九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

Stock Code 股份代號: 34

Annual Report 2013 年報

Corporate Development
Competitiveness Enhancement

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大陸市場之地產業務，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。集團目前在區內三大市場作出卓越部署，其應佔土地儲備超逾五百萬平方米，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)*
Lai Ka Fai
Or Pui Kwan

Non-executive Directors
Keith Alan Holman *(Deputy Chairman)*
Ng Chi Man
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)*
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

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

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

Corporate and Shareholders' Information

Company Secretary
Lee Kuen Chiu

Independent Auditors
KPMG
Certified Public Accountants

Authorised Representatives
Lai Ka Fai
Lee Kuen Chiu

Legal Advisers
Sidley Austin

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

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

Corporate and Shareholders' Information

(Continued)

Stock Code

The Stock Exchange of Hong Kong Limited: 34

Principal Bankers

ANZ Bank
Bank of China
Bank of Communications
Bank of East Asia
China Citic Bank
China Construction Bank
Chiyu Banking Corporation
Chong Hing Bank
Dah Sing Bank
Hang Seng Bank
Standard Chartered Bank

Financial Calendar for 2013

Interim results announcement	28 August 2013
Interim dividend paid	11 October 2013
Annual results announcement	26 March 2014
Annual general meeting	11 June 2014
Ex-dividend date for final dividend	19 June 2014
Closure of register of members	23 June 2014 – 24 June 2014 (both days inclusive)
Final dividend payable	3 July 2014

Highlights

- The Group's net profit attributable to shareholders of the Company for 2013 amounted to HK$1,294 million, a decrease of 31% over 2012.

- Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2013 amounted to HK$388 million, a decline of 60% over 2012. The underlying net earnings per share were HK$0.34 for 2013 compared to HK$0.84 in 2012.

- Full year dividend per share for 2013 amounts to HK$0.57, with a final dividend per share of HK$0.36.

- In 2013, the Group achieved substantial presales exceeding HK$13 billion from its various development projects in the Greater China region, with a substantial portion from two development projects in Macau.

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:

- MacPherson Place
- Cadogan
- Upper West
- Aberdeen Project
- Pok Fu Lam Road Project
- Hung Hom Project
- Clear Water Bay Road Project

Development Landbank:
285,000 sq m

Property Investment

Flagship investment property:

- Pioneer Centre

Investment Landbank:
51,000 sq m

Property Management

Properties under management:
1,303,000 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)
- Jun Tai Garden (Dongguan) 君珆花園(東莞)
- The Lake (Foshan) 山語湖(佛山)
- Jiang Wan Nan An Hua Yuan (Huizhou) 江灣南岸花園(惠州)
- Hedong Project (Tianjin) 河東項目(天津)

Development Landbank:
4,497,000 sq m

POLYTEC ASSET HOLDINGS LIMITED

Stock Code: 208
73.4%

MACAU PROPERTY

Property Development

Major development projects:

- Pearl Horizon
- 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

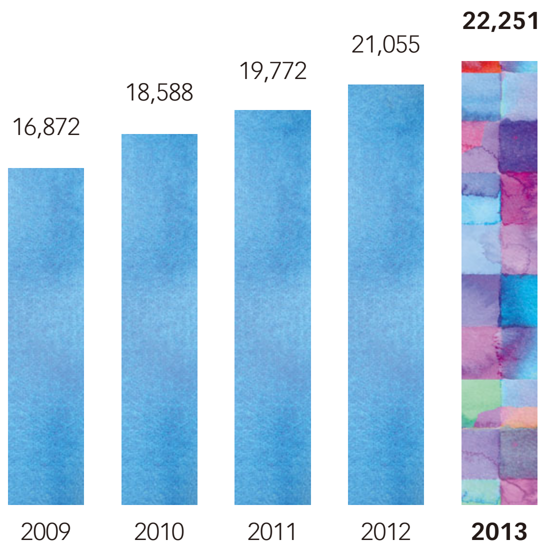
OTHERS

Ice & Cold Storage

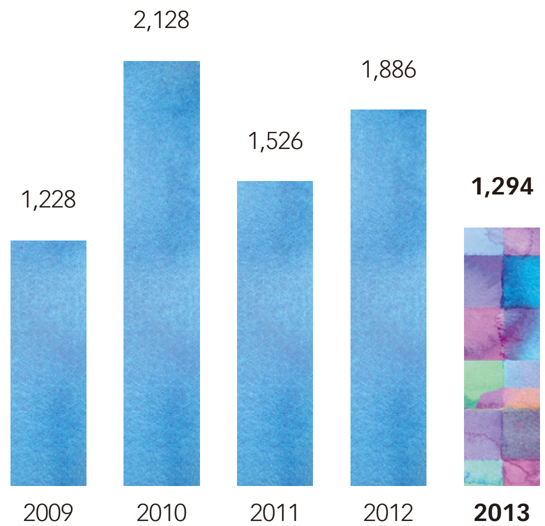
The Hong Kong Ice and Cold Storage Co. Ltd. is one of the largest ice making distributors in Hong Kong

Five-Year Financial Summary

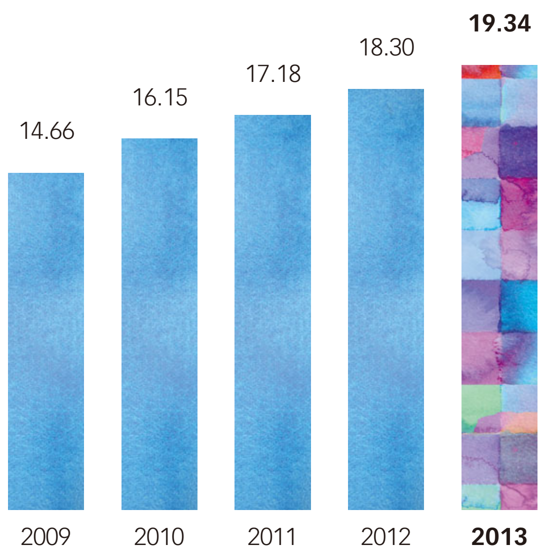
Shareholders' Equity
(HK$ million)



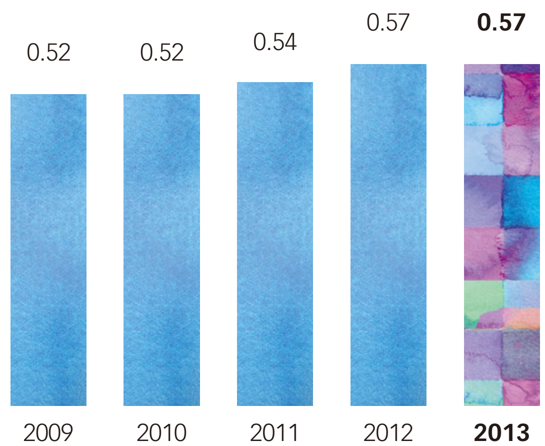
Profit Attributable to Shareholders
(HK$ million)



Net Asset Value per Share
(HK$)



Dividends per Share
(HK$)



