
Golden Princess Amusement Company Limited	Hong Kong	$100,000	85.0%	–	Film distribution and investment holding
Cinema City Company Limited	Hong Kong	$1,000,000	–	85.0%	Film distribution
Cinema City (Film Production) Company Limited	Hong Kong	$5,000,000	–	85.0%	Film distribution
Golden Princess Film Production Limited	Hong Kong	$10,000	–	85.0%	Film distribution
Polytec Asset Holdings Limited	Cayman Islands/ Hong Kong and Macau	$443,896,784	–	73.4%	Investment holding
Eastford Development Limited	Hong Kong	$100	–	73.4%	Property development and investment
Genius Star Investments Limited	British Virgin Islands/Macau	US$1	–	73.4%	Financial investment
Glentech International Company Limited	Hong Kong	$2	–	73.4%	Property investment and development and provision of consultancy services

30 Subsidiaries *(continued)*

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held Direct	Indirect	Principal activities
New Bedford Properties Limited	British Virgin Islands	US$1	–	73.4%	Investment holding
Newcott Limited	British Virgin Islands	US$10,000	–	73.4%	Investment holding
Noble Prime International Limited	British Virgin Islands	US$1	–	73.4%	Investment holding
Power Charm International Limited	British Virgin Islands	US$1	–	73.4%	Investment holding
Power Giant Limited	British Virgin Islands/Macau	US$1	–	73.4%	Property trading and investment
Profit Sphere International Limited	British Virgin Islands	US$1	–	73.4%	Investment holding
Richstone International Limited	Hong Kong	$1	–	73.4%	Property development and investment
Sheen Concord Enterprises Limited	Hong Kong	$2	–	73.4%	Property investment and development
Sinocharm Trading Limited	British Virgin Islands	US$1	–	73.4%	Investment holding
Success Ever Limited	British Virgin Islands	US$1	–	73.4%	Investment holding

30 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
The Hong Kong Ice & Cold Storage Company Limited	Hong Kong	$500,000	–	73.4%	Ice manufacturing and provision of cold storage
Top Vision Assets Limited	British Virgin Islands	US$1	–	73.4%	Investment holding
San Iao Lek Development Company Limited	Macau	MOP100,000	–	70.0%	Investment holding
中山市長江兆業地產開發有限公司 (Note 1)	Mainland China	$40,000,000 (Note 3)	–	70.0%	Property development
Century Leader Profits Limited	British Virgin Islands	US$100	–	66.8%	Property trading and investment
Polytec CITIC Property (Tianjin) Co., Ltd. (Note 2)	Mainland China	US$32,768,756 (Note 3)	51.0% (Note 4)	–	Property development
Acestart Investments Limited	British Virgin Islands/Macau	US$1	–	51.8%	Property trading and investment
Think Bright Limited	British Virgin Islands/Macau	US$200	–	51.8%	Property trading and investment
Hin Rich International Limited	British Virgin Islands/Macau	US$1	–	42.6%	Financial investment
Kam Yuen Property Investment Limited	Macau	MOP30,000	–	42.6%	Property investment and development

30 Subsidiaries *(continued)*

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held Direct	Indirect	Principal activities
Mission Geronimo Enterprises Limited	British Virgin Islands	US$1	–	42.6%	Provision of consultancy services
New Cosmos Holdings Limited	British Virgin Islands	US$100	–	42.6%	Investment holding
Newest Luck Enterprises Limited	British Virgin Islands	US$1	–	42.6%	Provision of consultancy services
Sunpark International Limited	British Virgin Islands/Macau	US$10	–	42.6%	General trading

Notes:

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

(2) Equity joint ventures incorporated in Mainland China.

(3) Amount represented the registered capital paid up.

(4) In accordance with an agreement in relation to the acquisition of a property development site in Tianjin, Mainland China, the Group is entitled to 61% of the result of the subsidiary.

31 Staff retirement scheme

The Group operates a defined contribution staff retirement scheme. Contributions under the scheme are charged to the income statement as incurred. The amount of contributions is based on a specified percentage of the basic salary of the eligible employees. No forfeited contributions in respect of unvested benefits of staff leavers was utilized to reduce the Group's ongoing contributions during the year 2008 and 2007. There were no unutilized forfeited contributions at the balance sheet date of both years. The Group's annual contribution for the year was $696,000 (2007: $638,000).

