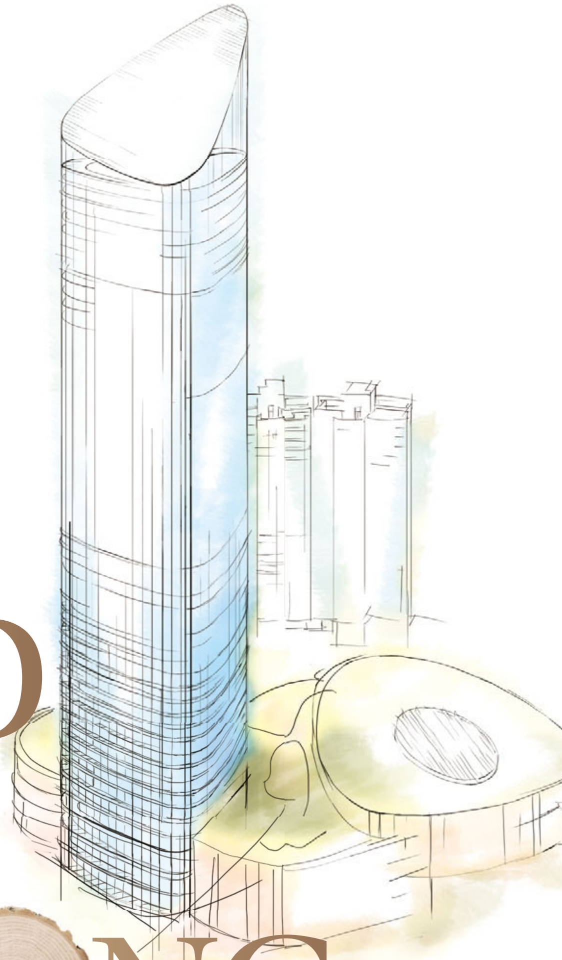
九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

Stock Code 股份代號: 34



夯實根基 持續成長

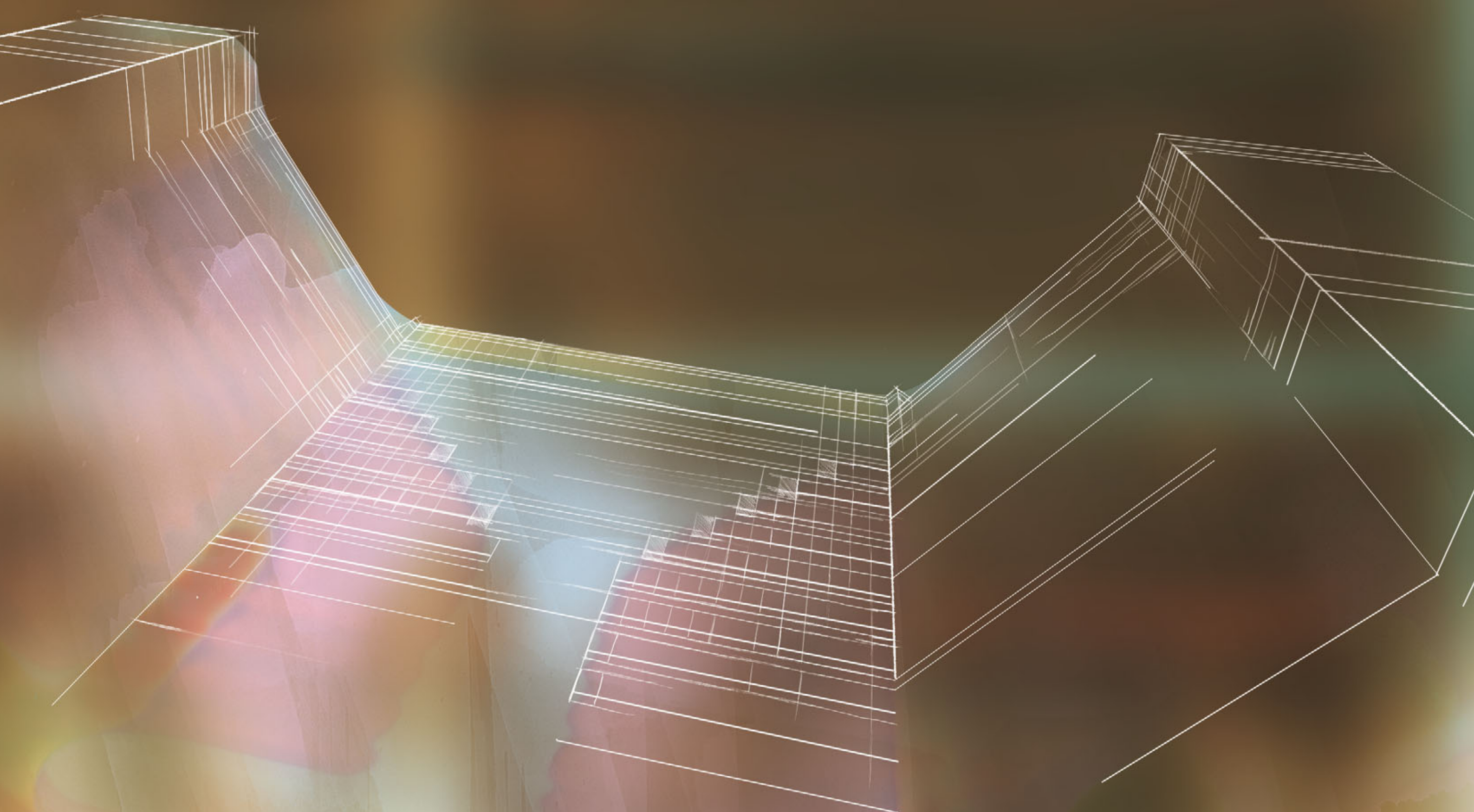
# SUSTAINED GROWTH WITH STRONG FOUNDATION

Annual Report 2011 年報


# KOWLOON DEVELOPMENT COMPANY LIMITED
# 九龍建業有限公司

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

九龍建業有限公司(股份代號：34)在大中華地區奉行三線發展策略，核心業務為香港及中國內地市場之地產業務，並通過其擁有73.4%權益之上市附屬公司保利達資產控股有限公司(股份代號：208)經營澳門地產業務。本集團目前在區內三大市場作出卓越部署，其應佔土地儲備逾五百萬平方米，並致力提升本身之競爭優勢，目標成為少數能夠在三大市場取得顯著增長之香港上市公司之一。



# CONTENTS

# CORPORATE INFORMATION

## BOARD OF DIRECTORS AND COMMITTEES

### Board of Directors

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

**Non-executive Directors**
Keith Alan Holman *(Deputy Chairman)*
Tam Hee Chung
Yeung Kwok Kwong

**Independent Non-executive Directors**
Li Kwok Sing, Aubrey
Lok Kung Chin, Hardy
Seto Gin Chung, John
David John Shaw

### Committees

**Executive Committee**
Or Wai Sheun *(Chairman)*
Ng Chi Man
Lai Ka Fai
Or Pui Kwan
Yeung Kwok Kwong

**Audit Committee**
Li Kwok Sing, Aubrey *(Chairman)*
Lok Kung Chin, Hardy
Seto Gin Chung, John
Yeung Kwok Kwong

**Remuneration Committee**
Seto Gin Chung, John *(Chairman)*
Lai Ka Fai
Li Kwok Sing, Aubrey
Lok Kung Chin, Hardy

**Nomination Committee**
Or Wai Sheun *(Chairman)*
Lok Kung Chin, Hardy
David John Shaw

## CORPORATE AND SHAREHOLDERS' INFORMATION

### Company Secretary
Lee Kuen Chiu

### Independent Auditors
KPMG
*Certified Public Accountants*

### Authorised Representatives
Lai Ka Fai
Lee Kuen Chiu

### Legal Advisers
Sidley Austin

### Share Registrars
Computershare Hong Kong Investor Services Limited
Rooms 1712–1716, 17th Floor, Hopewell Centre,
183 Queen's Road East, Wanchai, Hong Kong

### Registered Office
23rd Floor, Pioneer Centre, 750 Nathan Road,
Kowloon, Hong Kong
Telephone : (852) 2396 2112
Facsimile : (852) 2789 1370
Website : www.kdc.com.hk
E-mail : enquiry@kdc.com.hk

# CORPORATE AND SHAREHOLDERS' INFORMATION *(Continued)*

## Stock Code

The Stock Exchange of Hong Kong Limited: 34

## Principal Bankers

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

## Financial Calendar for 2011

| | |
|---|---|
| Interim results announcement | 29 August 2011 |
| Interim dividend paid | 14 October 2011 |
| Annual results announcement | 29 March 2012 |
| Annual general meeting | 28 June 2012 |
| Ex-dividend date for final dividend | 5 July 2012 |
| Closure of register of members | 9 July 2012–10 July 2012 (both days inclusive) |
| Final dividend payable | 19 July 2012 |

# HIGHLIGHTS

- Excluding revaluation gains from its investment properties, the Group's underlying net profit rises to HK$807 million, an increase of 16.8% over 2010. The underlying earnings per share amount to HK$0.70 in 2011 compared to HK$0.60 in 2010.

- Full year dividend per share for 2011 amounts to HK$0.54, an increase of 3.8% over 2010, with a final dividend per share of HK$0.33.

- Over the past few years, the Group has built a sizeable and quality development landbank across the Greater China region, Hong Kong, Mainland China and Macau, at a relatively competitive cost, with the attributable GFA exceeding 5 million sq m. We will strive to expedite the development of our landbank, with the aim of achieving consistent earnings growth in the coming years.

# GROUP'S BUSINESS STRUCTURE

## KOWLOON DEVELOPMENT COMPANY LIMITED

(A member of the Polytec Group)
Stock Code: 34

### HONG KONG PROPERTY

**Property Development**

Major development projects:

- Gardenia
- Macpherson Stadium Project
- Belcher's Street Project
- Pok Fu Lam Project
- Hung Hom Project
- Clear Water Bay Road Project

Development Landbank:
274,000 sq m

**Property Investment**

Flagship investment property:

- Pioneer Centre

Investment Landbank:
58,000 sq m

**Property Management**

Properties under management
1,198,000 sq m

### MAINLAND CHINA PROPERTY

**Property Development**

Major development projects:

- Le Cove City (Shenyang) 江灣城(瀋陽)
- The Gardenia (Shenyang) 翠堤灣(瀋陽)
- Le Cove City (Wuxi) 江灣城(無錫)
- Galaxy Heights (Zhongshan) 星際豪庭(中山)
- The Lake (Foshan) 山語湖(佛山)
- Hedong Project (Tianjin) 河東項目(天津)

Development Landbank:
4,225,000 sq m

### POLYTEC ASSET HOLDINGS LIMITED

Stock Code: 208
73.4%

#### MACAU PROPERTY

**Property Development**

Major development projects:

- Pearl Horizon, Lote P
- Lotes T + T1

Development Landbank:
526,000 sq m

**Property Investment**

Major investment property:

- The Macau Square

Investment Landbank:
13,000 sq m

#### ENERGY BUSINESS

**Oil**

Production and exploration of oil in Kazakhstan

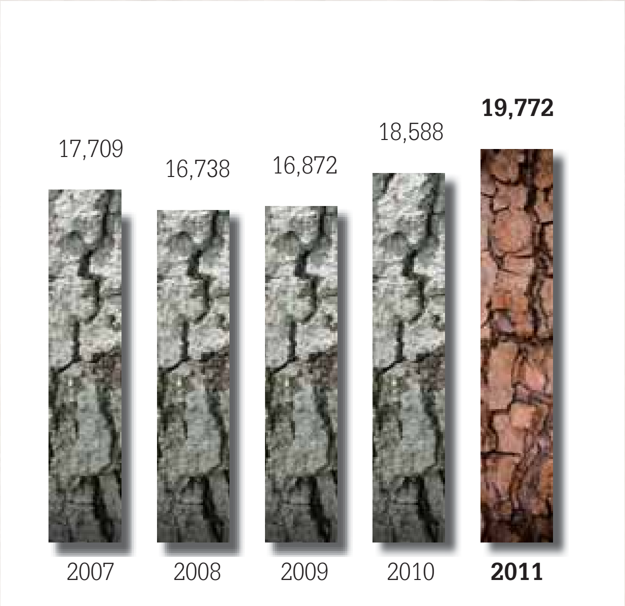
#### OTHERS

**Ice & Cold Storage**

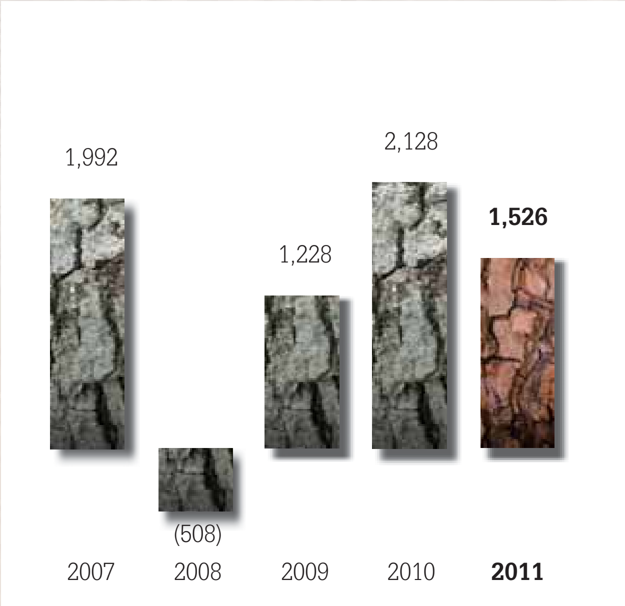
**The Hong Kong Ice and Cold Storage Co. Ltd.** is one of the largest ice making distributors in Hong Kong

# FIVE-YEAR FINANCIAL SUMMARY

## Shareholders' Equity
(HK$ million)

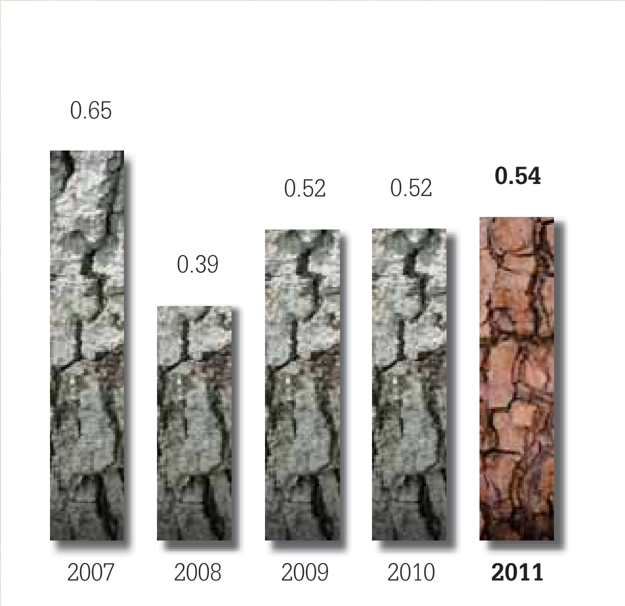



## Profit/(Loss) Attributable to Shareholders
(HK$ million)




## Net Asset Value per Share
(HK$)


## Dividends per Share
(HK$)



## KEY CONSOLIDATED INCOME STATEMENT DATA

| (HK$ million) | 2007 | 2008 | 2009 | 2010 | **2011** |
|---|---|---|---|---|---|
| Turnover | 10,384 | 8,793 | 1,985 | 1,269 | **1,755** |
| Profit/(Loss) from Operations | 2,427 | (1,944) | 1,550 | 2,072 | **1,499** |
| Profit/(Loss) Attributable to Shareholders | 1,992 | (508) | 1,228 | 2,128 | **1,526** |
| Earnings/(Loss) per Share *(HK$)* | 1.80 | (0.44) | 1.07 | 1.85 | **1.33** |
| Underlying Profit/(Loss) Attributable to Shareholders *(Note 2)* | 1,502 | (1,381) | 1,160 | 691 | **807** |
| Underlying Earnings/(Loss) per Share *(HK$)* *(Note 2)* | 1.36 | (1.21) | 1.01 | 0.60 | **0.70** |
| Dividends | 748 | 449 | 598 | 598 | **621** |
| Dividends per Share *(HK$)* | 0.65 | 0.39 | 0.52 | 0.52 | **0.54** |

## KEY CONSOLIDATED BALANCE SHEET DATA

| (HK$ million) | 2007 | 2008 | 2009 | 2010 | **2011** |
|---|---|---|---|---|---|
| Non-Current Assets | 18,585 | 17,914 | 19,156 | 22,311 | **24,706** |
| Current Assets | 11,058 | 11,881 | 8,157 | 8,686 | **13,343** |
| Total Assets | 29,643 | 29,795 | 27,313 | 30,997 | **38,049** |
| Current Liabilities | (2,958) | (4,749) | (5,220) | (5,982) | **(4,064)** |
| Non-Current Liabilities | (4,257) | (5,212) | (2,264) | (3,535) | **(11,169)** |
| Net Assets | 22,428 | 19,834 | 19,829 | 21,480 | **22,816** |
| Share Capital | 115 | 115 | 115 | 115 | **115** |
| Reserves | 17,594 | 16,623 | 16,757 | 18,473 | **19,657** |
| Shareholders' Equity | 17,709 | 16,738 | 16,872 | 18,588 | **19,772** |
| Non-controlling Interests | 4,719 | 3,096 | 2,957 | 2,892 | **3,044** |
| Total Equity | 22,428 | 19,834 | 19,829 | 21,480 | **22,816** |
| Net Asset Value per Share *(HK$)* | 15.39 | 14.55 | 14.66 | 16.15 | **17.18** |
| Gearing Ratio *(%) (Note 3)* | 12.73 | 31.19 | 30.97 | 34.00 | **55.44** |

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. Underlying profit/(loss) excludes revaluation gain/(loss) of investment properties.
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.

# BUILDING A SOLID FOUNDATION

## THE GARDENIA (SHENYANG)
## 翠堤灣(瀋陽)

The Gardenia, the Group's wholly-owned mega residential and commercial project, is located in the Shenhe District, one of the five main central districts in Shenyang, with a planned gross floor area of approximately **2,000,000 sq m**.

# CHAIRMAN'S STATEMENT

## The Group pursues a three-tier development strategy with exposure in three major markets of the Greater China region.

## GROUP RESULTS AND DIVIDENDS

For the year ended 31 December 2011, net profit attributable to shareholders of the Company amounted to HK$1,526 million compared to HK$2,128 million in 2010. Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2011 amounted to HK$807 million, an increase of 16.8% over 2010. The underlying net earnings per share for 2011 were HK$0.70 compared to HK$0.60 in 2010.

The Board of Directors recommends the payment of a final dividend of HK$0.33 per share (2010: HK$0.32) for the year ended 31 December 2011. Together with the 2011 interim dividend of HK$0.21 per share (2010: HK$0.20), the full year dividend for 2011 amounts to HK$0.54 per share (2010: HK$0.52).

The final dividend will be paid on 19 July 2012 to shareholders whose names appear on the Register of Members of the Company on 10 July 2012, subject to the approval of shareholders at the Annual General Meeting.

## BUSINESS REVIEW

With various property cooling and restrictive measures announced in Hong Kong, Mainland China and Macau in early 2011, overall transaction volumes in all three property markets have declined considerably. In particular, the residential transaction volumes in those Mainland China cities affected by implementation of the home purchase restriction policy have plummeted and with inventory building rapidly in the fourth quarter of 2011, overall transaction prices have generally remained suppressed.

In 2011, despite the challenging market environment, the Group recorded relatively satisfactory property sales in Mount East (North Point) in Hong Kong and Le Cove City (Shenyang) in Mainland China, with total sale and presale proceeds amounting to over HK$1 billion.

During 2011, the Group continued to replenish its landbank in Mainland China and Hong Kong to further strengthen its solid foundation, with the existing development landbank attributable to the Group exceeding 5 million sq m of gross floor area ("GFA").

In Mainland China, the Group completed an acquisition of an 80% stake in a sizeable residential and commercial development project in a central business district of Wuxi, Mainland China in the third quarter of 2011, with total site area amounting to 68,800 sq m. This site is located in Chong An District and is intended to be developed by phases into a residential, commercial, hotel and office complex, with GFA of 404,400 sq m.