Key Consolidated Income Statement Data

(HK$ million)	2009	2010	2011	2012	**2013**
Turnover	1,985	1,269	1,755	2,556	**1,417**
Profit from Operations	1,550	2,072	1,499	1,906	**1,065**
Profit Attributable To Shareholders	1,228	2,128	1,526	1,886	**1,294**
Earnings per Share *(HK$)*	1.07	1.85	1.33	1.64	**1.12**
Underlying Profit Attributable to					
Shareholders *(Note 2)*	1,160	691	807	968	**388**
Underlying Earnings per Share *(HK$) (Note 2)*	1.01	0.60	0.70	0.84	**0.34**
Dividends	598	598	621	656	**656**
Dividends per Share *(HK$)*	0.52	0.52	0.54	0.57	**0.57**

Key Consolidated Balance Sheet Data

(HK$ million)	2009	2010	2011	2012	**2013**
Non-Current Assets	19,156	22,311	24,706	26,149	**28,764**
Current Assets	8,157	8,686	13,343	15,128	**16,396**
Total Assets	27,313	30,997	38,049	41,277	**45,160**
Current Liabilities	(5,220)	(5,982)	(4,064)	(5,453)	**(5,613)**
Non-Current Liabilities	(2,264)	(3,535)	(11,169)	(11,683)	**(14,113)**
Net Assets	19,829	21,480	22,816	24,141	**25,434**
Share Capital	115	115	115	115	**115**
Reserves	16,757	18,473	19,657	20,940	**22,136**
Shareholders' Equity	16,872	18,588	19,772	21,055	**22,251**
Non-controlling Interests	2,957	2,892	3,044	3,086	**3,183**
Total Equity	19,829	21,480	22,816	24,141	**25,434**
Net Asset Value per Share *(HK$)*	14.66	16.15	17.18	18.30	**19.34**
Gearing Ratio *(%) (Note 3)*	30.97	34.00	55.44	56.11	**62.50**

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 excludes revaluation gain of investment properties.

3 Gearing ratio represents bank borrowings, loan from ultimate holding company and net of cash and cash equivalents over equity attributable to shareholders of the Company.

Chairman's Statement

Group Results and Dividends

For the year ended 31 December 2013, net profit attributable to shareholders of the Company amounted to HK$1,294 million compared to HK$1,886 million in 2012, a decrease of 31%. Excluding revaluation gains from its investment properties, the Group's underlying net profit for 2013 amounted to HK$388 million compared to HK$968 million in 2012, a decline of 60%. The underlying net earnings per share for 2013 were HK$0.34 compared to HK$0.84 in 2012.

The Board of Directors has recommended the payment of a final dividend of HK$0.36 per share (2012: HK$0.36) for the year ended 31 December 2013. Together with the 2013 interim dividend of HK$0.21 per share (2012: HK$0.21), the full year dividend for 2013 amounts to HK$0.57 per share (2012: HK$0.57).

The final dividend will be payable on Thursday, 3 July 2014 to shareholders whose names appear on the Register of Members of the Company on Tuesday, 24 June 2014, subject to the approval of shareholders at the 2014 Annual General Meeting.

Business Review

In 2013, overall sentiment and transaction volumes in both property markets in Hong Kong and Macau were further adversely affected by the Government's new property ordinances or laws. In Hong Kong, with the imposition of more restrictive measures, including additional stamp duties for property transactions in late February 2013 together with the new ordinance on the first-hand sales of residential properties becoming effective in late April 2013, overall transaction volumes in the primary and secondary residential markets tumbled. In Macau, with the new laws on property sale activities becoming effective in June 2013,

MacPherson Place (Hong Kong)

the overall transaction volumes in the residential market plummeted during the second half of the year, with an average decrease of approximately 30% for the full year of 2013 based on the official statistics. Nevertheless, the Group achieved substantial presales well exceeding HK$10 billion from its two development projects in Macau before the new laws became effective. In Mainland China, overall sentiment in the housing market was favourable, with both residential transaction volumes and prices rising in some major cities during 2013.

Development Property Sales

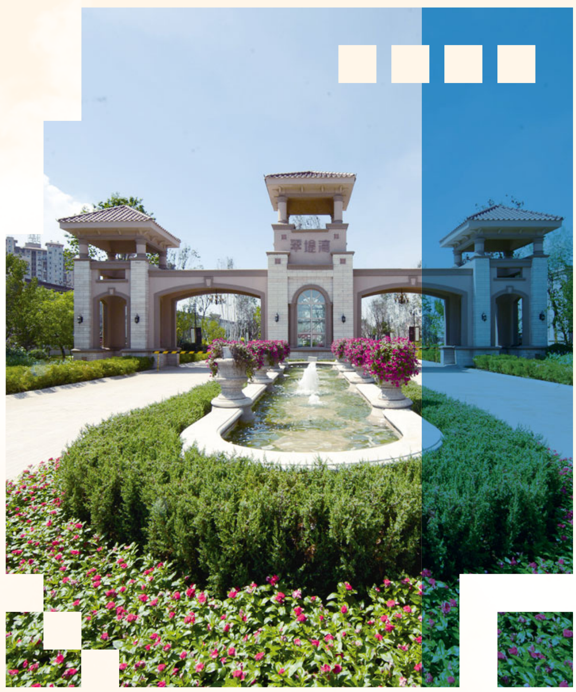
In Hong Kong, the Group launched the presale of Upper West, its wholly-owned development project in West Kowloon in early February 2013, with a majority of residential units having been sold. Together with presold units at Cadogan, its 100%-owned project in Kennedy Town, total presales for these two projects exceeded HK$1 billion for 2013.

In Mainland China, during 2013, the Group launched the presale of the residential units of the second phase of The Gardenia (Shenyang), its 100%-owned residential and commercial project and the presale of the residential units at Jun Tai Garden, its 40%-owned project in Dongguan, and both of the projects have so far been well received by the market. Total presales/sales for various projects, including the joint venture project in Foshan, exceeded HK$2.3 billion for the year.

In Macau, the combined presales of Pearl Horizon and Lotes T + T1, which are the Group's two luxury residential and commercial development projects in the Orient Pearl District held through its 73.4%-owned listed subsidiary, Polytec Asset Holdings Limited ("Polytec Asset"), exceeded HK$10 billion for 2013.

Artist's Impression

Jun Tai Garden (Dongguan)



The Gardenia (Shenyang)

Property Development

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

In August 2013, the Group acquired a 100% interest in a redevelopment site with an estimated gross floor area ("GFA") of approximately 6,000 sq m located in Aberdeen, Hong Kong and a 60% interest in a commercial and residential development project with GFA of approximately 519,900 sq m in Huizhou, Mainland China from its ultimate holding company.

During 2013, the Group successfully completed the acquisition of a 100% ownership of two redevelopment sites in Hung Hom and Pok Fu Lam Road, Hong Kong, with GFA for redevelopment of approximately 33,900 sq m and approximately 11,100 sq m respectively.

Property Investment

The Group disposed of all remaining retail units at New Mandarin Plaza in Tsim Sha Tsui, Hong Kong with total recognised gains amounting to HK$232 million in 2013.

The Group's gross rental income from its property investment portfolio for 2013 rose to HK$312 million, an increase of 3.8% over 2012. The relatively slower rate of growth in rental income for 2013 was mainly attributable to the disposal of the above non-core investment properties. Gross rental income from Pioneer Centre, the Group's flagship and core investment property in Hong Kong, increased 8.3% year-on-year to HK$270 million in 2013 and both retail spaces and offices were nearly fully let as of 31 December 2013.