Contributions to the Mandatory Provident Funds of $2,518,000 (2007: $2,387,000) as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance were charged to the income statement for the year.

32 Material related party transactions

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

(a) In 2007, Polytec Holdings had guaranteed the due performance of a subsidiary of the Group in respect of its obligations under the development agreement as stated in note 17.

(b) Polytec Holdings has guaranteed the due performance of the Company in respect of its obligations in the property development project in Tianjin, Mainland China.

(c) As at 31 December 2008, an amount of $930,000,000 (2007: $300,527,000) was received/receivable from a subsidiary of Polytec Holdings being distribution of one of the Group's interests in property development in Macau (note 12). Profit of $506,760,000 (2007: $234,110,000) was recognized during the year.

(d) During the year, interest of $61,054,000 (2007: $89,463,000) was paid to Polytec Holdings.

(e) As at 31 December 2008, an amount of $1,613,516,000 (2007: $1,508,000,000) 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 payable" of current liabilities. In 2007, the amount was recorded under "Other payable" of non-current liabilities. The amount is unsecured, interest-free and has no fixed repayment terms.

(f) As at 31 December 2008, the Company has given a guarantee in respect of a banking facility and other obligations of a jointly controlled entity to the extent of RMB200,000,000 on a joint and several basis with the other joint venture partner. The joint venture partner 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.

(g) As at 31 December 2008, a director of the Company granted a guarantee to a bank to secure the liabilities of a subsidiary to the extent of $Nil (2007: $42,718,000).

(h) As at 31 December 2008, the Group has given guarantees to insurance companies in respect of performance bonds entered into by certain associated companies to the extent of $6,532,000 (2007: $6,027,000).

(i) During the year, the remuneration for key management personnel being short term employee benefits amounted to $9,603,000 (2007: $12,198,000) as disclosed in notes 4(a) and 4(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.

33 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 properties under development and held for sale

Management determines the net realizable value of 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 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.

33 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 its 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, 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 obtained 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.

34 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 2008, 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 $36 million (2007: $4 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 2007.

(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 2008 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.

34 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, 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 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**
At 31 December 2007						
Trade and other payables	773,404	20	8,063	203,999	985,486	985,486
Amount due to ultimate holding company	2,662	–	–	–	2,662	2,662
Amounts due to minority shareholders	–	–	–	333,305	333,305	333,305
Bank loans	623,000	302,647	914,996	–	1,840,643	1,764,700
Derivative financial instruments	216,978	–	–	–	216,978	216,978
Loan from ultimate holding company	–	–	–	495,964	495,964	495,964
Amount payable to ultimate holding company	–	–	–	902,020	902,020	902,020
Other payable	–	–	–	1,508,000	1,508,000	1,508,000
	1,616,044	302,667	923,059	3,443,288	6,285,058	6,209,115

34 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 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**
At 31 December 2007						
Trade and other payables	54,117	–	–	38,023	92,140	92,140
Amount due to ultimate holding company	895	–	–	–	895	895
Bank loans	255,000	264,570	914,996	–	1,434,566	1,360,000
Loan from ultimate holding company	–	–	–	495,964	495,964	495,964
	310,012	264,570	914,996	533,987	2,023,565	1,948,999

34 Financial risk management and fair values *(continued)*

(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.

(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 2008, 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 $8 million (2007: $57 million). The analysis is performed on the same basis for 2007.

34 Financial risk management and fair values *(continued)*

(e) Equity price risk *(continued)*

At 31 December 2008, no sensitivity analysis has been performed on available-for-sale investments as the Group has disposed all the listed available-for-sale investments at year end. At 31 December 2007, it is estimated that an increase/decrease of 5% in market value of the Group's financial investments classified as available-for-sale investments, with all other variables held constant, profit attributable to shareholders of the Company and retained profits would have been unaffected as the financial investments are classified as available-for-sale investments. However, the Group's equity would increase/decrease by $5 million.

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 (2007: $81 million/$137 million). The analysis is performed on the same basis for 2007.

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.

34 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 2008, 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 $540,621,000/$540,624,000 (2007: $539,767,000/$539,764,000). 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 2007.