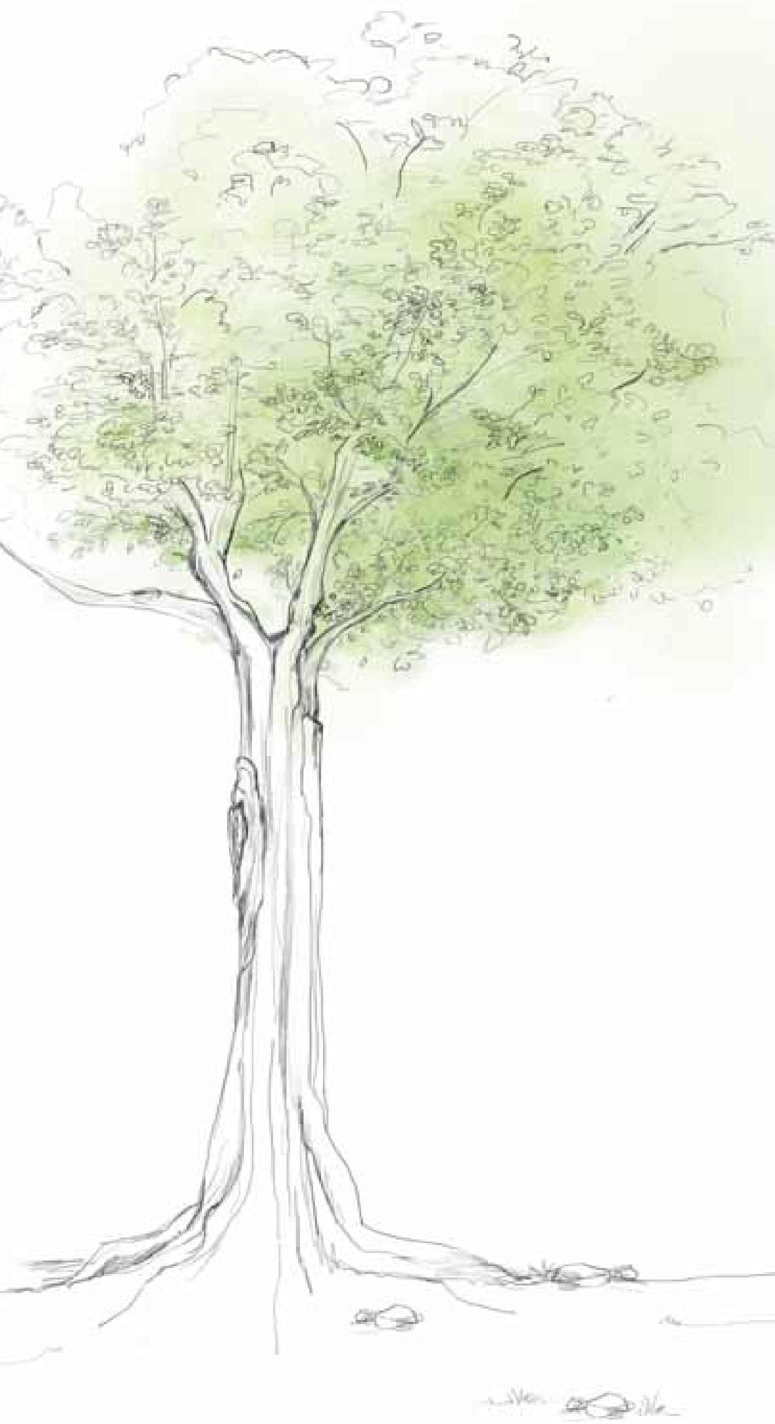
In Hong Kong, we have replenished our landbank mainly through acquisition of a number of old buildings in the urban areas over the past years. During 2011, we acquired an approximately 83.9% ownership of a residential and commercial redevelopment site in Hung Hom, which consists of 14 aging buildings with each aged over 50 years, covering a total site area of approximately 4,000 sq m and GFA for redevelopment of 33,900 sq m. We are still in process of acquiring the remaining units and it may take 18 to 24 months to obtain 100% ownership. In addition, we successfully expanded the Group's Belcher's Street project by acquiring the adjacent sites in 2011, with GFA for redevelopment rising from approximately 5,640 sq m previously to 13,200 sq m. Furthermore, we have almost completed the acquisition of all residential units for redevelopment in the Pok Fu Lam project, with GFA for redevelopment of approximately 9,300 sq m.

### Property Sales

In Hong Kong, we have sold almost all residential units at Mount East, the Group's wholly-owned luxury residential project in North Point, with total recognised sale proceeds of HK$719 million and an operating profit of HK$311 million in 2011.


江灣城


mount east
曉峯



In Mainland China, we have sold almost all residential units and a portion of retail shops and carparking spaces of the first phase of Le Cove City (Shenyang), the Group's wholly-owned residential and commercial development project, with total recognised sale proceeds in 2011 amounting to HK$496 million and an operating profit of HK$65 million. In addition, we also started the presale of the second phase of Le Cove City (Shenyang) and the first phase of The Gardenia (Shenyang) in late 2011, with total presale proceeds of exceeding RMB181 million so far, and a substantial portion of the presale proceeds likely be recognised in 2012. The Lake, the Group's joint-venture project in Foshan, contributed a profit of HK$183 million to the Group in 2011.

## Property Investment

During the period under review, the Group disposed of a number of retail units at New Mandarin Plaza in Hong Kong and Va Iong in Macau, with a total recognised gain of HK$131 million.

Despite disposal of the above non-core investment properties, the Group's gross rental income from its property investment portfolio for 2011 rose to HK$293 million, an increase of 7.5% over 2010. More importantly, total rental income from Pioneer Centre, the Group's flagship and core investment property in Hong Kong, continued to rise to HK$240 million in 2011, or a growth rate of 10.1%, with almost all retail spaces and offices being let as of 31 December 2011.

The retail market in Hong Kong remained robust in 2011, with total retail sales rising 24.8% following a growth rate of 18.3% in 2010, supported largely by the rise in retail spending of Mainland China tourists. And the Group's leasing business has benefited from strong demand for retail spaces over the past couple of years.

On 18 January 2012, the Group entered into a Provisional Agreement for Sale and Purchase to dispose a number of retail units at Sino Centre, one of the Group's non-core investment properties in Hong Kong, at a total consideration of HK$118 million. It is expected that the gains from these sales will be recognised in the first half of 2012.

## Oil Business

For the year ended 31 December 2011, total revenue generated from the oil segment amounted to HK$116 million. The segment recorded an operating loss of HK$41 million which was mainly attributable to a temporary suspension of oil production in the first three months of 2011, pending approval of a gas flaring permit for the Group's South Alibek Oilfield in Kazakhstan. We were able to obtain a temporary permit in April 2011 and we are currently seeking a permanent solution to tackle the gas flaring requirements. However, while we resumed oil production in April 2011, the production levels of various wells have only gradually improved in the third quarter of the year. The temporary disruption in production significantly affected the Group's earnings from this segment in 2011.

Nevertheless, during 2011, the Group's drilling program has produced some positive results amid bad weather conditions. Two new wells were put into production at the end of 2011 and the overall production rate has reached over 1,500 barrels per day by the end of 2011. The Group's professional team in Kazakhstan will continue to explore the potential for other areas within the Group's concession block aiming to further increase oil production levels and reserves. We expect that overall production level will continue to rise in 2012, with additional wells being planned to drill from April 2012.

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

## PROSPECTS

In the US, while the economic recovery seems to continue in 2012, the pace has been modest so far. In the meanwhile, the stubbornly high unemployment rate and the persistently weak housing sector will likely remain a drag on economic growth. In Europe, while the European debt crisis has recently appeared to be abating, the latest incoming data suggest that those European economies pledged to pursue fiscal austerity programs to address their debt problems will likely record slow or negative growth in general. In addition, the two largest emerging markets, China and India, have recently signaled growth slowdown in their respective economies. Therefore, the outlook for the global economy in 2012 appears to be increasingly uncertain.

We believe the existing various cooling and restrictive measures imposed on the Mainland China residential market will stay throughout 2012, with anticipation of only minor policy adjustments. Any significant relaxation of current restrictive policies is not expected unless overall housing transaction volumes and prices fall sharply, which will likely threaten the government's projected economic growth during 2012. Moreover, with inventory building rapidly over the past months, we expect the transaction prices in the residential market to remain suppressed during 2012. Nevertheless, the transaction volumes in the residential market have seemed to pick up somewhat in some of the cities in the recent months, and the home-buyers have appeared to react favorably to those property projects which have adopted price reduction strategies, reflecting relatively strong potential for housing demand.

In Hong Kong and Macau, the property transaction volumes and prices have been affected by various property measures introduced by respective governments since early 2011. However, there have recently been some signs of a pickup in transaction volumes, as well as prices, in both primary and secondary markets, with the prevailing and anticipation of low interest rate environment in the next couple of years.

Overall, we still see an uncertain market environment in the Greater China region in 2012, with possible introduction of new measures in the property markets. However, we are cautiously optimistic about the outlook for three economies in the Greater China region and therefore their housing markets over the medium term.

In Mainland China, the Group's development projects, including one in Foshan, two in Shenyang, one in Zhongshan and one in Wuxi, are currently under construction and they will be all completed in phases. We have started the presale or sale of units in the above development projects.

In Hong Kong, the Group has accelerated the pace of its property development and its four development projects are in the pipeline for presale in the next 12 months, namely the projects in Sai Yeung Choi Street North (Gardenia), the Macpherson Stadium, Belcher's Street and Pok Fu Lam Road.

In Macau, the Group's two mega luxury residential and commercial development projects, namely the Lote P project and Lotes T+T1 project, which Polytec Asset, the Group's 73.4%-owned subsidiary, has an 80% interest, are at the final stage of clearing all necessary formalities before the commencement of construction. These two sizeable projects may start to provide earnings for the Group from 2015/2016 onwards.

For 2012, the Group's core earnings will likely be generated from its two 100%-owned development projects in Shenyang (Le Cove City and The Gardenia), a 70%-owned project in Zhongshan (Galaxy Heights), a 50%-owned project in Foshan (The Lake), and the wholly-owned project in Sai Yeung Choi Street North, Hong Kong (Gardenia).

Over the past few years, the Group has built a sizeable and quality development landbank across the Greater China region, Hong Kong, Mainland China and Macau, at a relatively competitive cost, with the GFA attributable to the Group exceeding 5 million sq m. We will strive to expedite the development of our landbank, with the aim of achieving earnings growth in the coming years.

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

**Or Wai Sheun**
*Chairman*

Hong Kong, 29 March 2012

# TO ACHIEVE SUSTAINED GROWTH

## THE MACPHERSON STADIUM PROJECT (HONG KONG)

The Macpherson Stadium Project, a joint-venture residential and commercial redevelopment project with Urban Renewal Authority and Hong Kong Playground Association, is located in a prime location of Mongkok, with a gross floor area of approximately **24,800 sq m.**

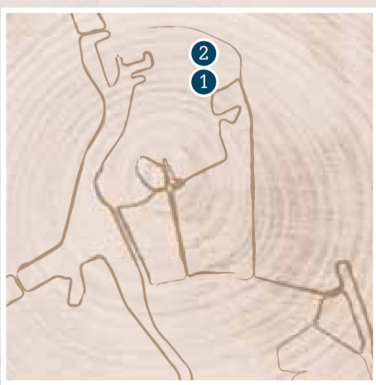

HKPA

# REVIEW OF OPERATIONS

**Over the past few years, the Group has built a sizeable and quality development landbank across the Greater China region, Hong Kong, Mainland China and Macau, at a relatively competitive cost, with the attributable GFA exceeding 5 million sq m. We will strive to expedite the development of our landbank, with the aim of achieving consistent earnings growth in the coming years.**

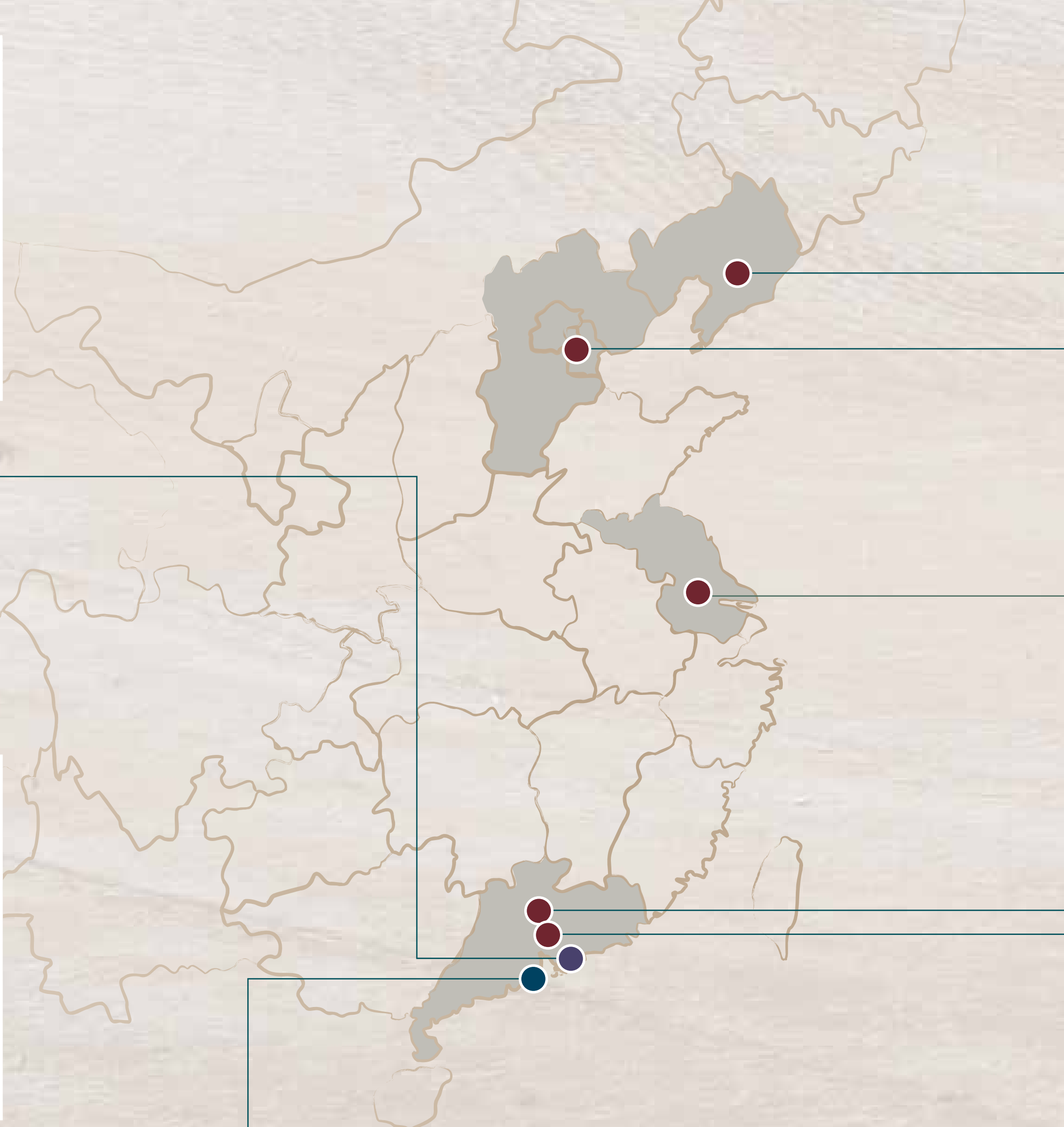

## HONG KONG

1. Mount East
2. Gardenia
3. Macpherson Stadium Project
4. Belcher's Street Project
5. Pok Fu Lam Project
6. Hung Hom Project
7. Clear Water Bay Road Project




## MACAU

1. Pearl Horizon, Lote P
2. Lotes T + T1



Major projects under development in the Greater China Region

HONG KONG
MAINLAND CHINA
MACAU

## MAINLAND CHINA

### Shenyang

1. Le Cove City（江灣城）, Hun Nan Xin District
2. The Gardenia（翠堤灣）, Shenhe District

### Tianjin

– Hedong Project, Hedong District

### Wuxi

– Le Cove City（江灣城）, Chong An District

### Foshan

– The Lake（山語湖）, Nanhai District

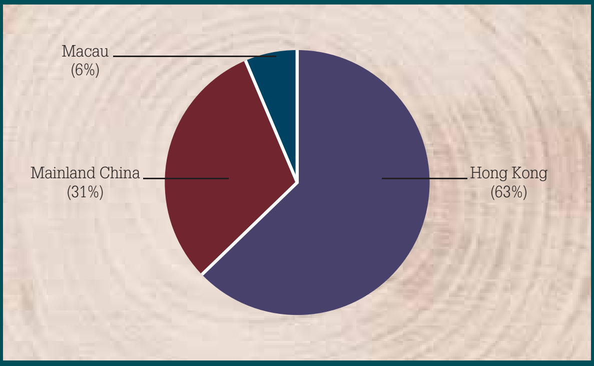
### Zhongshan

– Galaxy Heights（星際豪庭）, Shiqi District

# KEY OPERATING RESULTS FOR 2011

Total operating profit in the property development segment amounted to HK$552 million, which was mainly generated from total sales recognised from three development projects in Hong Kong and Mainland China.

**Operating Profit – Property Development Geographic Distribution for 2011**




**Operating Profit/(Loss) by Segment for 2011**

## PROPERTY DEVELOPMENT

As of 31 December 2011, the Group's landbank for development amounted to exceeding 5 million sq m of attributable gross floor area. Details of the major property projects are set out as follows:

# HONG KONG

**Location**
24–32 Ming Yuen Western Street, North Point, Hong Kong

**Usage**
Residential and Commercial

**Group's Interest**
100%

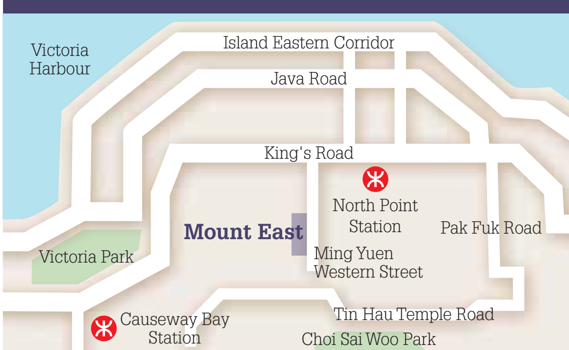
**Approx. Gross Floor Area**
5,700 sq m

**Status**
Gradually delivering the units to the buyers

**Date of Completion**
2011

## Mount East

This site is located at 24–32 Ming Yuen Western Street in North Point. This residential and commercial project is wholly-owned by the Group, with a gross floor area of approximately 5,700 sq m. It is a luxury residential tower, comprising 74 residential units, retail spaces on ground floor, recreational facilities and a club house with sky garden.




**Location**
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. Gross Floor Area**
24,800 sq m

**Status**
Superstructural work in progress

**Expected Date of Completion**
2013

# Macpherson Stadium Project

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



HKPA

**Location**
468–474
Sai Yeung Choi Street North,
Kowloon, Hong Kong

**Usage**
Residential

**Group's Interest**
100%

**Approx. Gross Floor Area**
8,400 sq m

**Status**
Superstructural work in progress

**Expected Date of Completion**
2012

# Gardenia

This site is located at 468–474 Sai Yeung Choi Street North. This residential redevelopment project is wholly-owned by the Group, with a gross floor area of approximately 8,400 sq m. It is being re-developed into a modern high-rise residential tower with club house and parking facilities.


**Location**
150–162 Belcher's Street and
1–9 Kwan Yick Street,
Kennedy Town, Hong Kong

**Usage**
Residential and Commercial

**Group's Interest**
100%

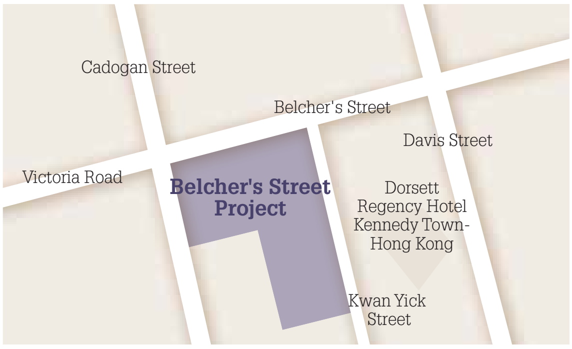
**Approx. Gross Floor Area**
13,200 sq m

**Status**
Superstructural work in progress

**Expected Date of Completion**
2014

# Belcher's Street Project

This site is located at 150–162 Belcher's Street and 1–9 Kwan Yick Street, which is close to a proposed Kennedy Town MTR station exit. The Group has successfully expanded the site by acquiring adjacent properties in 2011, with gross floor area for redevelopment rising from approximately 5,640 sq m previously to 13,200 sq m.