Oil Business

For the year ended 31 December 2013, the oil segment recorded a loss of HK$347 million, including an impairment provision of HK$296 million for the segment assets. The loss was mainly due to the temporary suspension of oil production throughout the whole year of 2013, pending the approval of a gas flaring permit for the Group's South Alibek Oilfield in Kazakhstan from the Government. In view of the impact of an unexpectedly prolonged period of suspension of oil production which resulted from the gas flaring issue, the Group has made an impairment provision for its oil segment assets based on a more prudent assessment of its oil business in Kazakhstan.

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

Business Strategy

The Group has been pursuing a three-tier development strategy with exposure in the three major property markets in the Greater China region, Hong Kong, Macau and Mainland China. Over the past ten years, it has built a sizeable and quality development landbank across these three markets, at a relatively competitive cost, with the GFA attributable to the Group exceeding 5 million sq m as of end-December 2013. We strive to expedite the development of our landbank, aiming to achieve sustainable earnings growth in the long term.

Prospects

Major countries have implemented exceptionally easy monetary policies in the past few years and have been keeping interest rates at low levels for a long period of time. As a result, asset prices in the Greater China region have been accelerating. Over the last two years, the Group has made the most of this favourable market environment and achieved substantial presales from various projects in the region. However, going into 2014, the Fed has started to tighten its monetary policy and interest rates will likely rise gradually in Hong Kong and Macau. This change, together with the additional regulatory measures in the property markets already implemented in the Greater China region, will add more challenges to the Group's core property business in 2014.

The Group posted unsatisfactory results for 2013, with a profit warning being issued on 2 January 2014, due to the following two major reasons.

First, the management made an impairment provision of HK$296 million for its oil assets in Kazakhstan, which business is through its 73.4%-owned listed subsidiary, Polytec Asset, based on a more prudent assessment noting it had taken a longer period of time than expected to obtain the gas flaring permit and hence to resume its oil production. The management has been taking all possible steps to obtain the gas flaring permit for the oilfield aiming to resume oil production as soon as possible. However, the temporary disruption in oil production will further affect the results of this segment in 2014.

Second, while the Group obtained the occupation permit for MacPherson Residence, its joint venture development project with Urban Renewal Authority and Hong Kong Playground Association, in December 2012, further requirements from other relevant departments need to be satisfied before the Certificate of Compliance is granted. Consequently it affected the schedule of sales activities and hence profit recognition for this project in 2013. The Group finally fulfilled all necessary requirements at end-January 2014.

In Hong Kong, the Group will start the sales campaign for MacPherson Residence in the second quarter of this year. The construction work for Cadogan, its luxury residential and commercial development project in Kennedy Town, is expected to be completed in the middle of this year and it is expected to contribute to the Group's results for 2014. In addition, the Group is planning to launch the presale of another development project in Aberdeen in the second half of 2014.

In Mainland China, the presale of residential units of the third phase of Le Cove City (Shenyang) and the second phase of The Gardenia (Shenyang) has been encouraging and the Group plans to launch the presale of other phases of these two developments in the coming years. In Zhongshan, the construction work for Galaxy Heights has been almost completed and its property units will be handed over to purchasers shortly. In Dongguan, the presale of residential units of Jun Tai Garden was launched in the middle of 2013 and it has been well received by the market. The presale of the Group's new development project in Huizhou is expected to be launched in the fourth quarter of this year.

The Group is optimistic about the prospects for the Macau economy as a number of existing mega infrastructure investment projects and tourism-related development projects will continue to support the economy growing at a sustainable and relatively fast pace in the next few years. Over the past two years, the Group has achieved substantial presales exceeding HK$10 billion each year for its two mega residential and commercial development projects in Macau, namely Pearl Horizon and Lotes T + T1. However, the presales programmes for the two projects have been put on hold since the new laws on property sales activities became effective in June 2013. The Group is expected to re-launch the presale of the two projects after two years of construction when all relevant requirements for presale can possibly be fulfilled.

Looking ahead, the Group will focus on corporate development and enhance its competitiveness and therefore its capability of developing quality property projects, aiming to better cope with possible challenges in the markets. The management will closely monitor developments in the regional property markets and will continue to seek for good potential development opportunities but with a cautious stance.