(g) Fair value

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2008 and 2007.

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.

35 Parent and ultimate holding company

At 31 December 2008, 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.

36 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2008

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these accounts.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

So far it has concluded that the adoption of them is unlikely to result in a restatement of the Group's or the Company's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the accounts, including restatement of comparative amounts in the first period of adoption:

	Effective for accounting periods beginning on or after
HKFRS 8, *Operating segments*	1 January 2009
HKAS 1 (revised 2007), *Presentation of financial statements*	1 January 2009

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 126, which comprise the consolidated and Company balance sheets as at 31 December 2008, and the consolidated income statement, 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 2008 and of the Group's loss 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

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

Hong Kong, 7 April 2009

Particulars of Properties

31 December 2008

A. Major investment properties

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

B. 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 208 Office Units The Macau Square, Rua do Dr. Pedro Jose Lobo Nos. 2-16A, Avenida do Infante D. Henrique Nos. 43-53A and Avenida Doutor Mario Soares Nos. 81-113	Commercial	Medium-term lease	36,553 sq m and 265 Carparking Spaces	36.7

C. Major properties held for sale

Location	Usage	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Hong Kong			
31 Robinson Road Mid-Levels	Residential	3,221 sq m and 41 Carparking Spaces	100.0
Macau			
61 Shop Units and 1 Office Unit China Plaza Avenida da Praia Grande Nos. 730-804 and Avenida de D. Joao IV Nos. 2-6-B	Commercial	4,117 sq m and 102 Carparking Spaces	51.8

D. 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 Kennedy Town	Residential and Commercial	564	5,600	Foundation work to commence	2011	100.0
35 Clear Water Bay Road Ngau Chi Wan	Residential and Commercial	22,373	196,400	Land exchange under process	2012/2013	100.0
10 Yim Po Fong Street Mongkok	Stadium, Youth Centre, Residential and Commercial	2,400	24,800	Demolition work in progress	2012	Joint Venture with Urban Renewal Authority and Hong Kong Playground Association (Note 1)
Macau						
Pacifica Garden The Taipa District	Residential and Commercial	5,208	35,900	Superstructure work in progress	2009	42.6
Villa de Mer The Orient Pearl District Novos Aterros da Areia Preta (Note 2)	Residential and Commercial	13,699	138,100	Superstructure work in progress	2010	58.8
Mainland China						
West of Daba Road Dongling District Shenyang	Residential and Commercial	1,100,000	2,200,000	Building plan (first phase) approval in progress	2010 (first phase)	100.0
Xueyuan Road Shiqi District Zhongshan	Residential and Commercial	18,334	126,600	Demolition work in progress	2010	70.0

Notes:

(1) Attributable gross floor area to the Group for this project is approximately 18,100 sq m

(2) The development of the project is under a co-investment agreement with a wholly owned subsidiary of the ultimate holding company

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 Lishui Town Nanhai District Foshan	Residential and Commercial	4,020,743	1,600,000	Construction work in progress	2010 (first phase)	50.0

F. 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				
468-474 Sai Yeung Choi Street North	Residential	1,114	8,400	100.0
59-65A Pokfulam Road	Residential	595	5,000	100.0
Macau				
Lotes T and T1 The Orient Pearl District Novos Aterros da Areia Preta (Note 1)	Residential and Commercial	17,969	187,000	58.8
Lote P The Orient Pearl District Novos Aterros da Areia Preta (Note 1)	Residential and Commercial	68,001	699,800	58.8
Mainland China				
Lot No. Jin Dong Liu 2004-066 intersection of Shiyijing Road and Liuwei Road Hedong District Tianjin (Note 2)	Residential and Commercial	137,940	930,000	61.0

Notes:
(1) The development of these properties are under the co-investment agreements with wholly owned subsidiaries of the ultimate holding company
(2) Transfer of title of the composite property development site to project company to be arranged

封面

中國古代建築融入做人的道理，當中最明顯的就是方正的精神。首先，單體建築物在造型上講求比例**勻稱**；建築著重聯繫，透過**主軸線**形成「正」的參考線，造成堅固的結構體系；合院的佈局則是**倫理空間**的呈現。這些聯合起來，便體現了道德的價值觀。

九 龍 建 業 有 限 公 司
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