**Location**
49–65A Pok Fu Lam Road,
Sai Ying Pun, Hong Kong

**Usage**
Residential

**Acquisition progress**
Held 98.1% ownership as at
29 March 2012

**Approx. Gross Floor Area**
9,300 sq m

**Status**
Seeking Building Department's
approval on development proposal

**Expected Date of Completion**
To be determined

# Pok Fu Lam Project

This site is located at 49–65A Pok Fu Lam Road, with a gross floor area of approximately 9,300 sq m. The project is at the planning stage.

**Location**
Wan On Street,
Hung Hom, Kowloon,
Hong Kong

**Usage**
Residential and Commercial

**Acquisition progress**
Held 83.9% ownership as at 31 December 2011

**Approx. Gross Floor Area**
33,900 sq m

**Status**
Acquisition of the remaining units in progress

**Expected Date of Completion**
To be determined

# Hung Hom Project

This site is located at Wan On Street in Hung Hom. This residential and commercial redevelopment site consists of 14 aging buildings with each aged over 50 years, covering a total site area of approximately 4,000 sq m and a gross floor area for redevelopment of 33,900 sq m. The Group is in process of acquiring the remaining units and it may take 18 to 24 months to obtain 100% ownership.


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

**Usage**
Residential and Commercial

**Group's Interest**
100%

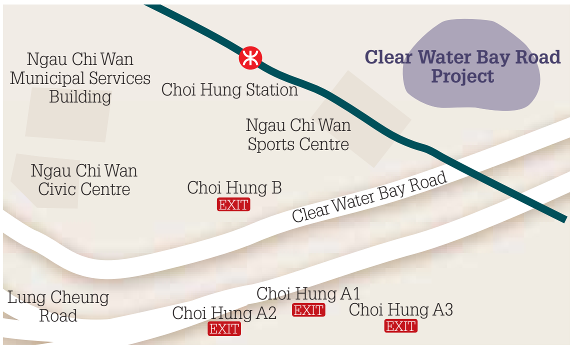
**Approx. Gross Floor Area**
196,400 sq m

**Status**
Foundation work to be commenced in April 2012

**Expected Date of Completion**
To be determined

# Clear Water Bay Road Project

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



# MAINLAND CHINA

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

**Usage**
Residential and Commercial

**Group's Interest**
100%

**Approx. Gross Floor Area**
712,000 sq m

**Status**
Superstructural work for second phase in progress

**Expected Date of Completion**
By phases from 2011 onwards

## Le Cove City (Shenyang) 江灣城(瀋陽)

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

Superstructural work of the first phase residential development, with a gross floor area of approximately 116,000 sq m, has been completed in 2011. Superstructural work for the second phase is in progress and presale of its residential units has been started in late 2011.


**Location**
West of Daba Road,
Shenhe District,
Shenyang, China

**Usage**
Residential and Commercial

**Group's Interest**
100%

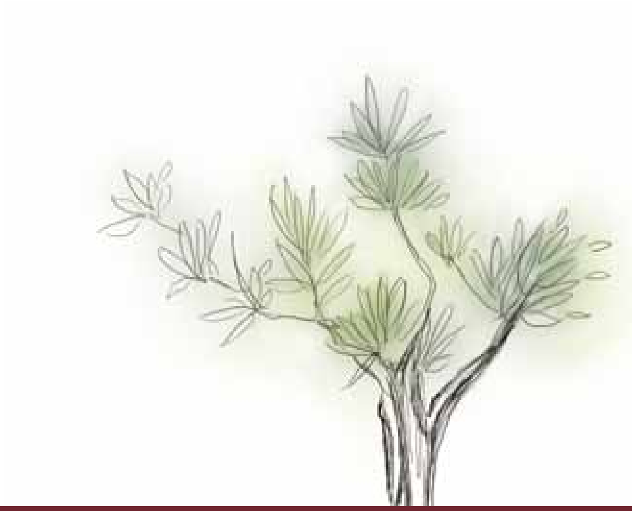
**Approx. Gross Floor Area**
2,000,000 sq m

**Status**
Superstructural work for first phase in progress

**Expected Date of Completion**
By phases from 2012 onwards

# The Gardenia (Shenyang) 翠堤灣(瀋陽)

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





翠堤湾

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

**Usage**
Residential and Commercial

**Group's Interest**
80%

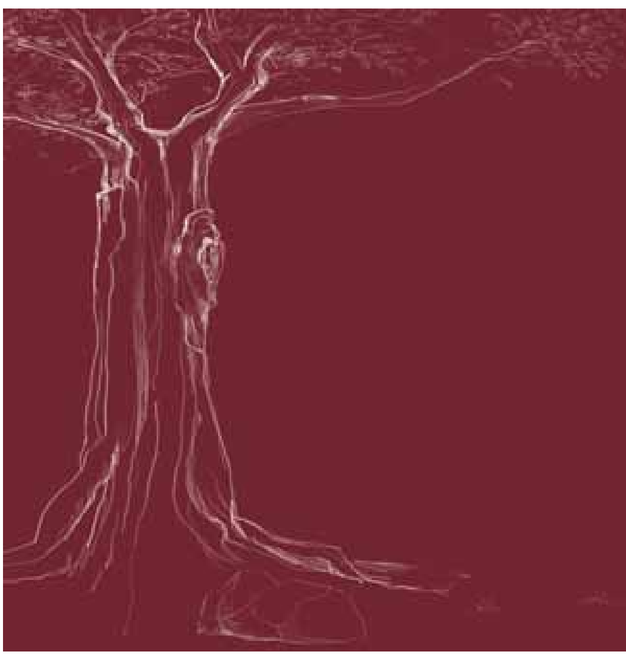
**Approx. Gross Floor Area**
404,400 sq m

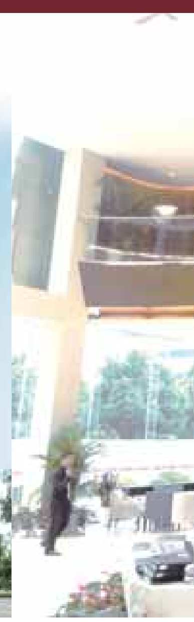
**Status**
Superstructural work for first phase in progress

**Expected Date of Completion**
By phases from 2013 onwards

# Le Cove City (Wuxi)
# 江灣城(無錫)

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



**Location**
8 Xueyuan Road,
Shiqi District,
Zhongshan, China

**Usage**
Residential and Commercial

**Group's Interest**
70%

**Approx. Gross Floor Area**
129,000 sq m

**Status**
Superstructural work in progress

**Expected Date of Completion**
2012/2013

# Galaxy Heights (Zhongshan)
# 星際豪庭(中山)

The site is located in the Shiqi District, the city centre of Zhongshan (Guangdong Province). This residential and commercial project is 70%-owned by the Group, with a gross floor area of approximately 129,000 sq m. The development comprises 7 high-end towers with 1,135 residential units, 5 units of contemporary style town house, a club house and retail shops. Superstructural work is in progress and the project is expected to be completed by 2012/2013.


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

**Usage**
Residential and Commercial

**Group's Interest**
50%

**Approx. Gross Floor Area**
1,600,000 sq m

**Status**
Construction work in progress

**Expected Date of Completion**
By phases from 2009 onwards

# The Lake (Foshan)
# 山語湖(佛山)

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


**Location**
Lot No. Jin Dong Liu 2004–066, Intersection of Shiyijing Road and Liuwei Road, Hedong District, Tianjin, China

**Usage**
Residential and Commercial

**Group's Interest**
49%

**Approx. Gross Floor Area**
930,000 sq m

**Status**
Master layout plan submitted for approval

**Expected Date of Completion**
By phases from 2013 onwards

# Hedong Project (Tianjin) 河東項目(天津)

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


# MACAU

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

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

**Usage**
Residential and Commercial

**Group's Interest**
58.8%

**Approx. Gross Floor Area**
699,700 sq m

**Status**
Building plan has been approved

**Expected Date of Completion**
By phases from 2015/2016 onwards

## Pearl Horizon, Lote P

Pearl Horizon is located in the Orient Pearl District, adjacent to the future Hong Kong-Zhuhai-Macau Bridge, with an aggregate site area of approximately 68,000 sq m. Polytec Asset has an 80% interest in this project. It will be developed by phases into various luxury residential towers, together with a large shopping arcade, a five-star club house and numerous carparking spaces, with a gross floor area of approximately 699,700 sq m.


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

**Usage**
Residential and Commercial

**Group's Interest**
58.8%

**Approx. Gross Floor Area**
195,600 sq m

**Status**
Building plan has been approved

**Expected Date of Completion**
2015/2016

## Lotes T + T1

Lotes T + T1 are also located in the Orient Pearl District, adjacent to the future Hong Kong-Zhuhai-Macau Bridge, with combined aggregate site area of approximately 17,900 sq m. Polytec Asset has an 80% interest in this project which will be developed into a number of high-end residential blocks with retail shops and carparking spaces, with a gross floor area of approximately 195,600 sq m.


## PROPERTY INVESTMENT

The Group's gross rental income from its property investment portfolio for 2011 rose to HK$293 million, an increase of 7.5% over 2010 while the total rental income from Pioneer Centre, the Group's flagship and core investment property in Hong Kong, continued to rise to HK$240 million in 2011, or a growth rate of 10.1%, with almost all retail spaces and offices being let as of 31 December 2011.

During the period under review, the Group disposed of a number of retail units at New Mandarin Plaza in Hong Kong and Va Iong in Macau, with a total recognised gain of HK$131 million.

## PROPERTY MANAGEMENT

The Group offers a full range of high quality property management services to our clients. Our client base includes not only self-developed luxury residential buildings, serviced apartments and medium scale commercial buildings, but also public housing estates. As at 31 December 2011, the total area of properties under management was maintained at approximately 1,198,000 sq m (2010: 1,092,000 sq m).



## HUMAN RESOURCES

As of 31 December 2011, the Group had a total of 734 employees (2010: 605 employees), of which 404 were Hong Kong staffs, 141 were PRC staffs and 189 were staffs in other regions, with the increase in headcount mainly due to the matching of business growth. During the year, total staff costs increased to HK$162 million (2010: HK$124 million) due to salary revision in July 2011 and an increase in headcount. Salary levels of employees are competitive. Discretionary bonuses are granted based on performance of the Group as well as performance of individual to attract, motivate and retain talented people.

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

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

# FINANCIAL REVIEW

## FINANCIAL RESOURCES AND BANK BORROWINGS

As at 31 December 2011, the Group's total bank borrowings were HK$5,947 million, of which HK$1,415 million was repayable within one year and HK$4,532 million was repayable after one year. The net borrowings position of the Group as at 31 December 2011 amounted to HK$5,183 million after taking into account cash and cash equivalents of HK$764 million, an increase of HK$387 million as compared with HK$4,796 million as at 31 December 2010. The loan from/amount payable to the ultimate holding company amounted to HK$5,778 million which showed an increase of HK$4,254 million from HK$1,524 million as at year end 2010.

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) increased to 55.4% as at 31 December 2011 (2010: 34.0%).

During 2011, the Group realised substantial cash inflow from sales and presale proceeds from Mount East in Hong Kong, Le Cove City in Hun Nan Xin District, Shenyang and Pacifica Garden in Macau for approximately HK$348 million, HK$544 million and HK$46 million respectively. The Group also disposed certain non-core investment properties in Hong Kong and Macau and generated total cash of approximately HK$312 million while disposal of the remaining duplex and carparks at 31 Robinson Road contributed a further of HK$93 million during the year.

The Group has paid a total of HK$1,708 million for the Group's development projects in Hong Kong and Mainland China. Furthermore, the Group acquired certain properties for proposed redevelopment projects in Hong Kong with cash outflow of HK$1,528 million.

During the year, the Group has acquired 80% equity interests in the Wuxi development project from the ultimate holding company at a consideration of approximately HK$1,320 million and additional of HK$344 million has been paid for the land acquisition. An additional investment of approximately HK$204 million was made in the Tianjin project.

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

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

Due to the Group's oil business in Kazakhstan through our listed subsidiary Polytec Asset, the Group has been exposed to the exchange fluctuations in the Kazakhstan Tenge ("KZT"), the local currency of Kazakhstan. While the majority of the operating expenses, as well as capital expenditure, of the Group's oil business is denominated in the KZT, over 80% of its revenue generated from this segment is denominated in the USD. However, this business represents a relatively small portion of the Group's overall business and therefore the fluctuation in the KZT will not substantially affect the Group's financial position.

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

## CAPITAL COMMITMENTS

As at 31 December 2011, the Group had commitments in connection with the Group's fixed assets amounted to HK$169 million.

## PLEDGE OF ASSETS

As at balance sheet date, Group properties with a value of HK$10,339 million and time deposits of HK$15 million were pledged to financial institutions mainly to secure credit facilities extended to the Group.

## CONTINGENT LIABILITIES

The Group has given several guarantees in respect of banking facilities granted to a jointly controlled entity in Mainland China. One guarantee is provided on a joint and several basis in the amount of RMB80 million. The joint venture partner and the Group had signed a mutual indemnification agreement by which each will be indemnified by the other on a 50:50 basis for any loss arising from the guarantee. The related banking facility was fully utilised the amount of RMB80 million as at 31 December 2011. The other remaining guarantees amounted to RMB475 million, representing a 50% proportional guarantee in respect of RMB950 million term loan facilities. The facilities were utilised to the extent of RMB690 million as at 31 December 2011.

# PROFILE OF DIRECTORS

## BOARD OF DIRECTORS

### Executive Directors

**OR Wai Sheun,** aged 60, is the *Chairman* of the Company. He has been an Executive Director since January 2002 and is responsible for the development of corporate strategies, corporate planning and general management of the Company. Mr Or is also the chairman of Polytec Asset Holdings Limited, a separately listed subsidiary of the Company. He is the chairman of both Polytec Holdings International Limited and Intellinsight Holdings Limited and a director of Or Family Trustee Limited Inc., all being the substantial shareholders of the Company. Mr Or has over 30 years of experience in property development, industrial and financial investment business in Hong Kong, Macau and Mainland China. He is the husband of Ms Ng Chi Man and the father of Mr Or Pui Kwan.

**NG Chi Man,** aged 59, has been an *Executive Director* of the Company since January 2002. Ms Ng is responsible for the development of corporate strategies, corporate planning and general management of the Company. She is also a director of both Polytec Holdings International Limited and Intellinsight Holdings Limited, all being the substantial shareholders of the Company. Ms Ng has over 30 years of experience in property development, industrial and financial investment business in Hong Kong, Macau and Mainland China. She is the wife of Mr Or Wai Sheun and the mother of Mr Or Pui Kwan.

**LAI Ka Fai,** aged 47, has been an *Executive Director* of the Company since January 2002. He is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company. Mr Lai is also a non-executive director of Polytec Asset Holdings Limited, a separately listed subsidiary of the Company, and a director of Intellinsight Holdings Limited. He has over 20 years of experience in finance, accounting, financial and operational management and corporate planning. Mr Lai graduated from the University of East Anglia in the United Kingdom with a Bachelor's degree in Science. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants.

**OR Pui Kwan,** aged 33, has been an *Executive Director* of the Company since September 2005. He is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company. Mr Or joined the Company in May 2003 and has attained solid working experience in various companies engaged in property development, securities investment, information technology, product research and development. He holds a Bachelor of Combined Science degree from the University College London. He is the son of Mr Or Wai Sheun and Ms Ng Chi Man.

### Non-executive Directors

**Keith Alan HOLMAN,** aged 67, is the *Deputy Chairman* of the Company. He has been a Non-executive Director since January 2002. He is a director of, inter alia, Or Family Trustee Limited Inc. and Warner Estates Holdings PLC, a company listed on the London Stock Exchange and a founding partner of the Lantern Group which invests in United Kingdom property and shares. Mr Holman has an aggregate of over 35 years of experience in corporate finance, investment banking and property investment. He graduated from Oxford University and has a professional qualification as a solicitor.

**TAM Hee Chung,** aged 68, has been a *Non-executive Director* of the Company since January 2002. He is the managing director of Larry H.C. Tam & Associates Limited, a surveying, valuing and development consultancy company. Mr Tam started his professional career in Crown Lands & Survey Office of the Hong Kong Government (already consolidated into the Lands Department), in which he reached the rank of Acting Government Land Agent/Valuation in charge of the Valuation Branch of the said Office. He left the Government in 1981 and joined a property company as the general manager, and later set up his own practice as Larry H.C. Tam & Associates Limited. Mr Tam has extensive experience in all aspects of the land professional work both in government and in private practice. He was a member of the Town Planning Board and the Building Committee of the Housing Authority. Mr Tam is a fellow member of both the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors. He is also a Registered Professional Surveyor.

**YEUNG Kwok Kwong,** aged 53, has been a *Non-executive Director* of the Company since January 2002. He is also the managing director of Polytec Asset Holdings Limited, a separately listed subsidiary of the Company. Mr Yeung has over 25 years of experience in finance, accounting, financial and operational management and corporate planning. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants.

## Independent Non-executive Directors

**LI Kwok Sing, Aubrey**, aged 62, has been an *Independent Non-executive Director* of the Company since January 2002. Mr Li is the chairman of MCL Partners Limited, a Hong Kong based financial advisory and investment firm, and has over 35 years of experience in merchant banking and commercial banking. He is also a non-executive director of The Bank of East Asia, Limited (listed on the Stock Exchange of Hong Kong) and an independent non-executive director of Café de Coral Holdings Limited, China Everbright International Limited, Kunlun Energy Company Limited, Pokfulam Development Company Limited and Tai Ping Carpets International Limited (each of them is listed on the Stock Exchange of Hong Kong). Mr Li holds a Master's degree in Business Administration from Columbia University and a Bachelor of Science degree in Civil Engineering from Brown University.

**LOK Kung Chin, Hardy**, aged 62, has been an *Independent Non-executive Director* of the Company since January 2002. He is the managing director of The Sun Company, Limited and has over 35 years of experience in building and engineering construction work. Mr Lok graduated in Civil Engineering from the University of Manchester Institute of Science & Technology. He is a member of both the Institution of Civil Engineers and the Hong Kong Institution of Engineers, and a fellow member of the Hong Kong Institute of Construction Managers.

**SETO Gin Chung, John**, aged 63, has been an *Independent Non-executive Director* of the Company since January 2002. He is a director of Pacific Eagle Asset Management Limited. He is also a non-executive director of Sateri Holdings Limited (listed on the Stock Exchange of Hong Kong) and an independent non-executive director of both China Everbright Limited and Hop Hing Group Holdings Limited (both are listed on the Stock Exchange of Hong Kong). He was a non-executive director of Hong Kong Exchanges and Clearing Limited from 2000 to 2003 and was the chief executive officer of HSBC Broking Services (Asia) Limited from 1982 to 2001. Mr Seto was a council member of The Stock Exchange of Hong Kong Limited from 1994 to 2000 and was the first vice chairman from 1997 to 2000. Mr Seto holds a Master of Business Administration degree from New York University and has over 35 years of experience in the securities and futures industry.

**David John SHAW,** aged 65, has been an *Independent Non-executive Director* of the Company since June 2007. He is employed by the HSBC Group as Adviser to the Board of HSBC Holdings plc, a London based appointment which he took up in June 1998. Mr Shaw is a non-executive director of HSBC Private Banking Holdings (Suisse) SA, HSBC Private Bank (Suisse) SA and HSBC Bank Bermuda Limited (formerly known as The Bank of Bermuda Limited), which are companies within the HSBC Group. He is also an independent non-executive director of Shui On Land Limited (listed on the Stock Exchange of Hong Kong). Mr Shaw is a solicitor, admitted in England and Wales and in Hong Kong. He was a partner of Norton Rose from 1973 to 1998 and during that period spent approximately 20 years working in Hong Kong. Mr Shaw obtained a law degree from Cambridge University.