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

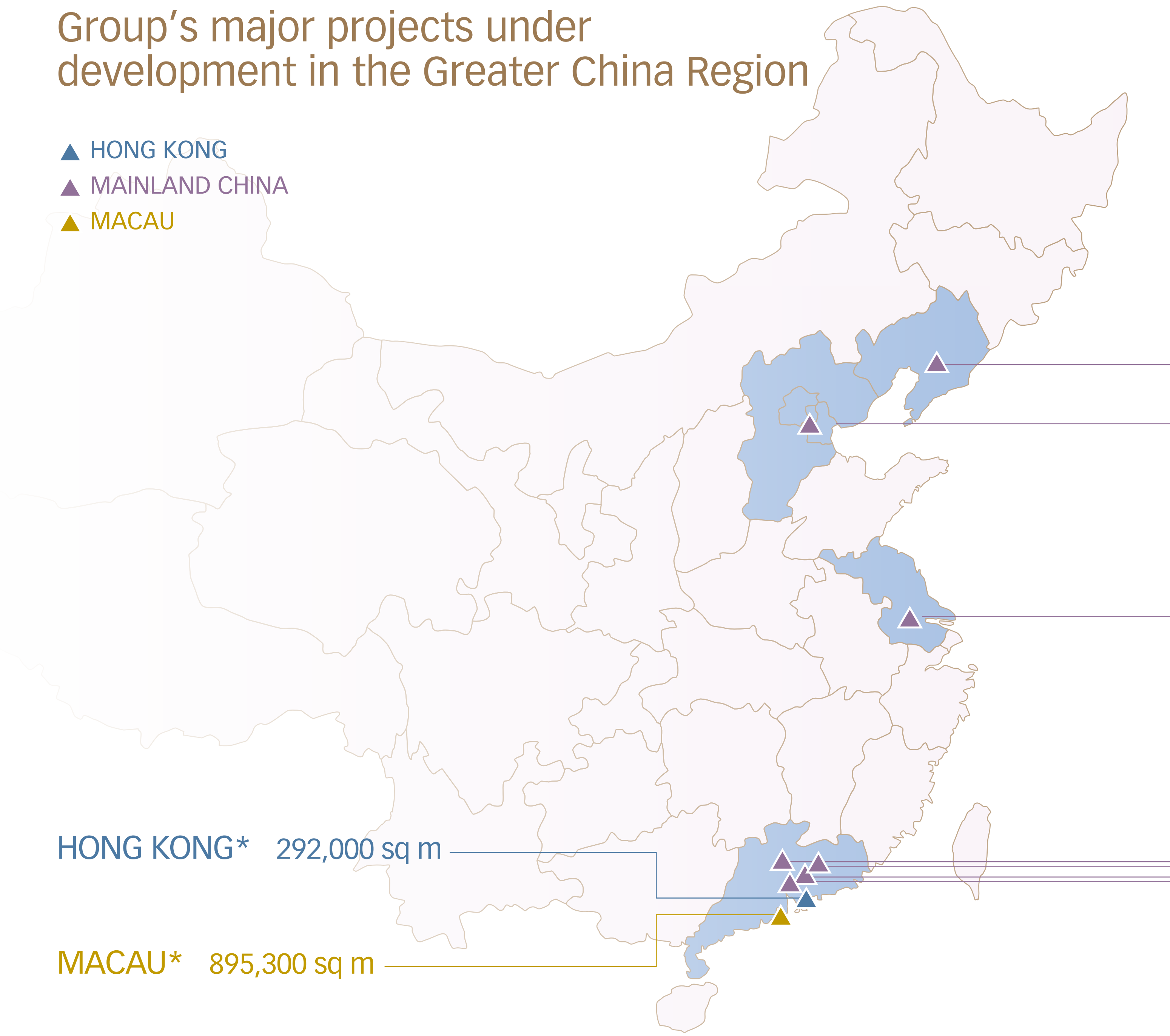
Or Wai Sheun
Chairman

Hong Kong, 26 March 2014

Review of Operations

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

▲ HONG KONG
▲ MAINLAND CHINA
▲ MACAU



HONG KONG* 292,000 sq m

MACAU* 895,300 sq m

* representing 100% project coverage in total Gross Floor Area

MAINLAND CHINA* 6,295,000 sq m

Shenyang 2,712,000 sq m

Tianjin 850,000 sq m

Wuxi 404,400 sq m

Foshan 1,600,000 sq m

Dongguan 79,700 sq m

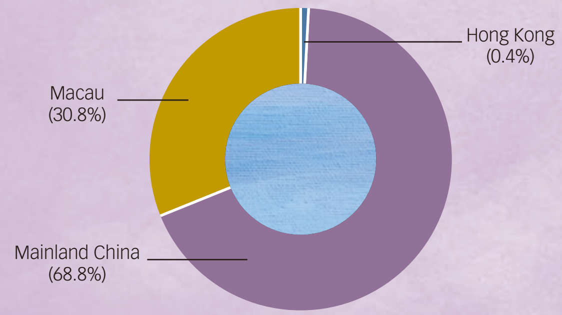
Zhongshan 129,000 sq m

Huizhou 519,900 sq m

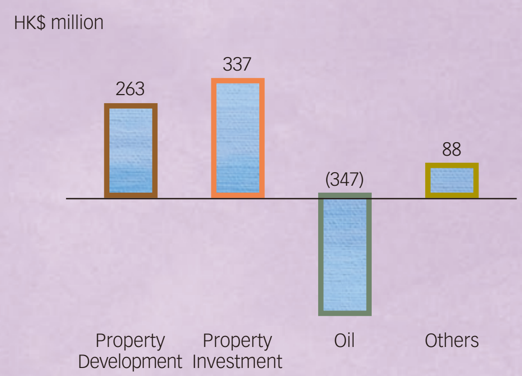
Key Operating Results for 2013

Total operating profit in the property development segment amounted to HK$263 million, which was mainly generated from total sales recognised from four development projects in Mainland China, Macau and Hong Kong.

Operating Profit – Property Development Geographic Distribution for 2013



Operating Profit/(Loss) by Segment for 2013



Property Development

As of 31 December 2013, the Group's landbank for development exceeded 5 million sq m of attributable gross floor area. The Group's major property projects under planning and development are set out as follows:

Hong Kong

MacPherson Place

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

Location
38 Nelson Street, Mongkok, Kowloon, Hong Kong

Usage
Stadium, Youth Centre, Residential and Commercial

Group's Interest
Joint venture with Urban Renewal Authority and Hong Kong Playground Association

Approx. Gross Floor Area
24,800 sq m

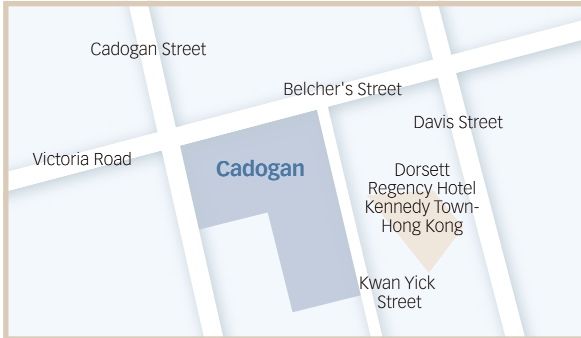
Status
Obtained Certificate of Compliance in January 2014

Expected Date of Completion
Completed


MacPherson Residence

Cadogan

This site is located at 37A Cadogan Street, which is close to a proposed Kennedy Town MTR station exit. This luxury residential and commercial project is 100%-owned by the Group, with a gross floor area of approximately 13,200 sq m.



Location
37A Cadogan Street,
Kennedy Town, Hong Kong

Usage
Residential and Commercial

Group's Interest
100%

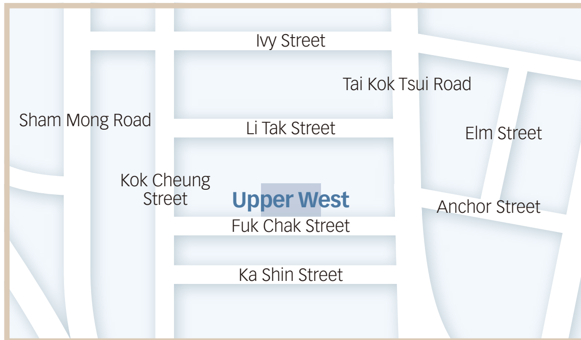
Approx. Gross Floor Area
13,200 sq m

Status
Fitting-out work in progress

Expected Date of Completion
2014

Upper West

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



Artist's Impression

Artist's Impression

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

Usage
Residential and Commercial

Group's Interest
100%

Approx. Gross Floor Area
6,600 sq m

Status
Superstructural work in progress

Expected Date of Completion
2015/2016

Aberdeen Project

This site is located at 1-11 Tang Fung Street in Aberdeen. This residential project is wholly-owned by the Group with a site area of approximately 738 sq m. The site is expected to be redeveloped into a 29-storey residential building with approximately 150 residential units with a gross floor area of approximately 6,000 sq m.

Location
1–11 Tang Fung Street, Aberdeen, Hong Kong

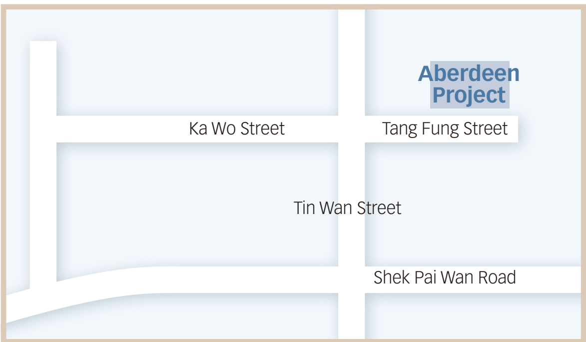
Usage
Residential

Group's Interest
100%

Approx. Gross Floor Area
6,000 sq m

Status
Foundation work and site formation in progress

Expected Date of Completion
2016/2017



Pok Fu Lam Road Project

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

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

Usage
Residential and Commercial

Group's Interest
100%

Approx. Gross Floor Area
11,100 sq m

Status
Demolition work completed

Expected Date of Completion
2018

Hung Hom Project

This site is located at Wan On Street in Hung Hom. This residential and commercial redevelopment site consists of fourteen aging buildings each aged over fifty years, covering a total site area of approximately 4,000 sq m and a gross floor area for redevelopment of 33,900 sq m.

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

Usage
Residential and Commercial

Group's Interest
100%

Approx. Gross Floor Area
33,900 sq m

Status
Acquisition of all the remaining units achieved in December 2013

Expected Date of Completion
2017/2018

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. The General Building Plan has been approved for a residential and commercial development with a gross floor area of approximately 196,400 sq m, including a shopping arcade, club house and parking facilities.