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

# CORPORATE GOVERNANCE REPORT

## CODE ON CORPORATE GOVERNANCE PRACTICES

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

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

Throughout the year ended 31 December 2011, the Company has complied with the code provisions of the Code on Corporate Governance Practices ("Code Provision") except Code Provision A.2.1 (which recommends the roles of the chairman and chief executive officer should be separate) as explained below.

## BOARD OF DIRECTORS

As at 31 December 2011, the Board comprises 11 members: 4 Executive Directors, being Mr Or Wai Sheun (Chairman), Ms Ng Chi Man, Mr Lai Ka Fai and Mr Or Pui Kwan; 3 Non-executive Directors, being Mr Keith Alan Holman (Deputy Chairman), Mr Tam Hee Chung and Mr Yeung Kwok Kwong; and 4 Independent Non-executive Directors, being Mr Li Kwok Sing, Aubrey, Mr Lok Kung Chin, Hardy, Mr Seto Gin Chung, John and Mr David John Shaw. Their biographical details which include relationships among members of the Board are set out on pages 40 to 41 of this annual report. In accordance with the Listing Rules, every Independent Non-executive Director has provided an annual confirmation of his independence to the Company. The Company considers that they satisfy the independence requirements.

There has been no change in the composition of the Board during the year.

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

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

## CHAIRMAN OF THE BOARD

Mr Or Wai Sheun, the Chairman, has performed the combined role as the chairman and the chief executive officer taking charge of overall operation of the Group. This combining of the roles enables the Company to make prompt and effective decisions. The Board will reassess the applicability of Code Provision A.2.1 if the existing approach cannot provide an optimal result given the particular structure of the Company.

## SELECTION, APPOINTMENT AND RE-ELECTION OF DIRECTORS

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

Every existing Non-executive Director was provided with a letter of appointment setting out his terms of appointment. The Company will adhere to this practice when a person is invited to be a Non-executive Director. In accordance with the Articles of Association, any Director so appointed shall hold office only until the next following annual general meeting of the Company and shall be eligible for re-election. Other existing Directors shall be elected for a term of not more than three years since last election or re-election. Retiring Directors shall be eligible for re-election at the annual general meeting of the Company.

## OPERATION OF THE BOARD

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

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

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

## BOARD COMMITTEES

There are four Board committees. They adopt formal terms of reference, which has included those specific duties in line with Code Provision B.1.3 (Remuneration Committee), Code Provision C.3.3 (Audit Committee) and Code Provision A.4.5 (Nomination Committee). These are available from the websites of the Company (www.kdc.com.hk) and Hong Kong Exchanges and Clearing Limited or the Company Secretary upon request.

| **Executive Committee** | |
|---|---|
| Members: | Mr Or Wai Sheun (Chairman), Ms Ng Chi Man, Mr Lai Ka Fai, Mr Or Pui Kwan and Mr Yeung Kwok Kwong |
| Key responsibility: | Exercise all general powers of the Board, save and except for reserved matters |

| **Audit Committee** | |
|---|---|
| Members: | Mr Li Kwok Sing, Aubrey# (Chairman), Mr Lok Kung Chin, Hardy#, Mr Seto Gin Chung, John# and Mr Yeung Kwok Kwong |
| Key responsibility: | Assist the Board in considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's external auditors |

| **Remuneration Committee** | |
|---|---|
| Members: | Mr Seto Gin Chung, John# (Chairman), Mr Lai Ka Fai, Mr Li Kwok Sing, Aubrey# and Mr Lok Kung Chin, Hardy# |
| Key responsibility: | Assist the Board in providing appropriate input into the formulation of remuneration policy and reviewing the implementation of the remuneration policy |

| **Nomination Committee** | |
|---|---|
| Members: | Mr Or Wai Sheun (Chairman), Mr Lok Kung Chin, Hardy# and Mr David John Shaw# |
| Key responsibility: | Assist the Board in reviewing the composition of the Board and make recommendation on appointment and re-appointment of Directors |

# Independent Non-executive Director

### Executive Committee

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

## Audit Committee

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

Three out of four Audit Committee members are independent Directors. The chairman of the committee possesses the relevant financial management expertise or experience. The committee members held two meetings and met the external auditors twice during 2011. At the meetings held during the year, the work performed by Audit Committee included:

– performed reviews on the half yearly and annual results;
– performed reviews on financial and accounting policies and practices of the Group;
– performed reviews on the relationships with external auditors, including remuneration, independence, objectivity, effectiveness of the audit process and non-audit services; and
– performed reviews on the effectiveness of internal control system including risk management of investment activities, internal audit plan, adequacy of resources of Internal Audit Department and its Charter.

## Remuneration Committee

The Remuneration Committee comprises four members, three of whom are independent Directors. The committee meets at least once per annum. In discharging their duties, they are required to review, assess and make recommendations to the Board on the remuneration policy and structure for all Directors and senior management and determine the remuneration of Executive Directors and senior management. They met three times during 2011. At the meetings held during the year, the work performed by Remuneration Committee included:

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

## Nomination Committee

The Nomination Committee was established on 29 March 2012 comprising three members, two of whom are independent Directors. The committee meets at least once per annum. Its responsibilities include reviewing the composition of the Board, identifying suitable Board members, assessing independence of the independent Directors and making recommendation to the Board on appointments and re-appointments. Main duties of the Nomination Committee also include:

– perform reviews on the structure, size and composition of the Board;
– select or make recommendations to the Board on the selection of candidates nominated for directorships;
– perform assessment on the independence of independent Directors; and
– make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors.

## Time Commitment

The Board is satisfied that each of the Non-executive Directors committed sufficient time during 2011 for the fulfillment of their duties as directors of the Company. The number of Board and committee meetings eligible for attendance and attended by each of the Directors during the year are set out below.

| Board Members | Board Meetings | Remuneration Committee Meetings | Audit Committee Meetings |
|---|---|---|---|
| *Executive Directors* | | | |
| Mr Or Wai Sheun *(Chairman)* | 4 | – | – |
| Ms Ng Chi Man* | 4 | – | – |
| Mr Lai Ka Fai | 4 | 3 | – |
| Mr Or Pui Kwan* | 4 | – | – |
| *Non-executive Directors* | | | |
| Mr Keith Alan Holman *(Deputy Chairman)* | 3 | – | – |
| Mr Tam Hee Chung | 3 | – | – |
| Mr Yeung Kwok Kwong | 4 | – | 2 |
| *Independent Non-executive Directors* | | | |
| Mr Li Kwok Sing, Aubrey | 4 | 3 | 2 |
| Mr Lok Kung Chin, Hardy | 4 | 3 | 2 |
| Mr Seto Gin Chung, John | 4 | 3 | 2 |
| Mr David John Shaw | 3 | – | – |
| **Total meetings held** | 4 | 3 | 2 |
| **Average Attendance Rate** | 93% | 100% | 100% |

* Family members of Mr Or Wai Sheun

During 2011, independent Directors had also played vital monitoring roles in corporate transactions including:

(i) the disposal of the entire issued share capital of King's City Holdings Limited which owned an apartment and 17 car parking spaces in the property known as "31 Robinson Road" at No. 31 Robinson Road, Hong Kong to Cosmo Harvest Limited, a company indirectly owned by Mr Or Wai Sheun and his family, in May; and

(ii) the acquisition of 80% equity interest in Ideaplan Investments Limited which owned a development project in Wuxi, together with assignment of related shareholder's loan from Win Talent Investments Limited, a company indirectly owned by Mr Or Wai Sheun and his family, in July.

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

## PROMOTE ETHICAL DECISION MAKING

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

### Securities Trading Policy

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

### Act in the best interests of the Company

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

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

## REMUNERATION REVIEW

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

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

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

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

# ACCOUNTABILITY AND AUDIT

The Board leads and maintains effective control over the Company's activities, with executive responsibility for the running of the Company's business being delegated to management. The internal control system of the Company includes a defined management structure with authority limits, which help to ensure good practice and governance thereby aligning corporate objectives and safeguarding company assets.

## Internal Controls

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

The Board, through the Audit Committee and with the assessment performed by the Internal Audit Department, reviewed the adequacy of resources, qualifications and experience of staff of the Company's accounting and financial reporting function, and their training programmes and budget at the Board meeting held in March 2012 and noted that the Company has been in compliance with the Code Provision for the year 2011.

## Financial Reporting

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

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

A statement of the Company's external auditors, about their reporting responsibilities is included in the Independent Auditor's Report on page 59 of the Annual Report.

## EXTERNAL AUDITORS

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

| | | 2011<br>HK$'000 |
|---|---|---|
| Audit services | | 4,212 |
| Non-audit services | | 1,043 |
| Tax and business advisory services | 230 | |
| Other services | 813 | |

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

## SHAREHOLDER RELATIONS

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

During the year, members of the Board met and communicated with shareholders at the annual general meeting and extraordinary general meeting and the notices of annual general meeting and extraordinary general meeting were distributed to all shareholders not less than 20 and 10 clear business days respectively. At both meetings, the chairmen demanded for a poll and the Company's share registrars was appointed as scrutineer for the vote-taking.

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

## OTHER INFORMATION

### Corporate Citizenship

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

WWF HONG KONG Gold Member 黃金會員2011

Besides making charitable donations, we have also taken part in the programme held by Community Chest such as "Dress Casual Day".

商界展關懷 caringcompany 2011/12 Awarded by The Hong Kong Council of Social Service 香港社會服務聯會頒發

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

# REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their annual report together with the audited statement of accounts for the year ended 31 December 2011.

## PRINCIPAL PLACE OF BUSINESS

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

## PRINCIPAL ACTIVITIES

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

## ACCOUNTS

The profit of the Group for the year ended 31 December 2011 and the state of affairs of the Company and of the Group at that date are set out in the accounts on pages 60 to 126.

## DIVIDENDS

An interim dividend of HK$0.21 per share (2010: HK$0.20 per share) was paid on 14 October 2011. The Directors now recommend that a final dividend of HK$0.33 per share (2010: HK$0.32 per share) be paid in respect of the year ended 31 December 2011.

## SHARE CAPITAL

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of the Company during the year ended 31 December 2011.

## RESERVES

Movements in reserves during the year are set out in the consolidated statement of changes in equity.

## FIXED ASSETS

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

## OIL RESERVE

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

## BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and of the Group as at 31 December 2011 are set out in notes 12, 22, 23 and 24 on the accounts.

## FINANCE COSTS CAPITALISED

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

## DONATIONS

Charitable donations made by the Group during the year amounted to HK$3,863,959 (2010: HK$324,275).

## PROPERTIES

Particulars of major properties and property interests of the Group are shown on pages 127 to 130 of the Annual Report.

## FIVE-YEAR FINANCIAL SUMMARY

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

## MANAGEMENT CONTRACTS

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

## DIRECTORS

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

Mr Or Wai Sheun, *Chairman*
Mr Keith Alan Holman, *Deputy Chairman*
Ms Ng Chi Man, *Executive Director*
Mr Lai Ka Fai, *Executive Director*
Mr Or Pui Kwan, *Executive Director*
Mr Tam Hee Chung, *Non-executive Director*
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, Ms Ng Chi Man, Mr Or Pui Kwan, Mr Keith Alan Holman, Mr Li Kwok Sing, Aubrey and Mr Tam Hee Chung, will retire at the forthcoming Annual General Meeting. With the exception of Mr Tam Hee Chung who is to retire, the aforesaid Directors being eligible, will offer themselves for re-election.

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

Brief biographical particulars of all Directors are given on pages 40 to 41 of the Annual Report.

## DIRECTOR'S SERVICE CONTRACTS

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

## DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 31 December 2011, the interests of the Directors in the shares of the Company and Polytec Asset Holdings Limited ("Polytec Asset") as recorded in the register required to be kept under Section 352 of the Securities and Futures Ordinance (the "SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), are set out below.

### 1 Long positions in the shares of the Company

| Name | Nature of interests | Number of shares | Percentage of shareholding (Note 1) | Note |
|---|---|---|---|---|
| Or Wai Sheun | Founder and beneficiary of a trust | 830,770,124 | | 2 |
| | Corporate | 277,500 | | 3 |
| | | 831,047,624 | 72.22% | |
| Ng Chi Man | Beneficiary of a trust | 830,770,124 | 72.20% | 2 |
| Or Pui Kwan | Beneficiary of a trust | 830,770,124 | | 2 |
| | Personal | 43,500 | | |
| | | 830,813,624 | 72.20% | |
| Lok Kung Chin, Hardy | Founder and beneficiary of a trust | 1,425,000 | 0.12% | 4 |
| Lai Ka Fai | Personal | 751,000 | 0.07% | |
| Keith Alan Holman | Personal | 642,000 | 0.06% | |
| Tam Hee Chung | Personal | 300,000 | 0.03% | |
| David John Shaw | Personal | 133,500 | | |
| | Family | 67,000 | | 5 |
| | | 200,500 | 0.02% | |
| Yeung Kwok Kwong | Personal | 180,000 | 0.02% | |

## 2 Long Positions in the shares of Polytec Asset

| Name | Nature of interests | Number of ordinary shares | Percentage of shareholding (Note 6) | Note |
|---|---|---|---|---|
| Or Wai Sheun | Founder and beneficiary of a trust | 3,260,004,812 | 73.44% | 7 |
| Ng Chi Man | Beneficiary of a trust | 3,260,004,812 | 73.44% | 7 |
| Or Pui Kwan | Beneficiary of a trust | 3,260,004,812 | 73.44% | 7 |
| Yeung Kwok Kwong | Personal | 2,000,000 | 0.05% | |
| Tam Hee Chung | Personal | 1,100,000 | 0.02% | |
| Keith Alan Holman | Personal | 722,000 | 0.02% | |
| Lai Ka Fai | Personal | 430,000 | 0.01% | |

Notes:

(1) The percentage of shareholding is calculated based on 1,150,681,275 shares, being the total number of issued shares of the Company as at 31 December 2011.

(2) Such interest in shares is held by Intellinsight Holdings Limited ("Intellinsight"), a wholly-owned subsidiary of Polytec Holdings International Limited ("Polytec Holdings") which is ultimately wholly-owned by a discretionary trust, the trustee of which is Or Family Trustee Limited Inc. The said trust is in turn wholly-owned by another discretionary trust, the trustee of which is HSBC International Trustee Limited.
As Mr Or Wai Sheun is the founder of the trust and the discretionary objects of the trust include Mr Or Wai Sheun, Ms Ng Chi Man (his wife) and Mr Or Pui Kwan (his son), they are taken to be interested in the same block of shares held by the trust.

(3) Such interest in shares is held by China Dragon Limited which is wholly-owned by Mr Or Wai Sheun.

(4) Such interest in shares is owned by discretionary trusts of which Mr Lok Kung Chin, Hardy is the founder and a beneficiary respectively.

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

(6) The percentage of shareholding is calculated based on 4,438,967,838 shares, being the total number of issued ordinary shares of Polytec Asset as at 31 December 2011. Polytec Asset is an associated corporation of the Company.

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

Save as disclosed above, as at 31 December 2011, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2011, shareholders (other than Directors and the chief executive of the Company) who had interests or short positions in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO are set out below:

| Name | Nature of interests | Number of Shares | Percentage of shareholding (Note 1) | Note |
|---|---|---|---|---|
| HSBC International Trustee Limited | Trustee | 829,354,474 | 72.08% | 2 |
| Or Family Trustee Limited Inc. | Trustee | 828,710,124 | 72.02% | 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 2011.

(2) Based on information available to the Company and subsequent to the recording in the register as required by SFO set out in the table above, there were share movements which were not required to disclose under SFO as at 31 December 2011. HSBC International Trustee Limited was then taken to be interested in 833,084,474 shares of the Company. Such interest included the shares owned by a family trust as explained in note (2) under the section headed "Directors' Interests and Short Positions".

(3) Based on information available to the Company and subsequent to the recording in the register as required by SFO set out in the table above, there were share movements which were not required to disclose under SFO as at 31 December 2011. Or Family Trustee Limited Inc. was then taken to be interested in 830,770,124 shares of the Company by virtue of being the trustee of a family trust as explained in note (2) under the section head "Directors' Interests and Short Positions".

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

Save as disclosed above, as at 31 December 2011, the Company has not been notified by any persons (other than the Directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year ended 31 December 2011 and up to the date of this report, the Group conducted the following transactions which constituted connected transactions for the Company under the Listing Rules:

(1) On 11 May 2011, Roe Investment Limited ("Roe Investment"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with Cosmo Harvest Limited ("Cosmo Harvest"), pursuant to which Roe Investment agreed to sell to Cosmo Harvest the entire issued share capital of King's City Holdings Limited for a consideration of HK$93,124,000 (the "Disposal").

Cosmo Harvest is a wholly-owned subsidiary of Polytec Holdings. As at 11 May 2011, Polytec Holdings through its wholly-owned subsidiary (Intellinsight), held 72.16% interest of the Company and Polytec Holdings is ultimately wholly-owned by a discretionary trust of which Mr Or Wai Sheun (the Chairman of the Company) is the founder and the discretionary objects of the trust include Mr Or Wai Sheun, Ms Ng Chi Man (an Executive Director) and Mr Or Pui Kwan (an Executive Director).

Given that Cosmo Harvest is a company indirectly owned by Mr Or Wai Sheun and his family members (of which Ms Ng Chi Man and Mr Or Pui Kwan are also Directors of the Company), it is a connected person of the Company. Accordingly, the Disposal constituted a connected transaction for the Company under the Listing Rules. Details of the transaction were disclosed in the announcement dated 11 May 2011 of the Company.

(2) On 13 May 2011, the Company entered into an agreement with Win Talent Investments Limited ("Win Talent") pursuant to which the Company agreed to purchase 80% equity interest in Ideaplan Investments Limited together with the assignment of related shareholder's loan for an aggregate consideration of HK$1,319,651,404 (the "Acquisition").

Win Talent is a wholly-owned subsidiary of Polytec Holdings. As at 13 May 2011, Polytec Holdings through its wholly-owned subsidiary (Intellinsight), held 72.16% interest of the Company and Polytec Holdings is ultimately wholly-owned by a discretionary trust of which Mr Or Wai Sheun (the Chairman of the Company) is the founder and the discretionary objects of the trust include Mr Or Wai Sheun, Ms Ng Chi Man (an Executive Director) and Mr Or Pui Kwan (an Executive Director).

Given that Win Talent is indirectly owned by Mr Or Wai Sheun and his family members (of which Ms Ng Chi Man and Mr Or Pui Kwan are also Directors of the Company), it is a connected person of the Company. Accordingly, the Acquisition constituted a discloseable and connected transaction under the Listing Rules. Details of the transaction were disclosed in the announcement dated 13 May 2011 and circular dated 3 June 2011 of the Company.

An Independent Board Committee comprising all the Independent Non-executive Directors was formed and an independent financial adviser was engaged to review the transaction and confirmed that the transaction was (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms; and (c) fair and reasonable and in the interests of the Company and the shareholders of the Company as a whole. The transaction was approved by the independent shareholders in a general meeting of the Company on 27 June 2011.

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.

## DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

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

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

After the final maturity date of the above loans on 21 January 2011, the Company had no more disclosure obligation pursuant to Rule 13.21 of the Listing Rules.

## SHARE OPTION SCHEME

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

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

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

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

## RETIREMENT SCHEMES

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

## ARRANGEMENT TO PURCHASE SHARES AND DEBENTURES

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

## CORPORATE GOVERNANCE

Principal corporate governance practices of the Company are set out in the Corporate Governance Report on pages 42 to 49 of the Annual Report.

## REVIEW OF ACCOUNTS

The Audit Committee has reviewed the Group's consolidated accounts for the year ended 31 December 2011, including the accounting principles and practices adopted by the Group, in conjunction with the Company's auditors.

## PUBLIC FLOAT

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

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Monday, 9 July 2012 to Tuesday, 10 July 2012, both dates inclusive. During which period, no transfer of shares will be registered. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, for registration not later than 4:30 pm on Friday, 6 July 2012.

## 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, 29 March 2012

# INDEPENDENT AUDITOR'S REPORT

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

We have audited the consolidated accounts of Kowloon Development Company Limited (the "Company") and its subsidiaries (together "the Group") set out on pages 60 to 126, which comprise the consolidated and Company balance sheets as at 31 December 2011, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED ACCOUNTS

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

## AUDITOR'S RESPONSIBILITY

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

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

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

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

## OPINION

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2011 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

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

29 March 2012

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

(Expressed in Hong Kong dollars)

| | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Turnover** | 3 | **1,755,293** | 1,268,722 |
| Cost of sales | | **(896,555)** | (765,500) |
| Other revenue | | **19,729** | 31,791 |
| Other net income | 4(a) | **287,792** | 189,494 |
| Depreciation and amortisation | | **(12,831)** | (11,000) |
| Staff costs | | **(152,568)** | (116,878) |
| Selling and marketing expenses | | **(137,896)** | (40,079) |
| Other operating expenses | | **(94,520)** | (60,079) |
| Impairment loss on properties written back | 4(d) | **–** | 154,770 |
| Fair value changes on investment properties | 11 | **730,178** | 1,421,148 |
| **Profit from operations** | | **1,498,622** | 2,072,389 |
| Finance costs | 4(b) | **(62,753)** | (20,207) |
| Share of profits of associated companies | 4(e) | **1,950** | 2,596 |
| Share of profits of jointly controlled entities | 4(f) | **321,765** | 218,360 |
| **Profit before taxation** | 4 | **1,759,584** | 2,273,138 |
| Income tax | 6(a) | **(159,219)** | (75,290) |
| **Profit for the year** | | **1,600,365** | 2,197,848 |
| **Attributable to:** | | | |
| Shareholders of the Company | 7 | **1,526,385** | 2,127,883 |
| Non-controlling interests | | **73,980** | 69,965 |
| **Profit for the year** | | **1,600,365** | 2,197,848 |
| **Earnings per share – Basic/Diluted** | 8 | **$1.33** | $1.85 |

The notes on pages 67 to 126 form part of these accounts.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

(Expressed in Hong Kong dollars)

| | 2011<br>$'000 | 2010<br>$'000 |
|---|---|---|
| **Profit for the year** | **1,600,365** | 2,197,848 |
| **Other comprehensive income for the year** | | |
| Exchange differences on translation of accounts of overseas subsidiaries | **152,887** | 70,408 |
| Realisation of exchange differences upon disposal of interest in a subsidiary | **–** | (1,994) |
| Changes in fair value of available-for-sale investments | **(1,084)** | 2,169 |
| Changes in fair value of interests in property development | **17,577** | 56,524 |
| Share of other comprehensive income of jointly controlled entities and associated companies | **132,534** | 76,020 |
| Transfer to income statement upon disposal of a subsidiary | **(481)** | – |
| | **301,433** | 203,127 |
| **Total comprehensive income for the year** | **1,901,798** | 2,400,975 |
| **Attributable to:** | | |
| Shareholders of the Company | **1,793,444** | 2,314,767 |
| Non-controlling interests | **108,354** | 86,208 |
| **Total comprehensive income for the year** | **1,901,798** | 2,400,975 |

The notes on pages 67 to 126 form part of these accounts.

# CONSOLIDATED BALANCE SHEET

at 31 December 2011

(Expressed in Hong Kong dollars)

| | Note | At 31 December 2011 $'000 | At 31 December 2011 $'000 | At 31 December 2010 $'000 | At 31 December 2010 $'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Fixed assets | | | | | |
| – Investment properties | | | **8,808,370** | | 7,411,650 |
| – Leasehold land held for own use | | | **228,964** | | 235,568 |
| – Other property, plant and equipment | | | **1,291,609** | | 1,106,773 |
| | 11 | | **10,328,943** | | 8,753,991 |
| Oil exploitation assets | 13 | | **120,785** | | 123,144 |
| Interests in property development | 14 | | **10,190,981** | | 10,173,404 |
| Interest in jointly controlled entities | 15 | | **1,907,547** | | 1,541,645 |
| Interest in associated companies | 16 | | **2,124,195** | | 1,675,361 |
| Financial investments | 17 | | **19,555** | | 29,346 |
| Loans and advances | | | **3,088** | | 3,717 |
| Other deposit | | | **–** | | 2,527 |
| Deferred tax assets | 10(a) | | **10,314** | | 7,464 |
| | | | **24,705,408** | | 22,310,599 |
| **Current assets** | | | | | |
| Inventories | 18 | **11,736,445** | | 7,487,859 | |
| Trade and other receivables | 19 | **593,515** | | 185,212 | |
| Loans and advances | | **22,252** | | 19,043 | |
| Amounts due from jointly controlled entities | 15 | **131,662** | | 154,278 | |
| Financial investments | 17 | **80,255** | | 104,594 | |
| Time deposits (pledged) | 29 | **15,000** | | 15,000 | |
| Cash and cash equivalents | | **764,144** | | 719,684 | |
| | | **13,343,273** | | 8,685,670 | |
| **Current liabilities** | | | | | |
| Trade and other payables | 20 | **1,609,749** | | 1,273,187 | |
| Amounts due to non-controlling interests | 21 | **200,000** | | – | |
| Amount due to a jointly controlled entity | 15 | **581,200** | | 554,448 | |
| Bank loans | 24 | **1,415,000** | | 3,855,500 | |
| Current taxation | | **257,856** | | 298,465 | |
| | | **4,063,805** | | 5,981,600 | |
| **Net current assets** | | | **9,279,468** | | 2,704,070 |
| **Total assets less current liabilities** | | | **33,984,876** | | 25,014,669 |

| | Note | At 31 December 2011<br>$'000 | $'000 | At 31 December 2010<br>$'000 | $'000 |
|---|---|---|---|---|---|
| **Non-current liabilities** | | | | | |
| Loan from ultimate holding company | 22 | **5,097,532** | | 896,569 | |
| Amount payable to ultimate holding company | 23 | **680,579** | | 627,901 | |
| Bank loans | 24 | **4,531,779** | | 1,660,447 | |
| Other payables | | **46,637** | | 46,872 | |
| Deferred tax liabilities | 10(a) | **812,814** | | 303,170 | |
| | | | **11,169,341** | | 3,534,959 |
| **NET ASSETS** | | | **22,815,535** | | 21,479,710 |
| **Capital and reserves** | | | | | |
| Share capital | 25(b) | | **115,068** | | 115,068 |
| Reserves | | | **19,656,838** | | 18,473,255 |
| **Total equity attributable to the shareholders of the Company** | | | **19,771,906** | | 18,588,323 |
| **Non-controlling interests** | | | **3,043,629** | | 2,891,387 |
| **TOTAL EQUITY** | | | **22,815,535** | | 21,479,710 |

Approved and authorised for issue by the board of directors on 29 March 2012.

**Or Wai Sheun**
*Director*

**Lai Ka Fai**
*Director*

The notes on pages 67 to 126 form part of these accounts.

# BALANCE SHEET

at 31 December 2011

(Expressed in Hong Kong dollars)

| | Note | At 31 December 2011 $'000 | At 31 December 2011 $'000 | At 31 December 2010 $'000 | At 31 December 2010 $'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Fixed assets | | | | | |
| – Investment properties | | | **5,712,000** | | 5,400,000 |
| – Other property, plant and equipment | | | **3,203** | | 3,182 |
| | 11 | | **5,715,203** | | 5,403,182 |
| Interest in subsidiaries | 12 | | **14,528,752** | | 9,735,459 |
| Interest in a jointly controlled entity | 15 | | **584,079** | | 584,079 |
| Interest in an associated company | 16 | | **1,761,914** | | 1,557,963 |
| | | | **22,589,948** | | 17,280,683 |
| **Current assets** | | | | | |
| Loans to subsidiaries | 12 | **439,011** | | – | |
| Trade and other receivables | 19 | **13,468** | | 25,280 | |
| Cash and cash equivalents | | **270,379** | | 199,087 | |
| | | **722,858** | | 224,367 | |
| **Current liabilities** | | | | | |
| Trade and other payables | 20 | **101,828** | | 95,789 | |
| Amounts due to subsidiaries | 12 | **85** | | 741 | |
| Amount due to a jointly controlled entity | 15 | **581,200** | | 554,448 | |
| Bank loan | 24 | **–** | | 2,158,000 | |
| Loans from subsidiaries | 12 | **197,602** | | 250,511 | |
| Current taxation | | **19,666** | | 19,454 | |
| | | **900,381** | | 3,078,943 | |
| **Net current liabilities** | | | **(177,523)** | | (2,854,576) |
| **Total assets less current liabilities** | | | **22,412,425** | | 14,426,107 |
| **Non-current liabilities** | | | | | |
| Loan from ultimate holding company | 22 | **5,097,532** | | 896,569 | |
| Loans from subsidiaries | 12 | **27,705** | | 27,772 | |
| Bank loan | 24 | **3,480,000** | | – | |
| Deferred tax liabilities | 10(a) | **32,778** | | 30,312 | |
| | | | **8,638,015** | | 954,653 |
| **NET ASSETS** | | | **13,774,410** | | 13,471,454 |
| **Capital and reserves** | | | | | |
| Share capital | | | **115,068** | | 115,068 |
| Reserves | | | **13,659,342** | | 13,356,386 |
| **TOTAL EQUITY** | 25 | | **13,774,410** | | 13,471,454 |

Approved and authorised for issue by the board of directors on 29 March 2012.

**Or Wai Sheun**
*Director*

**Lai Ka Fai**
*Director*

The notes on pages 67 to 126 form part of these accounts.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

(Expressed in Hong Kong dollars)

| | Attributable to shareholders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital $'000 | Share premium $'000 | Capital reserve $'000 | Fair value reserves $'000 | Exchange reserves $'000 | Retained profits $'000 | Total $'000 | Non-controlling interests $'000 | Total equity $'000 |
| At 1 January 2010 | 115,068 | 8,302,404 | 2,154 | 1,642,573 | 313,356 | 6,496,355 | 16,871,910 | 2,957,535 | 19,829,445 |
| Changes in equity for 2010 | | | | | | | | | |
| Profit for the year | – | – | – | – | – | 2,127,883 | 2,127,883 | 69,965 | 2,197,848 |
| Other comprehensive income | – | – | – | 43,679 | 143,205 | – | 186,884 | 16,243 | 203,127 |
| Total comprehensive income | – | – | – | 43,679 | 143,205 | 2,127,883 | 2,314,767 | 86,208 | 2,400,975 |
| Dividends approved in respect of the previous year | – | – | – | – | – | (368,218) | (368,218) | – | (368,218) |
| Dividends approved in respect of the current year | – | – | – | – | – | (230,136) | (230,136) | – | (230,136) |
| Dividend paid to non-controlling interests | – | – | – | – | – | – | – | (34,145) | (34,145) |
| Decrease in loans from non-controlling interests | – | – | – | – | – | – | – | (115,293) | (115,293) |
| Decrease in non-controlling interests attributable to an increase in shareholding of a subsidiary | – | – | – | – | – | – | – | (78) | (78) |
| Decrease in non-controlling interests upon disposal of a subsidiary | – | – | – | – | – | – | – | (2,840) | (2,840) |
| At 31 December 2010 | 115,068 | 8,302,404 | 2,154 | 1,686,252 | 456,561 | 8,025,884 | 18,588,323 | 2,891,387 | 21,479,710 |
| **At 1 January 2011** | **115,068** | **8,302,404** | **2,154** | **1,686,252** | **456,561** | **8,025,884** | **18,588,323** | **2,891,387** | **21,479,710** |
| **Changes in equity for 2011** | | | | | | | | | |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **1,526,385** | **1,526,385** | **73,980** | **1,600,365** |
| Other comprehensive income | **–** | **–** | **(481)** | **11,823** | **255,717** | **–** | **267,059** | **34,374** | **301,433** |
| Total comprehensive income | **–** | **–** | **(481)** | **11,823** | **255,717** | **1,526,385** | **1,793,444** | **108,354** | **1,901,798** |
| Dividends approved in respect of the previous year | **–** | **–** | **–** | **–** | **–** | **(368,218)** | **(368,218)** | **–** | **(368,218)** |
| Dividends approved in respect of the current year | **–** | **–** | **–** | **–** | **–** | **(241,643)** | **(241,643)** | **–** | **(241,643)** |
| Dividend paid to non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(33,015)** | **(33,015)** |
| Decrease in loans from non-controlling interests | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(50,400)** | **(50,400)** |
| Increase in non-controlling interests upon acquisition of subsidiaries | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **127,303** | **127,303** |
| **At 31 December 2011** | **115,068** | **8,302,404** | **1,673** | **1,698,075** | **712,278** | **8,942,408** | **19,771,906** | **3,043,629** | **22,815,535** |

As at 31 December 2011, loans from non-controlling interests of $2,603,000 (2010: $53,139,000) are classified as equity being the capital contributions on subsidiaries by the non-controlling interests.

The notes on pages 67 to 126 form part of these accounts.

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2011

(Expressed in Hong Kong dollars)

| | Note | 2011 $'000 | 2010 $'000 |
|---|---|---|---|
| **Net cash (used in)/from operating activities** | 26(a) | **(2,324,471)** | 809,651 |
| **Investing activities** | | | |
| Sale of fixed assets | | **1,818** | 224 |
| Sale of investment properties | | **304,646** | 270,838 |
| Additions to fixed assets and properties | | **(221,574)** | (34,497) |
| Increase in loan to an associated company | | **(352,860)** | (338,597) |
| Increase in loan from an associated company | | **–** | 3,117 |
| Dividend received from an associated company | | **1,274** | 1,176 |
| Acquisition of subsidiaries | 26(b) | **(118,997)** | (1,061,407) |
| Acquisition of interest in an associated company | | **(4,934)** | – |
| Disposal of interest in subsidiaries | 26(c) | **87,367** | – |
| **Net cash used in investing activities** | | **(303,260)** | (1,159,146) |
| **Financing activities** | | | |
| Increase in bank loans | | **310,592** | 2,248,447 |
| Increase/(Decrease) in loan from ultimate holding company | | **2,996,033** | (303,990) |
| Decrease in loans from non-controlling interests | | **(50,536)** | (115,293) |
| Increase/(Decrease) in amount payable to ultimate holding company | | **52,678** | (704,979) |
| Dividend paid to shareholders of the Company | | **(609,435)** | (597,930) |
| Dividend paid to non-controlling interests | | **(33,015)** | (34,145) |
| **Net cash from financing activities** | | **2,666,317** | 492,110 |
| **Net increase in cash and cash equivalents** | | **38,586** | 142,615 |
| Cash and cash equivalents at 1 January | | **719,684** | 575,237 |
| Effect of foreign exchange rate changes | | **5,874** | 1,832 |
| **Cash and cash equivalents at 31 December** | | **764,144** | 719,684 |
| **Analysis of balances of cash and cash equivalents at 31 December** | | | |
| Deposits with banks and other financial institutions | | **245** | 155,241 |
| Cash at bank and in hand | | **763,899** | 564,443 |
| | | **764,144** | 719,684 |

The notes on pages 67 to 126 form part of these accounts.

# NOTES ON THE ACCOUNTS

(Expressed in Hong Kong dollars)

## 1 SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

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

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

### (b) Measurement basis

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

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

### (c) Basis of consolidation

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

### (d) Changes in accounting policies

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

– HKAS 24 (revised 2009), "Related party disclosures"

– Improvements to HKFRSs (2010)

The Group and the Company have not applied any new standard or interpretation that is not yet effective for the current accounting period, with the exception of the amendments to HKAS 12, "Income taxes", in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40, "Investment property". The amendments are effective for annual periods beginning on or after 1 January 2012, but as permitted by the amendments, the Group and the Company have already early adopted the amendments for the year ended 31 December 2010.

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

The impacts of the developments are discussed below:

– HKAS 24 (revised 2009) revises the definition of a related party. As a result, the Group has re-assessed the identification of related parties and concluded that the revised definition does not have any material impact on the Group's related party disclosures in the current and previous periods.

– Improvements to HKFRSs (2010) omnibus standard introduce a number of amendments to the disclosure requirements in HKFRS 7, "Financial instruments: Disclosures". The disclosures about the Group's financial instruments in notes 33 have been conformed to the amended disclosure requirements. These amendments do not have any material impact on the classification, recognition and measurements of the amounts recognised in the accounts in the current and previous periods.

### (e) Goodwill

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the net fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

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

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

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

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

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

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

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

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

### (g) Interest in associated companies

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

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

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

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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.

### (h) Interest in joint ventures

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

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

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

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

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

# 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## (i) Properties

### (i) Investment properties

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

### (ii) Land held for future development

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

### (iii) Interests in property development

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

### (iv) Properties under development

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

### (v) Properties held for sale

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

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

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

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

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Oil exploitation assets

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

### (k) Inventories

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

### (l) Trade and other receivables

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

### (m) Financial assets

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

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

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

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

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

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (m) Financial assets *(Continued)*

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

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

### (n) Trade and other payables

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

### (o) Cash and cash equivalents

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

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

### (p) Borrowings

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

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

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (q) Depreciation and amortisation

**(i) Leasehold land and buildings**

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

**(ii) Oil production assets**

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

**(iii) Other fixed assets**

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

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

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

### (r) Impairment of assets

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

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

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

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

**(i) Financial assets**

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

- For financial assets carried at amortised cost, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

- For available-for-sale equity investments, an impairment loss is not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognised directly in other comprehensive income.

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

**(ii) Other assets**

- An impairment loss on goodwill is not reversed in subsequent periods.

- A reversal of an impairment loss on other assets is credited to the income statement immediately unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. A reversal of the impairment loss is limited to the asset's carrying value (net of accumulated amortisation or depreciation) that would have been determined had no impairment loss been recognised in prior years.

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

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

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

### (s) Income tax

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

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (s) Income tax *(Continued)*

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

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

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

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

### (t) Recognition of revenue

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

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

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

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

**(iii) Income from interests in property development**
Revenue from interests in property development is recognised when the distribution in respect of the investment is entitled.

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

**(v) Sale of financial investments**
Revenue from sale of financial investments is recognised when the buyer takes legal title to the financial investments.

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

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

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

### (u) Translation of foreign currencies

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

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

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

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

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (v) Financial guarantees issued, provisions and contingent liabilities

**(i) Financial guarantees issued**

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

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

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

**(ii) Contingent liabilities assumed in business combinations**

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

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

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

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

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (w) Related parties

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

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

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

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

### (x) Employee benefits

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

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

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

## 1 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (y) Segment reporting

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

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

## 2 CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

### (a) Depreciation and amortisation

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

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

### (b) Allowances for bad and doubtful debts

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

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

### (c) Estimation of fair value of investment properties

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

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

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

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

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

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

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

### (f) Impairment of interest in subsidiaries

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

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

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

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

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

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

## 3 SEGMENT REPORTING

The Group manages its business by a mixture of both business lines and geography. In a manner consistent with the way in which information is reported internally to the Group's top management for the purposes of assessing segment performance and allocating resources between segments, the Group has identified the following six reportable segments. Finance and investments segment presented in previous years has been grouped under other business segment for the year. Certain comparative figures have been reclassified to conform to current year's presentation.

- Property development segment (Hong Kong/Mainland China/Macau): the development and sales of properties. Given the importance of property development division to the Group, the Group's property development business is segregated further into three reportable segments on a geographical basis.

- Property investment segment: the leasing of properties to generate rental income and to gain from the appreciation in the properties' values in the long term.

- Oil segment: oil exploration and production.

- Other businesses segment: mainly includes the financial investments, the provision of finance services, income from the sale of ice and the provision of cold storage services and treasury operations.