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

Usage
Residential and Commercial

Group's Interest
100%

Approx. Gross Floor Area
196,400 sq m

Status
Part of foundation work completed

Expected Date of Completion
To be determined

Mainland China

Le Cove City (Shenyang)
江灣城（瀋陽）

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

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
Construction work for the third phase in progress

Expected Date of Completion
By phases from 2011 onwards

The Gardenia (Shenyang)
翠堤灣(瀋陽)

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

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
Construction work for the second phase in progress

Expected Date of Completion
First phase 2014

Le Cove City (Wuxi)
江灣城(無錫)

This site is located in the Chong An District, a central business district of Wuxi, with a total site area amounting to approximately 68,800 sq m. The Group has an 80% interest 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 an additional underground gross floor area of approximately 15,000 sq m for the commercial portion and over 2,300 carparking spaces.

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

Usage
Residential and Commercial

Group's Interest
80%

Approx. Gross Floor Area
404,400 sq m

Status
Fitting-out work for the first phase in progress

Expected Date of Completion
First phase 2014

Artist's Impression

Galaxy Heights (Zhongshan)
星際豪庭（中山）

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

Location
8 Xueyuan Road,
Shiqi District,
Zhongshan, China

Usage
Residential and Commercial

Group's Interest
70%

Approx. Gross Floor Area
129,000 sq m

Status
Fitting-out work in progress

Expected Date of Completion
2014

Jun Tai Garden (Dongguan)
君珆花園（東莞）

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

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

Usage
Residential and Commercial

Group's Interest
40%

Approx. Gross Floor Area
79,700 sq m

Status
Fitting-out work in progress

Expected Date of Completion
2014

Artist's Impression

The Lake (Foshan)
山語湖(佛山)

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

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

Usage
Residential and Commercial

Group's Interest
50%

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

Status
Construction work in progress

Expected Date of Completion
By phases from 2009 onwards

Jiang Wan Nan An Hua Yuan (Huizhou)
江灣南岸花園(惠州)

This site is located at Dongjiang North Shore Wangjiang Lot of the Huicheng District in Huizhou and has a permanent natural river view at its south east side, with provincial park facilities and convenient traffic to the central business district of Dongjiang North Shore in Huizhou. The Group has a 60% interest in this residential and commercial development project. The site is planned to be developed by three phases into the development which will be a luxury residential and commercial complex with a gross floor area of approximately 519,900 sq m.

Location
Dongjiang North Shore
Wangjiang Lot,
Huicheng District,
Huizhou, China

Usage
Residential and Commercial

Group's Interest
60%

Approx. Gross Floor Area
519,900 sq m

Status
Foundation work in progress

Expected Date of Completion
First phase 2015/2016


Artist's Impression


Artist's Impression


Artist's Impression

Hedong Project (Tianjin)
河東項目（天津）

This site is located in a new commercial and business area of the Hedong District, Tianjin. This residential and commercial development project is 49%-owned by the Group, and has a gross floor area of approximately 850,000 sq m. There is an additional underground gross floor area of approximately 35,000 sq m for the commercial portion. 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.

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
850,000 sq m

Status
Construction work for the first phase in progress

Expected Date of Completion
First phase 2015

Macau

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

Pearl Horizon

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

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
Foundation work commenced

Expected Date of Completion
2017/2018

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..

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

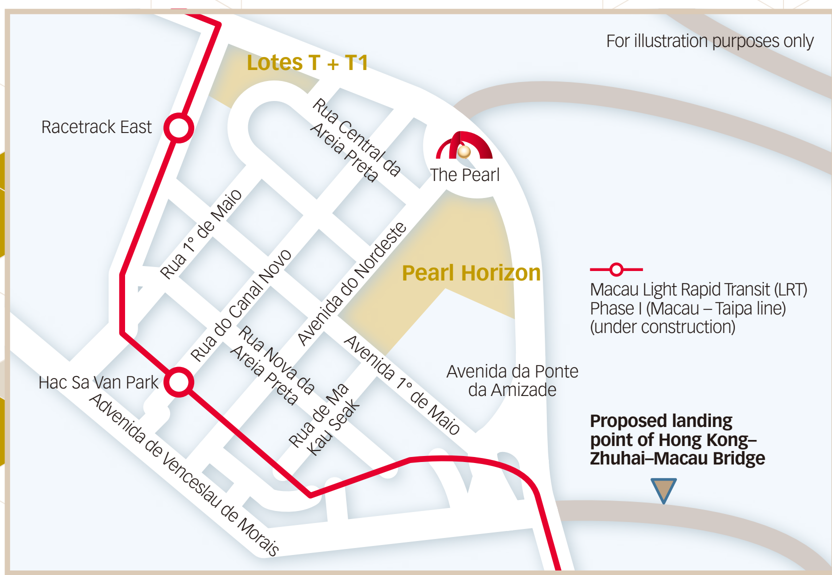
Usage
Residential and Commercial

Group's Interest
58.8%

Approx. Gross Floor Area
195,600 sq m

Status
Foundation work commenced

Expected Date of Completion
2017/2018



Property Investment

The Group's gross rental income from its property investment portfolio for 2013 rose to HK$312 million, an increase of 3.8% over 2012. Gross rental income from Pioneer Centre, the Group's flagship and core investment property in Hong Kong, increased 8.3% year-on-year to HK$270 million in 2013 and both retail spaces and offices were nearly fully let as of 31 December 2013.

The Group disposed of all remaining retails units at New Mandarin Plaza in Tsim Sha Tsui, Hong Kong with total recognised gains amounting to HK$232 million in 2013.

Property Management

The Group offers a full range of high quality property management services to our clients. Our client base includes not only self-developed luxury residential buildings, serviced apartments and medium scale commercial buildings, but also public housing estates. As at 31 December 2013, the total area of properties under management was maintained at approximately 1,303,000 sq m (2012: 1,283,000 sq m).

Human Resources

As of 31 December 2013, the Group had a total of 803 employees (2012: 796 employees), of which 453 were Hong Kong staff, 132 were PRC staff and 218 were staff in other regions, with the increase in headcount mainly due to matching business growth. During the year, total staff costs increased to HK$205 million (2012: HK$203 million) due to salary revisions in July 2013 and an increase in headcount. Salary levels of employees are competitive. Discretionary bonuses are granted based on performance of the Group as well as the performance of individuals to attract, motivate and retain talented people.

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

In addition, the Group established a recreation club and held an annual dinner and Christmas party for employees during the year to promote team spirit and loyalty and to promote communication between departments.

Pioneer Centre (Hong Kong)


The Macau Square (Macau)

Financial Review

Financial resources and bank borrowings

As at 31 December 2013, the Group had total bank borrowings of HK$5,196 million with HK$1,334 million repayable within one year and HK$3,862 million repayable beyond one year, represented a drop of HK$674 million comparing with 2012 year end. The Group's net borrowings position, after taking into account cash and cash equivalents of HK$624 million, was HK$4,572 million as at 31 December 2013, a drop of HK$733 million as compared with HK$5,305 million as at 31 December 2012. Loan from ultimate holding company amounted to HK$9,328 million as at 31 December 2013, which showed an increase of HK$2,819 million comparing with 2012 year end.