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

## 3 SEGMENT REPORTING *(Continued)*

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

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

### (a) Segment results and assets

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

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

## 3 SEGMENT REPORTING *(Continued)*

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

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Property development | | | | | |
| | Consolidated $'000 | Hong Kong $'000 | Mainland China $'000 | Macau $'000 | Property investment $'000 | Oil $'000 | Others $'000 |
| Turnover | 1,268,722 | 2,357 | – | 819,258 | 272,741 | 80,444 | 93,922 |
| Reportable segment profit | 783,366 | 159,048 | 153,630 | 111,328 | 276,043 | 9,749 | 73,568 |
| Other net income | 141,337 | – | – | – | 141,337 | – | – |
| Fair value changes on investment properties | 1,421,148 | – | – | – | 1,421,148 | – | – |
| Share of fair value changes on investment properties of a jointly controlled entity | 22,000 | – | – | – | 22,000 | – | – |
| Head office and corporate expenses | (74,506) | | | | | | |
| Finance costs | (20,207) | | | | | | |
| Profit before taxation | 2,273,138 | | | | | | |
| Share of profits of associated companies | 2,596 | – | – | – | – | – | 2,596 |
| Share of profits of jointly controlled entities | 218,360 | – | 172,720 | – | 45,640 | – | – |
| Interest income | 22,373 | – | – | – | – | – | 22,373 |
| Depreciation and amortisation | (28,608) | – | – | – | – | (17,753) | (10,855) |
| Impairment loss on properties written back | 154,770 | 154,770 | – | – | – | – | – |
| Gain from bargain purchase | 23,579 | – | – | – | – | 23,579 | – |

## 3 SEGMENT REPORTING *(Continued)*

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

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

| | 2010 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Property development | | | | | |
| | Consolidated $'000 | Hong Kong $'000 | Mainland China $'000 | Macau $'000 | Property investment $'000 | Oil $'000 | Others $'000 |
| Reportable segment assets | 30,234,331 | 4,255,834 | 6,026,766 | 10,285,205 | 8,002,462 | 1,220,557 | 443,507 |
| Deferred tax assets | 7,464 | | | | | | |
| Time deposit (pledged) | 15,000 | | | | | | |
| Cash and cash equivalents | 719,684 | | | | | | |
| Head office and corporate assets | 19,790 | | | | | | |
| Consolidated total assets | 30,996,269 | | | | | | |
| Interest in associated companies | 1,675,361 | – | 1,667,105 | – | – | – | 8,256 |
| Interest in and amounts due from jointly controlled entities | 1,695,923 | – | 1,111,899 | – | 584,024 | – | – |

## 3 SEGMENT REPORTING *(Continued)*

### (b) Geographical information

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

| | Revenue | | Non-current assets | |
|---|---|---|---|---|
| | **2011 $'000** | 2010 $'000 | **2011 $'000** | 2010 $'000 |
| Hong Kong (place of domicile) | **1,093,128** | 344,536 | **8,037,216** | 7,634,699 |
| Mainland China | **483,484** | 14,758 | **4,501,706** | 2,776,310 |
| Macau | **49,394** | 821,855 | **578,516** | 490,040 |
| Kazakhstan | **115,513** | 80,494 | **1,364,032** | 1,195,619 |
| Others | **13,774** | 7,079 | **–** | – |
| | **1,755,293** | 1,268,722 | **14,481,470** | 12,096,668 |

In addition to the above non-current assets, the Group has interests in property development of $10,190,981,000 (2010: $10,173,404,000) in Macau.

### (c) Major customers and suppliers

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

## 4 PROFIT BEFORE TAXATION

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

**(a)** Other net income represents a net gain on disposal of investment properties of $130,607,000 (2010: $141,337,000), gain on disposal of subsidiaries of $157,596,000 (2010: $Nil) (note 26(c)), a gain from bargain purchase of $23,928,000 (2010: $23,579,000) in relation to the acquisition of subsidiaries (note 26(b)) and fair value changes on held for trading listed investments of loss of $24,339,000 (2010: gain of $24,578,000).

### (b) Finance costs

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Interest on bank loans and overdrafts | **91,337** | 65,040 |
| Interest on loan from/amount payable to ultimate holding company | **42,075** | 10,572 |
| Less: Amount capitalised *(Remark)* | **(66,189)** | (52,642) |
| | **67,223** | 22,970 |
| Less: Interest expenses included as other operating expenses | **(4,470)** | (2,763) |
| | **62,753** | 20,207 |

Remark: Borrowing costs were capitalised at rates of 1.03% – 1.64% (2010: 0.55% – 1.86%) per annum in Hong Kong and 4.86% – 8.65% (2010: 4.86% – 6.44%) per annum in Mainland China.

### (c) Other items

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| Auditors' remuneration | **4,212** | 4,130 |
| Amortisation of oil exploitation assets *(Remark)* | **2,359** | 5,916 |
| Depreciation and amortisation of fixed assets *(Remark)* | **33,721** | 22,692 |
| Staff costs *(Remark)* | **161,758** | 123,611 |
| Impairment loss for bad and doubtful debts | **1,207** | 290 |
| Rentals receivable under operating leases less outgoings | **(276,078)** | (251,847) |
| Rental income | **(293,289)** | (272,741) |
| Less: Outgoings | **17,211** | 20,894 |
| Interest income | **(22,319)** | (22,373) |
| Impairment loss on properties written back | **–** | (154,770) |
| Impairment loss for bad and doubtful debts written back | **(688)** | (1,257) |
| Impairment loss on leasehold land and buildings for own use written back | **–** | (3,330) |

Remark: Cost of sales includes $32,439,000 (2010: $24,341,000) relating to staff costs and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above.

## 4 PROFIT BEFORE TAXATION *(Continued)*

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

**(d)** In 2010, an impairment loss on properties of $154,770,000 previously recognised in the consolidated income statement was reversed due to the anticipated increase in the recoverable amount of the properties with reference to valuations undertaken by independent qualified professional valuers.

**(e)** The Group's share of profits for the year, after non-controlling interests, dividend and taxation, retained by the associated companies was $676,000 (2010: $1,420,000).

**(f)** The Group's share of profits for the year, after non-controlling interests, dividend and taxation, retained by the jointly controlled entities was $284,881,000 (2010: $206,238,000).

## 5 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

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

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

## 5 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS *(Continued)*

### (a) Directors' emoluments *(Continued)*

| | Directors' fees $'000 | Salaries and allowances $'000 | Performance related bonuses $'000 | Provident fund contributions $'000 | 2010 Total $'000 |
|---|---|---|---|---|---|
| ***Executive directors*** | | | | | |
| Or Wai Sheun | – | – | – | – | – |
| Ng Chi Man | – | – | – | – | – |
| Lai Ka Fai | 140 | 1,588 | 420 | 147 | 2,295 |
| Or Pui Kwan | – | 606 | 100 | 18 | 724 |
| ***Non-executive directors*** | | | | | |
| Keith Alan Holman | 220 | – | – | – | 220 |
| Tam Hee Chung | 220 | – | – | – | 220 |
| Yeung Kwok Kwong | 220 | 1,802 | 450 | 166 | 2,638 |
| ***Independent non-executive directors*** | | | | | |
| Li Kwok Sing, Aubrey | 220 | – | – | – | 220 |
| Lok Kung Chin, Hardy | 220 | – | – | – | 220 |
| Seto Gin Chung, John | 220 | – | – | – | 220 |
| David John Shaw | 220 | – | – | – | 220 |
| | 1,680 | 3,996 | 970 | 331 | 6,977 |

### (b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2010: two) are directors whose emoluments are disclosed in note 5(a). The aggregate of the emoluments in respect of the remaining three (2010: three) individuals are as follows:

| | **2011 $'000** | 2010 $'000 |
|---|---|---|
| Salaries and allowances | **6,204** | 5,949 |
| Performance related bonuses | **1,900** | 1,830 |
| Provident fund contributions | **54** | 52 |
| | **8,158** | 7,831 |

## 5 DIRECTORS' AND MANAGEMENT'S EMOLUMENTS *(Continued)*

### (b) Individuals with highest emoluments *(Continued)*

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

| | **2011** | 2010 |
|---|---|---|
| $1,500,001 – $2,000,000 | **–** | 1 |
| $2,000,001 – $2,500,000 | **2** | 1 |
| $2,500,001 – $3,000,000 | **–** | – |
| $3,000,001 – $3,500,000 | **–** | – |
| $3,500,001 – $4,000,000 | **1** | 1 |

## 6 INCOME TAX

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

| | **2011 $'000** | 2010 $'000 |
|---|---|---|
| ***Current tax – Hong Kong*** | | |
| Provision for the year | **77,280** | 33,249 |
| Overprovision in respect of prior years | **(551)** | (96) |
| | **76,729** | 33,153 |
| ***Current tax – Outside Hong Kong*** | | |
| Provision for the year | **30,910** | 53,040 |
| Overprovision in respect of prior years | **(781)** | – |
| | **30,129** | 53,040 |
| ***LAT*** | **3,425** | – |
| ***Deferred tax*** | | |
| Change in fair value of investment properties | **72,777** | – |
| Origination and reversal of temporary differences | **(23,841)** | (10,903) |
| | **48,936** | (10,903) |
| | **159,219** | 75,290 |

## 6 INCOME TAX *(Continued)*

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

The provision for Hong Kong profits tax is calculated at 16.5% (2010: 16.5%) of the estimated assessable profits for the year.

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

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

The China tax law also imposed a withholding tax at 10% unless reduced by a treaty or agreement, for dividends distributed by a PRC-resident enterprise to its immediate holding company outside Mainland China for earnings generated beginning on 1 January 2008 and undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. Provision for withholding tax is recognised for the dividends that have been declared and deferred tax liability is recognised for those to be declared in the foreseeable future. The Group did not recognise any withholding tax for the years of 2011 and 2010.

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

| | **2011 $'000** | 2010 $'000 |
|---|---|---|
| Profit before taxation | **1,759,584** | 2,273,138 |
| Tax at applicable tax rates | **269,811** | 363,224 |
| Non-deductible expenses | **16,998** | 7,790 |
| Non-taxable revenue | **(174,528)** | (306,865) |
| Overprovision in respect of prior years | **(1,332)** | (96) |
| Unrecognised tax losses | **26,242** | 14,983 |
| Previously unrecognised tax losses utilised | **(10,737)** | (5,258) |
| Previously unrecognised tax losses now recognised | **(1,256)** | – |
| LAT on properties sold | **3,425** | – |
| Deferred LAT on change in fair value of investment properties | **25,731** | – |
| Others | **4,865** | 1,512 |
| Actual tax expense | **159,219** | 75,290 |

## 7 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders of the Company includes a profit of $816,322,000 (2010: $1,526,814,000) which has been dealt with in the accounts of the Company.

## 8 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of $1,526,385,000 (2010: $2,127,883,000) and weighted average number of ordinary shares in issue during the year of 1,150,681,275 (2010: 1,150,681,275).

### (b) Diluted earnings per share

There are no dilutive potential shares in existence during the years ended 31 December 2011 and 2010.

## 9 DIVIDENDS

### (a) Dividends attributable to the year

| | **2011 $'000** | 2010 $'000 |
|---|---|---|
| Interim dividend declared and paid of $0.21 (2010: $0.20) per share | **241,643** | 230,136 |
| Final dividend proposed after the balance sheet date of $0.33 (2010: $0.32) per share | **379,725** | 368,218 |
| | **621,368** | 598,354 |

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

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

| | **2011 $'000** | 2010 $'000 |
|---|---|---|
| Final dividend in respect of the previous financial year, approved and paid during the year, of $0.32 (2010: $0.32) per share | **368,218** | 368,218 |

## 10 DEFERRED TAXATION

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

**Group**

| | Future benefit of tax losses $'000 | Revaluation of properties $'000 | Accelerated depreciation allowances $'000 | Others $'000 | Total $'000 |
|---|---|---|---|---|---|
| At 1 January 2010 | 32,736 | (307,330) | (42,067) | 556 | (316,105) |
| Through acquisition of a subsidiary | – | (9,801) | 1,809 | 17,488 | 9,496 |
| (Charged)/Credited to income statement | (25,299) | 45,036 | (8,759) | (75) | 10,903 |
| At 31 December 2010 | 7,437 | (272,095) | (49,017) | 17,969 | (295,706) |
| At 1 January 2011 | **7,437** | **(272,095)** | **(49,017)** | **17,969** | **(295,706)** |
| Through acquisition of subsidiaries | **–** | **(457,858)** | **–** | **–** | **(457,858)** |
| (Charged)/Credited to income statement | **1,266** | **(47,045)** | **(2,549)** | **(608)** | **(48,936)** |
| At 31 December 2011 | **8,703** | **(776,998)** | **(51,566)** | **17,361** | **(802,500)** |

**Company**

| | Accelerated depreciation allowances $'000 |
|---|---|
| At 1 January 2010 | (27,922) |
| Charged to income statement | (2,390) |
| At 31 December 2010 | (30,312) |
| At 1 January 2011 | **(30,312)** |
| Charged to income statement | **(2,466)** |
| At 31 December 2011 | **(32,778)** |

## 10 DEFERRED TAXATION *(Continued)*

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Net deferred tax asset recognised on the balance sheet | **10,314** | 7,464 | **–** | – |
| Net deferred tax liability recognised on the balance sheet | **(812,814)** | (303,170) | **(32,778)** | (30,312) |
| | **(802,500)** | (295,706) | **(32,778)** | (30,312) |

### (b) Deferred tax assets not recognised

The Group has not recognised deferred tax assets in respect of cumulative tax losses of $3,168,626,000 (2010: $4,223,684,000) as the probability of generating future taxable profits in order to utilise the tax losses is uncertain at this point of time. The tax losses arising from Hong Kong operations do not expire under current tax legislation. The tax losses arising from the operations in Mainland China expire five years after the relevant accounting year end date. The tax losses arising from the operations in Kazakhstan will be expired ten years after the relevant accounting year end date.

## 11 FIXED ASSETS

### (a) Group

| | Investment properties $'000 | Leasehold land held for own use $'000 | Other property, plant and equipment: Buildings $'000 | Other property, plant and equipment: Oil production assets $'000 | Other property, plant and equipment: Others $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| ***Cost or valuation*** | | | | | | |
| At 1 January 2010 | 6,108,010 | 270,206 | 33,060 | – | 47,339 | 6,458,615 |
| Exchange adjustments | – | – | – | – | 55 | 55 |
| Additions | | | | | | |
| – Through acquisition of a subsidiary | – | – | – | 1,060,890 | – | 1,060,890 |
| – Others | 11,152 | – | – | 21,230 | 2,262 | 34,644 |
| Disposals | (128,660) | – | – | (516) | (1,817) | (130,993) |
| Revaluation surplus | 1,421,148 | – | – | – | – | 1,421,148 |
| At 31 December 2010 | 7,411,650 | 270,206 | 33,060 | 1,081,604 | 47,839 | 8,844,359 |
| *Representing* | | | | | | |
| Professional valuation | 7,411,650 | – | – | – | – | 7,411,650 |
| Cost | – | 270,206 | 33,060 | 1,081,604 | 47,839 | 1,432,709 |
| | 7,411,650 | 270,206 | 33,060 | 1,081,604 | 47,839 | 8,844,359 |
| At 1 January 2011 | **7,411,650** | **270,206** | **33,060** | **1,081,604** | **47,839** | **8,844,359** |
| Exchange adjustments | **–** | **–** | **–** | **–** | **222** | **222** |
| Additions | | | | | | |
| – Through acquisition of subsidiaries | **–** | **–** | **–** | **–** | **879** | **879** |
| – Reclassified from properties under development | **833,847** | **–** | **–** | **–** | **–** | **833,847** |
| – Others | **7,575** | **–** | **–** | **197,199** | **16,632** | **221,406** |
| Disposals | **(174,880)** | **–** | **–** | **(3,096)** | **(744)** | **(178,720)** |
| Revaluation surplus | **730,178** | **–** | **–** | **–** | **–** | **730,178** |
| At 31 December 2011 | **8,808,370** | **270,206** | **33,060** | **1,275,707** | **64,828** | **10,452,171** |
| *Representing* | | | | | | |
| Professional valuation | **8,808,370** | **–** | **–** | **–** | **–** | **8,808,370** |
| Cost | **–** | **270,206** | **33,060** | **1,275,707** | **64,828** | **1,643,801** |
| | **8,808,370** | **270,206** | **33,060** | **1,275,707** | **64,828** | **10,452,171** |

## 11 FIXED ASSETS *(Continued)*

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

| | Investment properties $'000 | Leasehold land held for own use $'000 | Other property, plant and equipment: Buildings $'000 | Oil production assets $'000 | Others $'000 | Total $'000 |
|---|---|---|---|---|---|---|
| ***Aggregate depreciation and amortisation*** | | | | | | |
| At 1 January 2010 | – | 30,775 | 4,630 | – | 37,153 | 72,558 |
| Exchange adjustments | – | – | – | – | 26 | 26 |
| Impairment loss written back | – | (2,740) | (590) | – | – | (3,330) |
| Charge for the year | – | 6,603 | 814 | 11,837 | 3,640 | 22,894 |
| Written back on disposals | – | – | – | (181) | (1,599) | (1,780) |
| At 31 December 2010 | – | 34,638 | 4,854 | 11,656 | 39,220 | 90,368 |
| At 1 January 2011 | **–** | **34,638** | **4,854** | **11,656** | **39,220** | **90,368** |
| Exchange adjustments | **–** | **–** | **–** | **–** | **122** | **122** |
| Charge for the year | **–** | **6,604** | **815** | **21,153** | **5,157** | **33,729** |
| Written back on disposals | **–** | **–** | **–** | **(349)** | **(642)** | **(991)** |
| At 31 December 2011 | **–** | **41,242** | **5,669** | **32,460** | **43,857** | **123,228** |
| ***Carrying value*** | | | | | | |
| At 31 December 2011 | **8,808,370** | **228,964** | **27,391** | **1,243,247** | **20,971** | **10,328,943** |
| At 31 December 2010 | 7,411,650 | 235,568 | 28,206 | 1,069,948 | 8,619 | 8,753,991 |

In 2011, an amount of $8,000 (2010: $202,000) included in depreciation and amortisation charge for the year was capitalised under inventories.

## 11 FIXED ASSETS *(Continued)*

### (b) Company

| | Investment properties $'000 | Other property, plant and equipment $'000 | Total $'000 |
|---|---|---|---|
| ***Cost or valuation*** | | | |
| At 1 January 2010 | 4,318,000 | 25,725 | 4,343,725 |
| Additions | 8,421 | 869 | 9,290 |
| Disposals | – | (211) | (211) |
| Revaluation surplus | 1,073,579 | – | 1,073,579 |
| At 31 December 2010 | 5,400,000 | 26,383 | 5,426,383 |
| *Representing* | | | |
| Professional valuation | 5,400,000 | – | 5,400,000 |
| Cost | – | 26,383 | 26,383 |
| | 5,400,000 | 26,383 | 5,426,383 |
| At 1 January 2011 | **5,400,000** | **26,383** | **5,426,383** |
| Additions | **4,552** | **1,362** | **5,914** |
| Disposals | **–** | **(235)** | **(235)** |
| Revaluation surplus | **307,448** | **–** | **307,448** |
| At 31 December 2011 | **5,712,000** | **27,510** | **5,739,510** |
| *Representing* | | | |
| Professional valuation | **5,712,000** | **–** | **5,712,000** |
| Cost | **–** | **27,510** | **27,510** |
| | **5,712,000** | **27,510** | **5,739,510** |

## 11 FIXED ASSETS *(Continued)*

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

| | Investment properties $'000 | Other property, plant and equipment $'000 | Total $'000 |
|---|---|---|---|
| ***Aggregate depreciation and amortisation*** | | | |
| At 1 January 2010 | – | 22,153 | 22,153 |
| Charge for the year | – | 1,251 | 1,251 |
| Written back on disposals | – | (203) | (203) |
| At 31 December 2010 | – | 23,201 | 23,201 |
| At 1 January 2011 | **–** | **23,201** | **23,201** |
| Charge for the year | **–** | **1,326** | **1,326** |
| Written back on disposals | **–** | **(220)** | **(220)** |
| At 31 December 2011 | **–** | **24,307** | **24,307** |
| ***Carrying value*** | | | |
| At 31 December 2011 | **5,712,000** | **3,203** | **5,715,203** |
| At 31 December 2010 | 5,400,000 | 3,182 | 5,403,182 |

## 11 FIXED ASSETS *(Continued)*

### (c) Analysis of carrying value of properties

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **$'000** | $'000 | **$'000** | $'000 |
| ***Investment properties*** | | | | |
| In Hong Kong | | | | |
| – Long leases | **6,388,460** | 6,152,650 | **5,712,000** | 5,400,000 |
| – Medium-term leases | **1,368,300** | 1,203,000 | **–** | – |
| Outside Hong Kong | | | | |
| – Medium-term leases | **1,051,610** | 56,000 | **–** | – |
| | **8,808,370** | 7,411,650 | **5,712,000** | 5,400,000 |
| ***Other properties*** | | | | |
| In Hong Kong | | | | |
| – Long leases | **936** | 945 | **–** | – |
| – Medium-term leases | **255,419** | 262,829 | **–** | – |
| | **256,355** | 263,774 | **–** | – |

**(d)** The investment properties of the Group and of the Company were revalued at 31 December 2011 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. The Group's investment properties were valued on a market value basis in their existing states by reference to comparable market transactions and where appropriate on the basis of capitalisation of the net rental income allowing for reversionary income potential. The Group's investment properties under development were valued by estimating the fair value of such properties as if they were completed in accordance with relevant development plan and then deducting the estimated costs to complete the construction.