The Group's gearing ratio (calculated on the basis of net bank borrowings and loan from the ultimate holding company over equity attributable to shareholders of the Company) was 62.5% as at 31 December 2013 as compared with 56.1% at year end 2012.

During the year, substantial cash inflow mainly from sales/presales from various development projects in Hong Kong and Mainland China generated approximately HK$1,281 million and HK$847 million cash inflow to the Group respectively. Also, further disposal of certain non-core investment properties in Hong Kong contributed a HK$550 million cash inflow during the year.

The Group continued to actively engage in the development projects in Hong Kong and Mainland China and expended a total of HK$2,067 million of construction cost during the year. The Group has unified the title for certain redevelopment projects in Hong Kong with additional costs of HK$649 million and hence further expanded the landbank of the Group.

In 2013, the Group has acquired two subsidiaries from the ultimate holding company at a total consideration of approximately HK$1,649 million which in turns the Group has a 60% interest in a Huizhou development project in Mainland China and owns 100% interest of a redevelopment project located in Aberdeen, Hong Kong. These transactions further expanded the landbank and provided more investment opportunities for the Group.

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

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

In respect of the Group's oil business in Kazakhstan, the Group has been exposed to the exchange fluctuations in Tenge ("KZT"), the local currency of Kazakhstan, due to the majority of operating expenses and capital expenditure are denominated in the KZT, while a significant portion of its revenue is denominated in USD. The Group is closely monitoring the fluctuation in the KZT and may use appropriate currency hedging to minimise the impact of the currency movement on its financial position when necessary.

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 2013, the Group had commitments in connection with the Group's fixed assets amounted to HK$68 million.

Pledge of assets

As at the balance sheet date, properties having a value of HK$11,261 million and bank deposits of HK$33 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 joint venture in Mainland China. Guarantees have been provided to the joint venture amounting to HK$407 million, representing a 50% proportional guarantee in respect of HK$814 million term loan facilities. The facilities were fully utilised as at 31 December 2013.

Profile of Directors

Board of Directors

Executive Directors

OR Wai Sheun, aged 62, is the *Chairman* of the Company. He has been an Executive Director since January 2002 and is responsible for the development of corporate strategies, corporate planning and general management of the Company. Mr Or is also the chairman of Polytec Asset Holdings Limited, a separately listed subsidiary of the Company. He is the chairman of both Polytec Holdings International Limited and Intellinsight Holdings Limited, all being the substantial shareholders of the Company. Mr Or has over 30 years of experience in property development, industrial and financial investment business in Hong Kong, Macau and Mainland China. He is the husband of Ms Ng Chi Man and the father of Mr Or Pui Kwan.

LAI Ka Fai, aged 49, 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 25 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 35, 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 69, is the *Deputy Chairman* of the Company. He has been a Non-executive Director since January 2002. He is a founding partner of the Lantern Group which invests in United Kingdom property and shares. Prior to his resignation with effect from 31 December 2012, he has also acted as a director of Warner Estates Holdings PLC, a company listed on the London Stock Exchange. Mr Holman has an aggregate of over 40 years of experience in corporate finance, investment banking and property investment. He graduated from Oxford University and has a professional qualification as a solicitor.

NG Chi Man, aged 61, has been an *Executive Director* of the Company since January 2002 and redesigned as a *Non-Executive Director* of the Company with effect from 1 April 2013. Ms Ng 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.

YEUNG Kwok Kwong, aged 55, 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 30 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 64, has been an *Independent Non-executive Director* of the Company since January 2002. Mr Li is the chairman of IAM Holdings (Hong Kong) Limited (formerly known as MCL Partners Limited), a Hong Kong based investment firm, and has over 40 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 64, 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 40 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 65, has been an *Independent Non-executive Director* of the Company since January 2002. He is a director of Pacific Eagle Asset Management Limited. Prior to his retirement with effect from the conclusion of the annual general meeting of Sateri Holdings Limited ("Sateri Holdings", a company listed on the Stock Exchange of Hong Kong) on 21 May 2013, he has acted as a non-executive director of Sateri Holdings as well. He is also an independent non-executive director of both China Everbright Limited and Hop Hing Group Holdings Limited (both are listed on the Stock Exchange of Hong Kong). He was a non-executive director of Hong Kong Exchanges and Clearing Limited from 2000 to 2003 and was the chief executive officer of HSBC Broking Services (Asia) Limited from 1982 to 2001. Mr Seto was a council member of The Stock Exchange of Hong Kong Limited from 1994 to 2000 and was the first vice chairman from 1997 to 2000. Mr Seto holds a Master of Business Administration degree from New York University and has over 40 years of experience in the securities and futures industry.

David John SHAW, aged 67, has been an *Independent Non-executive Director* of the Company since June 2007. Mr Shaw acted as Adviser to the Board of HSBC Holdings plc from June 1998 until 30 September 2013; he continues to act on a part time basis as adviser to HSBC's Group Chairman and Group Chief Executive. He is a non-executive director of HSBC Bank Bermuda Limited which is part of the HSBC Group. He is also an independent non-executive director of Shui On Land Limited (listed on the Stock Exchange of Hong Kong). Mr Shaw is a solicitor, admitted in England and Wales and in Hong Kong. He was a partner of Norton Rose from 1973 to 1998 and during that period spent approximately 20 years working in Hong Kong. Mr Shaw obtained a law degree from Cambridge University.

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

Corporate Governance Report

Corporate Governance Practices

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

We believe good corporate governance is also one of the critical factors for achieving sustainable long-term success. The corporate governance principles of the Company emphasis 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 2013, the Company has complied with the code provisions of the CG Code except Code Provisions A.2.1 (which recommends the roles of the chairman and chief executive should be separate) and A.6.7 (which recommends all non-executive directors should attend general meetings) as explained below.

Board of Directors

As at 31 December 2013, the Board comprises ten members: three Executive Directors, being Mr Or Wai Sheun (Chairman), Mr Lai Ka Fai and Mr Or Pui Kwan; three Non-executive Directors, being Mr Keith Alan Holman (Deputy Chairman), Ms Ng Chi Man and Mr Yeung Kwok Kwong; and four Independent Non-executive Directors, being Mr Li Kwok Sing, Aubrey, Mr Lok Kung Chin, Hardy, Mr Seto Gin Chung, John and Mr David John Shaw. More than one-third of the Board is Independent Non-executive Directors. Their biographical details which include relationships among members of the Board are set out on pages 32 to 33 of this annual report. In accordance with the Listing Rules, every Independent Non-executive Director has provided an annual confirmation of his independence to the Company. The Company considers that they satisfy the independence requirements.

There was a change in the composition of the Board during the year. Ms Ng Chi Man has been redesignated from an Executive Director to a Non-executive Director of the Company with effect from 1 April 2013.

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

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

Chairman of the Board and Chief Executive

Mr Or Wai Sheun, the Chairman, has performed the combined role as the chairman and the chief executive taking charge of the overall operation of the Group. He is also responsible for leading the Board. Directors with different views are encouraged to voice their concerns. 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.

With a view to enhance the capability of decision making and effectiveness in dealing with organisational changes, the Company adopted a Board Diversity Policy setting out the approach to achieve diversity on the Board on 6 December 2013. The Company has considered the diversity of the Board from a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service of Directors and will consider these factors as measurable objectives when deciding on new appointment to the Board. The current Board is considered well-balanced and of a diverse mix appropriate for the development of the Company. The Nomination Committee will monitor the implementation of the Board Diversity Policy and the progress on achieving those measurable objectives.

Every existing Non-executive Director except Ms Ng Chi Man was provided with a letter of appointment setting out his terms of appointment. In accordance with the Articles of Association, any Director newly appointed shall hold office only until the next following annual general meeting of the Company and shall be eligible for re-election. Other existing Directors shall be elected for a term of not more than three years since last election or re-election. Retiring Directors shall be eligible for re-election at the annual general meeting of the Company. The Company has also complied with the requirement of the CG Code on considering the independency of an Independent Non-executive Director who has served more than nine years for his further appointment. Mr Lok Kung Chin, Hardy and Mr Seto Gin Chung, John, who have served on the Board for more than nine years, were re-elected as Independent Non-executive Directors at the 2013 Annual General Meeting ("2013 AGM") by passing separate resolutions at the 2013 AGM. The Board's view on Mr Lok's and Mr Seto's independent status was set out in the 2013 AGM circular. The re-election of Mr Li Kwok Sing, Aubrey, Independent Non-executive Director who has served the Board for more than nine years, will be considered by a vote on a separate resolution in the forthcoming 2014 Annual General Meeting.

Operation of the Board

The Board is committed to ensuring appropriate corporate governance practices are in place. In ensuring proper ethical and responsible decision making, the Board has established a series of mechanisms for formal review of particular aspects of the Company's affairs. Important decisions, including those which may be expected to affect the long-term shareholder interests, 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 has formalised the matters reserved to the Board and has reviewed those arrangements periodically to ensure that they remain appropriate to the Company's needs.

The Board meets regularly. Five physical meetings were held during the year. Each Director was 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 would 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 have been sent to all Directors for their records.

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

Board Committees

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

Executive Committee	
Members:	Mr Or Wai Sheun (Chairman), 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

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 recommendations on appointment and re-appointment of Directors

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

Independent Non-executive Director

Executive Committee

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

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

(i) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(ii) to review and monitor the training and continuous professional development of Directors and senior management;

(iii) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(iv) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(v) to review the Company's compliance with the CG Code contained in Appendix 14 of the Listing Rules and disclosure in the Corporate Governance Report of the Company.

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

– developed the inside information policy and procedures;

– reviewed and monitored the Company's policies on compliance with legal and regulatory requirements; and

– reviewed the Company's compliance with the CG Code and the disclosure in this corporate governance report.

Audit Committee

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

Three out of four Audit Committee members are Independent Non-executive Directors. The chairman of the committee possesses the relevant financial management expertise or experience. The committee members held two meetings and met the external auditors twice during 2013. At the meetings held during the year, the work performed by Audit Committee included:

– performed reviews on the half yearly and annual results;

– performed reviews on financial and accounting policies and practices of the Group;

– performed reviews on the relationships with external auditors, including remuneration, independence, objectivity, effectiveness of the audit process and non-audit services;

– performed reviews on the effectiveness of internal control system including risk management of investment activities, internal audit plan, adequacy of resources of Internal Audit Department ("IAD") and its Charter; and

– monitored the whistleblowing policy and system for employees and independent third parties who deal with the Company to raise concerns about any suspected impropriety, misconduct or malpractice within the Group.

Nomination Committee

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

They met twice during 2013 and the work performed by the Nomination Committee included:

– performed reviews on the structure, size and composition of the Board;

– performed assessment on the independence of independent Directors;

– performed review on the nomination policy;

– made recommendations to the Board on the re-appointment of Directors and succession planning for Directors; and

– established a board diversity policy to set out the approach to achieve diversity on the Board of Directors.

Remuneration Committee

The Remuneration Committee comprises four members, three of whom are Independent Non-executive Directors. The committee meets at least once per annum. In discharging their duties, they are required to review, assess and make recommendations to the Board on the remuneration policy and structure for all Directors and senior management and to make recommendations to the Board on the remuneration packages of individual Executive Directors and senior management. They met two times during 2013. 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.

Time Commitment

The Board has regularly reviewed the contribution required from the Directors and is satisfied that all of them have committed sufficient time during 2013 for the fulfilment of their duties as directors of the Company. The number of Board, committee and general meetings eligible for attendance and attended by each of the Directors during the year is set out below:

	Number of meetings attended/Number of meetings held in 2013					
Board Members	**Board Meetings**	**Audit Committee Meetings**	**Nomination Committee Meetings**	**Remuneration Committee Meetings**	**2013 AGM**	**Extraordinary General Meeting ("2013 EGM")**
Executive Directors						
Mr Or Wai Sheun *(Chairman)*	4/5※	–	2/2	–	1/1	0/1※
Mr Lai Ka Fai	5/5	–	–	2/2	1/1	1/1
Mr Or Pui Kwan*	4/5※	–	–	–	1/1	0/1※
Non-executive Directors						
Mr Keith Alan Holman *(Deputy Chairman)*	5/5	–	–	–	1/1	0/1##
Ms Ng Chi Man*#	4/5※	–	–	–	1/1	0/1※
Mr Yeung Kwok Kwong	5/5	2/2	–	–	1/1	1/1
Independent Non-executive Directors						
Mr Li Kwok Sing, Aubrey	5/5	2/2	–	2/2	1/1	1/1
Mr Lok Kung Chin, Hardy	5/5	2/2	2/2	2/2	1/1	1/1
Mr Seto Gin Chung, John	5/5	2/2	–	2/2	1/1	1/1
Mr David John Shaw	4/5	–	2/2	–	0/1##	0/1##
Total meetings held	5	2	2	2	1	1
Average Attendance Rate	92%	100%	100%	100%	90%	50%

* Family members of Mr Or Wai Sheun.

\# Ms Ng Chi Man redesignated as a Non-executive Director on 1 April 2013.

\## Mr David John Shaw was unable to attend the 2013 AGM and the 2013 EGM and Mr Keith Alan Holman was unable to attend the 2013 EGM as they were overseas at the time. This explained for the deviation of Code Provision A.6.7 which recommends all non-executive directors to attend general meetings.

※ Mr Or Wai Sheun, Ms Ng Chi Man and Mr Or Pui Kwan were absent from the board meeting held on 21 August 2013 and the 2013 EGM as they abstained from voting in both meetings. This also explained the deviation of Code Provision A.6.7 whereby Ms Ng Chi Man, the Non-executive Director, was absent from the 2013 EGM.

During 2013, independent Directors had also played vital monitoring roles in corporate transactions including:

(i) the acquisition of the entire issued share capital of New Basic Holdings Limited ("New Basic") which has a 60% investment in and financing of the development on three parcels of land located at Dongjiang North Shore Wangjiang Lot, Huizhou, the People's Republic of China ("PRC") from a company indirectly hold by Mr Or Wai Sheun and his family, in November; and

(ii) the acquisition of the entire issued share capital of Top Sail International Limited ("Top Sail") which has an interest in the site at 1–11 Tang Fung Street, Hong Kong, together with assignment of the related shareholder's loan from a company indirectly owned by Mr Or Wai Sheun and his family, in November.

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

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

Training and Support for Directors

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

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

During the year 2013, the Directors participated in the following training as per their records provided to the Company:

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

Notes:

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

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

Company Secretary's Training

For the year under review, the Company Secretary has complied with Rule 3.29 of the Listing Rules by taking no less than fifteen hours of relevant professional training to update his skills and knowledge.