The Group's investment properties under development are stated at fair value at the earlier of when the fair value first becomes reliably measurable and the date of completion of the property. At 31 December 2011, investment properties under development stated at fair value amounted to $1,978,010,000 (2010: $799,000,000).

## 11 FIXED ASSETS *(Continued)*

### (e) Fixed assets leased out under operating leases

The Group leases out investment properties and certain furniture and fixtures under operating leases. The leases typically run for an initial period of several months to six years. Some leases have provision of option to renew by which time all terms are renegotiated. Some leases have provision of turnover rent. Turnover rent of $784,000 was recognised in 2011 (2010: $369,000).

The gross carrying amounts of investment properties of the Group held for use in operating leases were $6,830,360,000 (2010: $6,612,650,000). The gross carrying amounts of other fixed assets of the Group held for use in operating leases were $7,433,000 (2010: $7,008,000) and the related accumulated depreciation charges were $6,887,000 (2010: $6,852,000).

The gross carrying amounts of investment properties of the Company held for use in operating leases were $5,712,000,000 (2010: $5,400,000,000). The gross carrying amounts of other fixed assets of the Company held for use in operating leases were $1,399,000 (2010: $1,008,000) and the related accumulated depreciation charges were $983,000 (2010: $967,000).

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 | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Within 1 year | **223,232** | 180,945 | **182,603** | 137,943 |
| After 1 year but within 5 years | **144,988** | 147,527 | **98,882** | 81,592 |
| After 5 years | **–** | 6,240 | **–** | – |
| | **368,220** | 334,712 | **281,485** | 219,535 |

## 12 INTEREST IN SUBSIDIARIES

| | Company 2011 $'000 | 2010 $'000 |
|---|---|---|
| Unlisted shares, at cost | **2,249,262** | 1,763,977 |
| Loans to subsidiaries | | |
| – interest free | **11,681,727** | 8,139,329 |
| – interest bearing | **2,221,619** | 1,438,499 |
| Amounts due from subsidiaries | **7,491** | 17,981 |
| Less: Impairment losses | **(1,631,347)** | (1,624,327) |
| | **14,528,752** | 9,735,459 |
| Loans to subsidiaries | | |
| – interest bearing | **439,011** | – |
| Loans from subsidiaries | | |
| – interest free | **(197,602)** | (250,511) |
| – interest bearing | **(27,705)** | (27,772) |
| Amounts due to subsidiaries | **(85)** | (741) |
| | **14,742,371** | 9,456,435 |

Loans to subsidiaries are unsecured and not expected to repay within one year, except for the amount of $439,011,000 (2010: $Nil) which is repayable on demand. Interest is charged at Hong Kong Interbank Offer Rate ("HIBOR") plus a margin per annum for interest bearing loans.

Loans from subsidiaries are unsecured and not expected to repay within one year, except for the amount of $197,602,000 (2010: $250,511,000) which is repayable on demand. Interest is charged at HIBOR plus a margin per annum for interest bearing loans.

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

Loans from/amounts due to subsidiaries are presented as non-current/current liabilities from current year onwards. Last year comparatives have been reclassified to conform to current year's presentation.

Details of the principal subsidiaries are shown in note 30.

## 13 OIL EXPLOITATION ASSETS

| | Group | |
|---|---|---|
| | **2011** | 2010 |
| | **$'000** | $'000 |
| ***Cost*** | | |
| At 1 January | **129,060** | – |
| Additions through acquisition of a subsidiary | **–** | 129,060 |
| At 31 December | **129,060** | 129,060 |
| ***Accumulated amortisation*** | | |
| At 1 January | **5,916** | – |
| Amortisation during the year | **2,359** | 5,916 |
| At 31 December | **8,275** | 5,916 |
| ***Carrying value*** | **120,785** | 123,144 |

## 14 INTERESTS IN PROPERTY DEVELOPMENT

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

## 15 INTEREST IN JOINTLY CONTROLLED ENTITIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Unlisted shares, at cost | **–** | – | **584,079** | 584,079 |
| Share of net assets | **1,688,047** | 1,322,145 | **–** | – |
| Loan to a jointly controlled entity | **219,500** | 219,500 | **–** | – |
| | **1,907,547** | 1,541,645 | **584,079** | 584,079 |
| Amounts due from jointly controlled entities | **131,662** | 154,278 | **–** | – |
| Amount due to a jointly controlled entity | **(581,200)** | (554,448) | **(581,200)** | (554,448) |
| | **1,458,009** | 1,141,475 | **2,879** | 29,631 |

## 15 INTEREST IN JOINTLY CONTROLLED ENTITIES *(Continued)*

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

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

Details of the jointly controlled entities as at 31 December 2011 are as follows:

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

Remarks:

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

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

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

| | **2011 $'000** | 2010 $'000 |
|---|---|---|
| *Income Statement* | | |
| Revenue | **1,157,080** | 1,020,476 |
| Expenses | **(872,200)** | (814,238) |
| *Balance Sheet* | | |
| Non-current assets | **732,847** | 639,936 |
| Current assets | **4,074,223** | 3,302,652 |
| Current liabilities | **(2,291,202)** | (1,351,063) |
| Non-current liabilities | **(979,987)** | (1,384,661) |
| Net assets | **1,535,881** | 1,206,864 |

## 16 INTEREST IN ASSOCIATED COMPANIES

| | Group 2011 $'000 | Group 2010 $'000 | Company 2011 $'000 | Company 2010 $'000 |
|---|---|---|---|---|
| Unlisted shares, at cost | **–** | – | **151,063** | 151,063 |
| Share of net assets | **367,552** | 271,578 | **–** | – |
| Loan to associated companies | **1,759,760** | 1,406,900 | **1,610,851** | 1,406,900 |
| Loan from an associated company | **(3,117)** | (3,117) | **–** | – |
| | **2,124,195** | 1,675,361 | **1,761,914** | 1,557,963 |

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

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

Details of the associated companies as at 31 December 2011 are shown as follows:

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

Remark: In accordance with an agreement in relation to the acquisition of a property development site in Tianjin, Mainland China, 10% of the equity interest in the associated company will be transferred to the Group upon full payment of the acquisition consideration. As at 31 December 2011, the Group has 49% effective interest in the associated company.

## 16 INTEREST IN ASSOCIATED COMPANIES *(Continued)*

Summary of financial information on significant associated companies:

| | Assets $'000 | Liabilities $'000 | Equity $'000 | Revenue $'000 | Profit $'000 |
|---|---|---|---|---|---|
| **2011** | | | | | |
| Aggregate on associated companies' accounts | **5,163,052** | **4,412,864** | **750,188** | **129,516** | **3,846** |
| Group's effective interest | **2,495,237** | **2,127,685** | **367,552** | **63,463** | **1,950** |
| 2010 | | | | | |
| Aggregate on associated companies' accounts | 3,656,359 | 3,102,118 | 554,241 | 112,956 | 5,298 |
| Group's effective interest | 1,791,616 | 1,520,038 | 271,578 | 55,349 | 2,596 |

## 17 FINANCIAL INVESTMENTS

| | Group 2011 $'000 | 2010 $'000 |
|---|---|---|
| ***Non-current assets*** | | |
| Available-for-sale investments | | |
| – Investment fund, unlisted | **19,555** | 29,346 |
| ***Current assets*** | | |
| Held for trading listed investments | | |
| – Equity shares, listed in Hong Kong | **20,090** | 30,555 |
| – Bonds, listed outside Hong Kong | **60,165** | 74,039 |
| | **80,255** | 104,594 |
| | **99,810** | 133,940 |
| Market value of financial investments | | |
| – Listed in Hong Kong | **20,090** | 30,555 |
| – Listed outside Hong Kong | **60,165** | 74,039 |

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

## 18 INVENTORIES

| | Group 2011 $'000 | 2010 $'000 |
|---|---|---|
| Land held for future development | **1,821,571** | 495,664 |
| Properties under development | **9,374,111** | 6,817,260 |
| Properties held for sale | **525,327** | 162,303 |
| Trading goods and consumables | **15,436** | 12,632 |
| | **11,736,445** | 7,487,859 |

The amount of properties held for future development and under development expected to be recovered after more than one year is $1,821,571,000 (2010: $495,664,000) and $6,896,521,000 (2010: $5,160,851,000) respectively. All of the other inventories are expected to be recovered within one year.

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

| | Group 2011 $'000 | 2010 $'000 |
|---|---|---|
| In Hong Kong | | |
| – Long leases | **945,006** | 870,696 |
| – Medium-term leases | **4,012,902** | 2,697,565 |
| | **4,957,908** | 3,568,261 |
| Outside Hong Kong | | |
| – Freehold/Unspecified | **57,876** | 54,498 |
| – Long leases | **2,240,286** | 200,000 |
| – Medium-term leases | **2,407,820** | 2,459,349 |
| | **4,705,982** | 2,713,847 |
| | **9,663,890** | 6,282,108 |

## 19 TRADE AND OTHER RECEIVABLES

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 $'000** | 2010 $'000 | **2011 $'000** | 2010 $'000 |
| Current | **298,078** | 53,538 | **957** | – |
| Less than 3 months past due | **11,430** | 5,354 | **–** | 794 |
| 3 months to 6 months past due | **756** | 435 | **–** | 20 |
| More than 6 months past due | **7,463** | 10,065 | **1** | 4 |
| Amounts past due | **19,649** | 15,854 | **1** | 818 |
| Trade receivables | **317,727** | 69,392 | **958** | 818 |
| Utility and other deposits | **41,743** | 7,906 | **1,968** | 1,972 |
| Other receivables and prepayments | **234,045** | 107,914 | **10,542** | 22,490 |
| | **593,515** | 185,212 | **13,468** | 25,280 |

Utility and other deposits of the Group and of the Company of $8,791,000 (2010: $6,849,000) and $1,947,000 (2010: $1,944,000) respectively are expected to be recovered after more than one year.

Receivables and prepayments of the Group of $Nil (2010: $281,000) are expected to be recovered after more than one year.

### (b) Allowance for doubtful debts

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

At 31 December 2011, the Group's trade and other receivables of $8,836,000 (2010: $5,058,000) was individually determined to be impaired and specific allowances for doubtful debts of $5,249,000 (2010: $4,184,000) was recorded. Impairment loss of an amount of $1,139,000 (2010: $224,000) was recognised in the income statement during the year.

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

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

## 20 TRADE AND OTHER PAYABLES

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Not yet due or on demand | **715,615** | 132,551 | **512** | 232 |
| Within 3 months | **37,903** | 42,937 | **2,171** | 1,848 |
| 3 months to 6 months | **130** | 506 | **–** | 284 |
| More than 6 months | **34,057** | 32,768 | **–** | 3 |
| Trade payables | **787,705** | 208,762 | **2,683** | 2,367 |
| Rental and other deposits | **72,267** | 64,798 | **49,226** | 45,698 |
| Other payables and accrued expenses | **352,218** | 535,177 | **49,919** | 47,724 |
| Deposits received on sale of properties | **397,559** | 464,450 | **–** | – |
| | **1,609,749** | 1,273,187 | **101,828** | 95,789 |

Rental and other deposits of the Group and of the Company of $63,584,000 (2010: $60,601,000) and $48,789,000 (2010: $45,374,000) respectively are expected to be refunded after more than one year.

Other payables and accrued expenses of the Group and of the Company of $66,124,000 (2010: $19,068,000) and $195,000 (2010: $133,000) respectively are expected to be settled after more than one year.

Deposits received on sale of properties of the Group of $397,559,000 (2010: $464,450,000) are expected to be recognised as income within one year.

## 21 AMOUNTS DUE TO NON-CONTROLLING INTERESTS

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

## 22 LOAN FROM ULTIMATE HOLDING COMPANY

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

This balance consisted of a credit facility granted by Polytec Holdings to the Company to the extent of $1,187,000,000 during the year and was fully utilised as at 31 December 2011.

## 23 AMOUNT PAYABLE TO ULTIMATE HOLDING COMPANY

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

## 24 BANK LOANS

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2011** | 2010 | **2011** | 2010 |
| | **$'000** | $'000 | **$'000** | $'000 |
| Within 1 year or on demand | **1,415,000** | 3,855,500 | **–** | 2,158,000 |
| After 1 year but within 2 years | **916,094** | 850,000 | **–** | – |
| After 2 years but within 5 years | **3,615,685** | 810,447 | **3,480,000** | – |
| | **4,531,779** | 1,660,447 | **3,480,000** | – |
| | **5,946,779** | 5,515,947 | **3,480,000** | 2,158,000 |

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

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

## 25 TOTAL EQUITY

### (a) Movements in components of equity

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

**Company**

| | Note | Share capital $'000 | Share premium $'000 | Retained profits $'000 | Total $'000 |
|---|---|---|---|---|---|
| At 1 January 2010 | | 115,068 | 8,302,404 | 4,015,382 | 12,432,854 |
| Final dividend declared and paid | 9(b) | – | – | (368,218) | (368,218) |
| Interim dividend declared and paid | 9(a) | – | – | (230,136) | (230,136) |
| Profit for the year | | – | – | 1,636,954 | 1,636,954 |
| At 31 December 2010 | | 115,068 | 8,302,404 | 5,053,982 | 13,471,454 |
| At 1 January 2011 | | **115,068** | **8,302,404** | **5,053,982** | **13,471,454** |
| Final dividend declared and paid | 9(b) | **–** | **–** | **(368,218)** | **(368,218)** |
| Interim dividend declared and paid | 9(a) | **–** | **–** | **(241,643)** | **(241,643)** |
| Profit for the year | | **–** | **–** | **912,817** | **912,817** |
| At 31 December 2011 | | **115,068** | **8,302,404** | **5,356,938** | **13,774,410** |

## 25 TOTAL EQUITY *(Continued)*

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

The Group's share of profits retained in the accounts of the associated companies at 31 December 2011 after non-controlling interests were $4,035,000 (2010: $3,487,000).

The Group's share of profits retained in the accounts of the jointly controlled entities at 31 December 2011 after non-controlling interests were $521,639,000 (2010: $236,759,000).

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

Reserves of the Company available for distribution to shareholders at 31 December 2011 amounted to $462,213,000 (2010: $466,705,000).

### (b) Share capital

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **No. of shares of $0.1 each** | **Amount $'000** | No. of shares of $0.1 each | Amount $'000 |
| Authorised | **5,000,000,000** | **500,000** | 5,000,000,000 | 500,000 |
| Issued and fully paid | **1,150,681,275** | **115,068** | 1,150,681,275 | 115,068 |

### (c) Capital management

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

The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital and maintains an appropriate gearing ratio determined as the Group's net borrowings (bank borrowings plus loan from/amount payable to ultimate holding company and net of cash and cash equivalents) over equity attributable to shareholders of the Company. In view of this, the Group will balance its overall capital structure through the payment of dividends, new shares issues as well as raising new debts or redemption of existing debts. The Group's overall strategy remains unchanged from prior year and the gearing ratio as at 31 December 2011 is 55.4% (2010: 34.0%).

## 26 NOTES TO CONSOLIDATED CASH FLOW STATEMENT

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

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| **Profit before taxation** | **1,759,584** | 2,273,138 |
| Adjustments for: | | |
| Unclaimed dividend written back | **(262)** | (248) |
| Loss on disposal of other fixed assets | **1,031** | 329 |
| Gain on disposal of investment properties | **(130,607)** | (141,337) |
| Gain on disposal of interest in subsidiaries | **(157,596)** | – |
| Share of profits of associated companies | **(1,950)** | (2,596) |
| Share of profits of jointly controlled entities | **(321,765)** | (218,360) |
| Gain from bargain purchase | **(23,928)** | (23,579) |
| Impairment loss on properties written back | **–** | (154,770) |
| Impairment loss on an associated company written back | **(1,967)** | – |
| Impairment loss on leasehold land and buildings for own use written back | **–** | (3,330) |
| Fair value changes on investment properties | **(730,178)** | (1,421,148) |
| Interest income | **(5,798)** | (827) |
| Interest expenses | **62,753** | 20,207 |
| Depreciation and amortisation | **36,080** | 28,608 |
| **Operating profit before working capital changes** | **485,397** | 356,087 |
| Decrease/(Increase) in financial investments | **33,046** | (24,659) |
| (Increase)/Decrease in loans and advances | **(2,580)** | 17,900 |
| Increase in inventories | **(2,814,208)** | (130,001) |
| Increase in trade and other receivables | **(247,395)** | (4,560) |
| Decrease in amounts due from jointly controlled entities | **22,616** | 56,544 |
| Increase in amount due to a jointly controlled entity | **26,752** | 554,448 |
| Increase in trade and other payables | **382,062** | 119,861 |
| Decrease in amounts due to non-controlling interests | **–** | (2,474) |
| **Cash (used in)/generated from operations** | **(2,114,310)** | 943,146 |
| Interest received | **5,788** | 808 |
| Interest paid | **(129,639)** | (71,753) |
| Profits tax paid | **(86,310)** | (62,642) |
| Profits tax refunded | **–** | 92 |
| **Net cash (used in)/from operating activities** | **(2,324,471)** | 809,651 |

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

### (b) Acquisition of subsidiaries

| | 2011 $'000 | 2010 $'000 |
|---|---|---|
| ***Fair value of assets of subsidiaries acquired*** | | |
| Fixed assets | **879** | 1,060,890 |
| Oil exploitation assets | **–** | 129,060 |
| Deferred tax assets | **–** | 9,496 |
| Inventories | **2,108,038** | 17,105 |
| Trade and other receivables | **158,339** | 13,539 |
| Cash and cash equivalents | **13,654** | 4,073 |
| Trade and other payables | **(6,179)** | (121,003) |
| Amounts due to non-controlling interests | **(200,000)** | – |
| Amounts due to ultimate holding company | **(17,929)** | – |
| Bank loans | **(120,240)** | – |
| Current taxation | **(7,822)** | (701) |
| Deferred tax liabilities | **(457,858)** | – |
| Net assets acquired | **1,470,882** | 1,112,459 |
| Amount of net assets attributable to non-controlling interests | **(127,303)** | – |
| Gain from bargain purchase | **(23,928)** | (23,579) |
| Cash consideration on acquisition of subsidiaries | **1,319,651** | 1,088,880 |
| Cash and bank balances acquired | **(13,654)** | (4,073) |
| Loan from ultimate holding company | **(1,187,000)** | – |
| Deposit paid under derivative financial instrument | **–** | (7,800) |
| Deferred settlement | **–** | (15,600) |
| Cash outflow on acquisition of subsidiaries | **118,997** | 1,061,407 |

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

Acquisitions of the subsidiaries have been accounted for using the purchase method. Gain from bargain purchase arises from the excess of fair value of identifiable assets and liabilities of the acquired subsidiary over the cost of acquisitions. The total revenue of the acquired subsidiaries for the year was $203,000 (2010: $116,526,000) which contributed $44,000 (2010: $80,444,000) to the revenue of the Group. Profit of the acquired subsidiaries for the year was $32,475,000 (2010: loss of $23,692,000). The profit attributable to the shareholders of the Company for the year included a profit of $55,958,000 (2010: $7,561,000) which was related to the acquired subsidiaries.

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

### (c) Disposal of interest in subsidiaries

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

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

## 27 CAPITAL COMMITMENTS

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2011 $'000** | 2010 $'000 | **2011 $'000** | 2010 $'000 |
| Contracted for | **29,601** | 2,574 | **2,961** | 2,574 |
| Authorised but not contracted for | **139,460** | 140,000 | **139,460** | 140,000 |

## 28 CONTINGENT LIABILITIES

As at 31 December 2011, the Group and the Company has given several guarantees in respect of banking facilities and other obligations of a jointly controlled entity in Mainland China. One guarantee is provided on a joint and several basis with the other joint venture partner in respect of RMB80,000,000 loan facility (2010: RMB80,000,000). The joint venture partner and the Group and the Company had signed a mutual indemnification agreement by which each other will be indemnified on a 50:50 basis for any loss arising from the guarantee. The banking facility was utilised to the extent of RMB80,000,000 (2010: RMB80,000,000) at 31 December 2011. The other remaining guarantees amounted to RMB475,000,000 (2010: RMB495,000,000) representing a 50% proportional guarantee in respect of an aggregate of RMB950,000,000 term loan facilities (2010: RMB990,000,000). The facilities were utilised to the extent of RMB690,000,000 (2010: RMB730,000,000) at 31 December 2011.

The Company has given guarantees in respect of banking facilities and other obligations of certain subsidiaries to the extent of $2,657,559,000 (2010: $3,547,500,000). The banking facilities and other obligations were utilised to the extent of $1,828,607,000 (2010: $2,950,548,000) at 31 December 2011.

## 29 PLEDGE OF ASSETS

At 31 December 2011, properties of the Group with an aggregate carrying value of approximately $10,338,648,000 (2010: $11,994,697,000) and time deposits of $15,000,000 (2010: $15,000,000) were pledged to banks under fixed charges mainly to secure general banking facilities granted to the Group.

## 30 SUBSIDIARIES

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

| Subsidiary | Place of incorporation/ operation | Nominal value of issued ordinary share capital | Proportion of nominal value of shares held | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Able Talent Investments Limited | British Virgin Islands/ Macau | US$1 | 100.0% | – | Financial investment |
| Asia Turbo Limited | Hong Kong | $1 | – | 100.0% | Property development |
| Atlantic Capital Limited | Hong Kong | $10,000 | 100.0% | – | Investment holding |
| Best Award Investments Limited | British Virgin Islands | US$1 | 100.0% | – | Investment holding |
| Best Power (Asia) Limited | Hong Kong | $2 | – | 100.0% | Property development |
| Bestcare Management Limited | British Virgin Islands | US$1 | – | 100.0% | Investment holding |
| Bond Star Development Limited | Hong Kong | $500,000 | – | 100.0% | Property development |
| Brilliant Idea Investments Limited | British Virgin Islands | US$100 | 100.0% | – | Investment holding |
| Brilliant Way Holdings Limited | British Virgin Islands | US$12,000 | – | 100.0% | Investment holding |
| Charm World Limited | British Virgin Islands | US$1 | 100.0% | – | Investment holding |
| Cinema City (Film Production) Company Limited | Hong Kong | $5,000,000 | – | 85.0% | Film distribution |
| Cinema City Company Limited | Hong Kong | $1,000,000 | – | 85.0% | Film distribution |
| Country House Property Management Limited | Hong Kong | $10,000 | – | 100.0% | Property management and security services |
| Dansend International Limited | British Virgin Islands | US$1 | 100.0% | – | Investment holding |
| Elegant Florist Limited | British Virgin Islands | US$1,000 | 100.0% | – | Investment holding |
| Eversound Investments Limited | Hong Kong | $1,000,000 | – | 100.0% | Property development |
| Fullco Development Limited | Hong Kong | $1 | – | 100.0% | Property development |

## 30 SUBSIDIARIES *(Continued)*

| Subsidiary | Place of incorporation/ operation | Nominal value of issued ordinary share capital | Proportion of nominal value of shares held: Direct | Proportion of nominal value of shares held: Indirect | Principal activities |
|---|---|---|---|---|---|
| Future Star International Limited | British Virgin Islands | US$1 | 100.0% | – | Investment holding |
| Gargantuan Investment Limited | Hong Kong | $2 | 100.0% | – | Financial investment |
| Golden Princess Amusement Company Limited | Hong Kong | $100,000 | 85.0% | – | Film distribution and investment holding |
| Golden Princess Film Production Limited | Hong Kong | $10,000 | – | 85.0% | Film distribution |
| Good Companion Investments Limited | British Virgin Islands | US$1 | 100.0% | – | Investment holding |
| Good Companion Investments (Hong Kong) Limited | Hong Kong | $1 | – | 100.0% | Investment holding |
| High Cheer Investments Limited | British Virgin Islands | US$1 | 100.0% | – | Investment holding |
| High Cheer Investments (Hong Kong) Limited | Hong Kong | $1 | – | 100.0% | Investment holding |
| Ideaplan Investments Limited | British Virgin Islands | US$100 | 80.0% | – | Investment holding |
| Jumbo Power Enterprises Limited | Hong Kong | $2 | – | 100.0% | Property development |
| Jumbo Star Limited | British Virgin Islands | US$1 | 100.0% | – | Investment holding |
| Kowloon Development Finance Limited | Hong Kong | $2,000,000 | 100.0% | – | Financial services |
| Kowloon Development Properties Company Limited | Hong Kong | $1 | 100.0% | – | Project management |
| Lucky City Investments Limited | British Virgin Islands | US$1 | 100.0% | – | Investment holding |
| Lucky City Investments (Hong Kong) Limited | Hong Kong | $1 | – | 100.0% | Investment holding |
| Manor House Holdings Limited | Hong Kong | $264,529,125 | 100.0% | – | Investment holding |

## 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 |
|---|---|---|---|---|---|
| Marble King International Limited | British Virgin Islands | US$2 | 100.0% | – | Investment holding |
| Polytec Asset Holdings Limited *(Listed in Hong Kong, Stock code: 208)* | Cayman Islands/ Hong Kong and Macau | $443,896,784 | – | 73.4% | Property development and investment, oil exploration and production, ice manufacturing and provision of cold storage |
| Polytec Property Good Companion (Shenyang) Limited *(Remark 2)* | Mainland China | US$109,800,000 *(Remark 1)* | – | 100.0% | Property development |
| Polytec Property Lucky City (Shenyang) Limited *(Remark 2)* | Mainland China | $102,100,000 *(Remark 1)* | – | 100.0% | Property development |
| Polytec Property (Wuxi) Limited *(Remark 2)* | Mainland China | $799,500,000 *(Remark 1)* | – | 80.0% | Property development |
| Roe Investment Limited | Hong Kong | $500,000 | 100.0% | – | Investment holding |
| San Iao Lek Development Company Limited | Macau | MOP100,000 | – | 70.0% | Investment holding |
| Spark Team Limited | Hong Kong | $2 | 100.0% | – | Retail |
| To Kwa Wan Properties Limited | Hong Kong | $2 | – | 100.0% | Property investment |
| Top Milestone Developments Limited | British Virgin Islands/ Macau | US$100 | – | 100.0% | Financial investment |
| Triumph Glory Investments Limited | British Virgin Islands | US$1 | 100.0% | – | Investment holding |
| Tyleelord Development & Agency Company Limited | Hong Kong | $100,000 | – | 100.0% | Property investment |
| Un Chau Properties Limited | Hong Kong | $2 | – | 100.0% | Property investment |
| Units Properties Limited | Hong Kong | $2 | – | 100.0% | Property investment |
| Union Way Management Limited | Hong Kong | $2 | – | 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 | | Principal activities |
|---|---|---|---|---|---|
| | | | Direct | Indirect | |
| Wealrise Investments Limited | Hong Kong | $2 | – | 100.0% | Property development and investment |
| Wealth Genesis Limited | Hong Kong | $2 | 100.0% | – | Property development |
| 中山市長江兆業地產開發有限公司 *(Remark 2)* | Mainland China | $80,000,000 *(Remark 1)* | – | 70.0% | Property development |
| 保利達地產(瀋陽)高悦有限公司 *(Remark 2)* | Mainland China | US$59,599,974 *(Remark 1)* | – | 100.0% | Property development |

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

## 31 STAFF RETIREMENT SCHEME

The Group operates a defined contribution staff retirement scheme. Contributions under the scheme are charged to the income statement as incurred. The amount of contributions is based on a specified percentage of the basic salary of the eligible employees. No forfeited contributions in respect of unvested benefits of staff leavers was utilised to reduce the Group's ongoing contributions during the year 2011 and 2010. There were no unutilised forfeited contributions at the balance sheet date of both years. The Group's annual contribution for the year was $600,000 (2010: $605,000).

Contributions to the Mandatory Provident Funds of $3,376,000 (2010: $3,014,000) as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance were charged to the income statement for the year.

Employees of the Group's subsidiaries in the Mainland China are required to participate in defined contribution retirement schemes which are administered and operated by the local municipal government. The Group's subsidiaries contribute funds of $1,521,000 (2010: $895,000) which are calculated on certain percentage of the average employee salary as agreed by the local municipal government to the scheme to fund the retirement benefits of the employees.

## 32 MATERIAL RELATED PARTY TRANSACTIONS

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

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

**(b)** During the year, interest of $42,075,000 (2010: $10,572,000) was paid to Polytec Holdings.

**(c)** As at 31 December 2011, certain assets of a jointly controlled entity were pledged to a bank to secure a banking facility granted to the Group to the extent of $195,000,000 (2010: $195,000,000).

**(d)** As at 31 December 2011, the Group has given guarantees to an insurance company in respect of performance bonds entered into by an associated company to the extent of $10,608,000 (2010: $9,365,000).

**(e)** During the year, the remuneration for key management personnel being short-term employee benefits amounted to $15,441,000 (2010: $14,808,000) as disclosed in notes 5(a) and 5(b). The remuneration of directors and senior management is determined by the Remuneration Committee having regard to the performance and responsibilities of individuals and market trends.

**(f)** Polytec Holdings has granted a credit facility to the Group to the extent of $1,300,000,000 (2010: $1,300,000,000) which will be expired in March 2013. As at 31 December 2011, the facility was utilised to the extent of $680,579,000 (2010: $627,901,000).

## 33 FINANCIAL RISK MANAGEMENT AND FAIR VALUES

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

### (a) Interest rate risk

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

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

At 31 December 2011, 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 $59 million (2010: $22 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 2010.

### (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 2011 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet.

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

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

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

### (c) Liquidity risk

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

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

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

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

**Group**

| | Contractual undiscounted cash flows | | | | | |
|---|---|---|---|---|---|---|
| | 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 2011 | | | | | | |
| Trade and other payables | **1,075,566** | **14,031** | **6,851** | **108,826** | **1,205,274** | **1,205,274** |
| Amount due to non-controlling interests | **–** | **–** | **–** | **200,000** | **200,000** | **200,000** |
| Bank loans | **1,518,082** | **988,419** | **3,623,492** | **–** | **6,129,993** | **5,946,779** |
| Loan from ultimate holding company | **–** | **–** | **–** | **5,097,532** | **5,097,532** | **5,097,532** |
| Amount payable to ultimate holding company | **–** | **–** | **–** | **680,579** | **680,579** | **680,579** |
| Amount due to a jointly controlled entity | **581,200** | **–** | **–** | **–** | **581,200** | **581,200** |
| Other payables | **–** | **–** | **–** | **46,637** | **46,637** | **46,637** |
| | **3,174,848** | **1,002,450** | **3,630,343** | **6,133,574** | **13,941,215** | **13,758,001** |
| At 31 December 2010 | | | | | | |
| Trade and other payables | 722,274 | 571 | 3,497 | 75,601 | 801,943 | 801,943 |
| Bank loans | 3,855,500 | 860,305 | 852,104 | – | 5,567,909 | 5,515,947 |
| Loan from ultimate holding company | – | – | – | 896,569 | 896,569 | 896,569 |
| Amount payable to ultimate holding company | – | – | – | 627,901 | 627,901 | 627,901 |
| Amount due to a jointly controlled entity | 554,448 | – | – | – | 554,448 | 554,448 |
| Other payables | – | – | – | 46,872 | 46,872 | 46,872 |
| | 5,132,222 | 860,876 | 855,601 | 1,646,943 | 8,495,642 | 8,443,680 |

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

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

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

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

**Company**

| | Contractual undiscounted cash flows | | | | | |
|---|---|---|---|---|---|---|
| | 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 2011 | | | | | | |
| Trade and other payables | **46,135** | **–** | **–** | **48,984** | **95,119** | **95,119** |
| Bank loans | **48,397** | **48,397** | **3,482,017** | **–** | **3,578,811** | **3,480,000** |
| Loan from ultimate holding company | **–** | **–** | **–** | **5,097,532** | **5,097,532** | **5,097,532** |
| Loans from subsidiaries | **197,602** | **–** | **–** | **27,705** | **225,307** | **225,307** |
| Amounts due to subsidiaries | **85** | **–** | **–** | **–** | **85** | **85** |
| Amount due to a jointly controlled entity | **581,200** | **–** | **–** | **–** | **581,200** | **581,200** |
| | **873,419** | **48,397** | **3,482,017** | **5,174,221** | **9,578,054** | **9,479,243** |
| At 31 December 2010 | | | | | | |
| Trade and other payables | 43,695 | – | – | 45,507 | 89,202 | 89,202 |
| Bank loans | 2,158,000 | – | – | – | 2,158,000 | 2,158,000 |
| Loan from ultimate holding company | – | – | – | 896,569 | 896,569 | 896,569 |
| Loans from subsidiaries | 250,511 | – | – | 27,772 | 278,283 | 278,283 |
| Amounts due to subsidiaries | 741 | – | – | – | 741 | 741 |
| Amount due to a jointly controlled entity | 554,448 | – | – | – | 554,448 | 554,448 |
| | 3,007,395 | – | – | 969,848 | 3,977,243 | 3,977,243 |

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

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

### (d) Currency risk

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

The Group's primary foreign currency exposures arise from its direct property development and investments in Mainland China. The Group is mainly exposed to the effects of fluctuation in Renminbi.

Where appropriate and cost efficient, the Group seeks to finance these investments by Renminbi borrowings and as future returns from these investments are denominated in Renminbi, exposure to Renminbi currency risk is minimised.

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

### (e) Equity price risk

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

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

At 31 December 2011, it is estimated that an increase/decrease of 5% in market value of the Group's financial investments classified as held for trading investments, with all other variables held constant, result attributable to shareholders of the Company and retained profits would increase/decrease by $4 million (2010: $5 million). The analysis is performed on the same basis for 2010.

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

## 33 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 2011, 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 $467,521,000/$467,493,000 (2010: $472,309,000/$472,314,000). 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 2010.

### (g) Fair values

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

– Level 1 (highest level): fair values measured using quoted prices (unadjusted) in active markets for identical financial instruments

– Level 2: fair values measured using quoted prices in active markets for similar financial instruments, or using valuation techniques in which all significant inputs are directly or indirectly based on observable market data

– Level 3 (lowest level): fair values measured using valuation techniques in which any significant input is not based on observable market data

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

### (g) Fair values *(Continued)*

**2011**

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

2010

| | Group | | | |
|---|---|---|---|---|
| | Level 1 $'000 | Level 2 $'000 | Level 3 $'000 | Total $'000 |
| *Assets* | | | | |
| Available-for-sale investment fund | – | – | 29,346 | 29,346 |
| Trading securities | 104,594 | – | – | 104,594 |
| Interests in property development | – | – | 10,173,404 | 10,173,404 |
| | 104,594 | – | 10,202,750 | 10,307,344 |

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

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

| | Group | |
|---|---|---|
| | **2011 $'000** | 2010 $'000 |
| At 1 January | **10,202,750** | 10,151,776 |
| Gain recognised in other comprehensive income | **16,493** | 58,693 |
| Exchange difference | **–** | 81 |
| Settlement | **–** | (7,800) |
| Distributions | **(8,707)** | – |
| At 31 December | **10,210,536** | 10,202,750 |

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

## 34 PARENT AND ULTIMATE HOLDING COMPANY

At 31 December 2011, the directors consider the parent company and ultimate holding company to be Intellinsight Holdings Limited and Polytec Holdings International Limited, which are both incorporated in the British Virgin Islands. Neither entity produces accounts available for public use.

## 35 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2011

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments and five new standards which are not yet effective for the year ended 31 December 2011 and which have not been adopted in these accounts.

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

# PARTICULARS OF PROPERTIES

31 December 2011

## A. MAJOR INVESTMENT PROPERTIES

| Location | Usage | Category of Lease | Approximate Gross Floor Area (sq m) | Group's Interest (%) |
|---|---|---|---|---|
| **Hong Kong** | | | | |
| Pioneer Centre<br>750 Nathan Road<br>Mongkok | Commercial | Long lease | 44,926 sq m and 124 Carparking Spaces | 100.0 |
| 67 Shop Units on<br>1st Floor and 2nd Floor<br>New Mandarin Plaza<br>14 Science Museum Road<br>Tsim Sha Tsui | Commercial | Long lease | 7,463 | 100.0 |
| 20th Floor of<br>Argyle Centre Phase 1<br>688 Nathan Road and<br>65 Argyle Street<br>Mongkok | Commercial | Medium-term lease | 1,465 | 100.0 |
| 2nd to 23rd Floor and<br>the Roof of The Elgin<br>51 Elgin Street<br>Central | Residential | Long lease | 1,327 | 100.0 |
| The Whole Shop Spaces<br>on Basement<br>Peninsula Centre<br>67 Mody Road<br>Tsim Sha Tsui | Commercial | Long lease | 1,767 sq m and 10 Carparking Spaces | 100.0 |
| 36 Shop Units on Basement,<br>Ground Floor,<br>Mezzanine Floor and 1st Floor<br>Sino Centre<br>582-592 Nathan Road<br>Mongkok | Commercial | Medium-term lease | 692 | 100.0 |

## B. MAJOR PROPERTIES UNDER DEVELOPMENT

| Location | Usage | Approximate Total Site Area (sq m) | Approximate Gross Floor Area (sq m) | Status | Expected Date of Completion | Group's Interest (%) |
|---|---|---|---|---|---|---|
| **Hong Kong** | | | | | | |
| 150-162 Belcher's Street and 1-9 Kwan Yick Street Kennedy Town | Residential and Commercial | 1,318 | 13,200 | Superstructural work in progress | 2014 | 100.0 |
| 35 Clear Water Bay Road Ngau Chi Wan | Residential and Commercial | 19,335 | 196,400 | Land exchange under process | *(Note 1)* | 100.0 |
| 10 Yim Po Fong Street Mongkok | Stadium, Youth Centre, Residential and Commercial | 2,400 | 24,800 *(Note 2)* | Superstructural work in progress | 2013 | Joint Venture with Urban Renewal Authority and Hong Kong Playground Association |
| *Gardenia* 468-474 Sai Yeung Choi Street North | Residential | 1,114 | 8,400 | Superstructural work in progress | 2012 | 100.0 |
| **Mainland China** | | | | | | |
| *The Gardenia (翠堤灣)* West of Daba Road Shenhe District Shenyang | Residential and Commercial | 1,100,000 | 2,000,000 | Superstructural work in progress (first phase) | By phases from 2012 onwards | 100.0 |
| *Galaxy Heights (星際豪庭)* 8 Xueyuan Road Shiqi District Zhongshan | Residential and Commercial | 18,334 | 129,000 | Superstructural work in progress | 2012/2013 | 70.0 |
| *Le Cove City (江灣城)* 6 Hun Nan Er Road Hun Nan Xin District Shenyang | Residential and Commercial | 165,303 | 712,000 | Superstructural work in progress (second phase) | By phases from 2011 onwards | 100.0 |
| *Le Cove City (江灣城)* Tongyun Road and Gongyun Road Chong An District Wuxi | Residential and Commercial | 68,833 | 404,400 *(Note 3)* | Superstructural work in progress (first phase) | By phases from 2013 onwards | 80.0 |

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

## C. MAJOR LAND HELD FOR FUTURE DEVELOPMENT

| Location | Usage | Approximate Total Site Area (sq m) | Approximate Gross Floor Area (sq m) | Group's Interest (%) |
|---|---|---|---|---|
| **Hong Kong** | | | | |
| 57–65A Pok Fu Lam Road<br>Sai Ying Pun | Residential | 727 | 5,800 | 100.0 |
| **Macau** | | | | |
| *Pearl Horizon (海一居)*<br>Lote P<br>The Orient Pearl District<br>Novos Aterros da Areia Preta<br>*(Note)* | Residential and Commercial | 68,000 | 699,700 | 58.8 |
| Lotes T+T1<br>The Orient Pearl District<br>Novos Aterros da Areia Preta<br>*(Note)* | Residential and Commercial | 17,900 | 195,600 | 58.8 |

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

## D. INVESTMENT PROPERTIES OF JOINTLY CONTROLLED ENTITIES

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

## E. PROPERTIES UNDER DEVELOPMENT OF JOINTLY CONTROLLED ENTITIES

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

## F. LAND HELD FOR FUTURE DEVELOPMENT OF ASSOCIATED COMPANY

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

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

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