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/her 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/she has any business or interest in a business which competes with the business of the Company.

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

Remuneration Review

The Board is ultimately responsible for the Company's remuneration policy. The Remuneration Committee has been delegated powers to recommend the remuneration policy and structure of all Directors and senior management whilst ensuring no Director is involved in deciding his/her 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 controls over the Group's activities, with executive responsibility for the running of the Group's business being delegated to management. The management provides all members of the Board with monthly updates in order to give a balanced and understandable assessment of the Group's performance, position and prospects to enable them to discharge their duties.

Internal Controls

The Board has a key responsibility to maintain sound internal control systems of the Group and assess their effectiveness on a regular basis. The Board has delegated part of this responsibility to the Audit Committee.

The Group's internal control system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss; to manage rather than completely eliminate the risks of failure in operational systems. It plays a key role in the management of risks that are significant to the achievement of corporate objectives, ensuring good corporate practice, safeguarding the shareholders' investments and the Group's assets. It comprises the Group's policies and procedures, and standards to ensure effective management, including a well-defined organisational structure with specified authority limits and areas of responsibility, basis for review of financial performance, application of financial reporting standards, maintenance of proper accounting records, assurance of reliable financial information, and compliance with relevant laws and regulations.

In addition, the Group has applied relevant controls on handling of inside information by relevant employees, including controls over the dissemination of such information and their dealings in the Group's shares.

Internal Audit

The Head of IAD reports to the Chairman and the Audit Committee. The IAD is responsible for assessing the effectiveness of the systems of internal controls of all major projects and activities of the Group with the aim to control and mitigate risks, and ensure operational effectiveness and efficiency.

The IAD adopts a risk-based approach in conducting internal reviews, including financial, operational, compliance and risk management control functions, and monitors the operational compliance with the Group's policies and procedures. The internal audit plan and reporting documents of the Group for the year ended 31 December 2013 were prepared by the IAD, and issued to the Audit Committee and the Board for review. The IAD monitors the issues raised to ensure they are addressed and managed properly by the management.

During the year, the Audit Committee members had two meetings with the Head of IAD to discuss the role, objectives, scope and job progress of internal audit functions.

The Board, through the Audit Committee and IAD, reviewed the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget at the Board meeting held in March 2014. Based on the result of the review in respect of the year ended 31 December 2013, the Board considered that the internal control system was effective and adequate and noted that the Group has been in compliance with the Code Provision for the year 2013.

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 the 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 53 of the Annual Report.

Inside Information

In view of the new requirements under Part XIVA of the Securities and Futures Ordinance and the Listing Rules, the Company has developed the Inside Information Policy and guidelines on reporting and disseminating inside information, maintaining confidentiality and complying with dealing instruction are in place for employees to follow. The Inside Information Policy (for all staff) has been communicated to the staff through the Group's intranet. To enhance the understanding, to regulate the inside information and to assure the timely disclosure of the inside information, a seminar relating to the Inside Information Policy has been conducted for the relevant senior executives of the Company. Senior officers of the Group have been identified and authorised to handle and respond the external enquiries in relation to the published announcement(s).

External Auditors

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

		2013 HK$'000
Audit services		**4,665**
Non-audit services		**923**
Tax and business advisory services	**49**	
Other services	**874**	

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

Constitutional Documents

The Memorandum of Association of the Company (the "Memorandum") has been abolished immediately after the effective of the new Companies Ordinance (Chapter 622 of the Laws of Hong Kong) on 3 March 2014 (the "new CO"). The conditions of the Memorandum immediately before the new CO is deemed to be regarded as provisions of the Articles of Association of the Company, except that any such condition setting out the authorised share capital and the par value of shares are regarded as deleted. All shares of the Company issued before the effective of the new CO are deemed to have no par value.

Shareholder Relations

The Board has established the Shareholders Communication Policy and dedicated to maintain an on-going dialogue with the shareholders and the investment community. The policy is subject to review regularly to ensure its effectiveness. It aims to ensure the shareholders and the investment community are provided with ready and timely access to all publicly available information about the Company so as to enable the shareholders to exercise their rights in an informed manner and to allow the shareholders and investment community to engage actively with the Company. Information is communicated to them mainly through the Company's financial reports (interim and annual reports), annual general meetings and other general meetings, as well as disclosure on the websites of Hong Kong Exchanges and Clearing Limited and the Company. The Company has also taken its own initiative to disclose the price-sensitive information in a timely manner and to comply with the latest statutory requirement under Part XIVA of the Securities and Futures Ordinance.

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 2013 AGM and 2013 EGM and the notices of which were distributed to all shareholders not less than twenty and ten clear business days before the respective meeting. At both meetings, the Chairmen demanded for a poll and the Company's share registrars was appointed as scrutineer for the vote-taking. The external auditor has also attended the 2013 AGM to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor independence.

The most recent shareholders' meeting was the 2013 EGM held at Crystal Ballroom, Holiday Inn Golden Miles Hong Kong on 20 November 2013. Major items discussed were the approval of two agreements in respect of the acquisition of entire share capital of New Basic and Top Sail which have their investments in the land located in Huizhou, PRC and Tang Fung Street, Hong Kong respectively. Both companies are indirectly held by Mr Or Wai Sheun and his family.

The percentage of votes cast in favour of the resolutions are set out below:–

– To approve the agreement in relation to the acquisition of the entire issued share capital of New Basic and the terms of the co-investment agreement (99.952%)

– To approve the agreement in relation to the acquisition of the entire issued share capital of Top Sail together with the related shareholder's loan (99.952%)

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

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

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

As far as our Directors are aware, the Company has maintained a sufficient public float of its share capital in the Hong Kong stock market throughout the financial year 2013.

Shareholders' Rights

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

If a shareholder of the Company who is duly qualified to attend and vote at the general meeting convened to deal with the appointment or election of director(s), intends to propose a person for election as a director of the Company, the shareholder concerned shall lodge a written notice at the Company's registered office for the attention of the Company

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

Procedures for shareholders to convene an extraordinary general meeting ("EGM")

- Shareholders holding not less than one-twentieth (1/20) of the paid-up capital of the Company can deposit a written requisition to convene an EGM at the registered office of the Company for the attention of the Company Secretary.

- The written requisition must state the objects of the meeting, signed by the shareholders making the request (the "Requisitionists") and may consist of several documents in like form, each signed by one or more Requisitionists.

- The requisition will be verified with the Company's share registrars and upon their confirmation that the requisition is in order, the Company Secretary will arrange the Board of Directors to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered shareholders.

- If the requisition is verified to be not in order, the Requisitionists will be advised of the result and accordingly, an EGM will not be convened as requested.

- If the Board of Directors does not within twenty-one days from the date of the deposit of the requisition proceed to convene an EGM for a day not more than twenty-eight days after the date on which the notice convening the EGM is given, the Requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, but any meeting so convened shall not be held after the expiration of three months from the date of the deposit of the requisition.

Procedures for shareholders to put forward proposals at general meetings

- Shareholders may propose resolution at general meetings by submitting a written requisition. The number of shareholders shall be (i) not less than one-fortieth (1/40) of the total voting rights of all members or (ii) not less than fifty shareholders holding shares in the Company on which there has been paid up an average sum, per member, of not less than HK$2,000.

- The written requisition must state the proposed resolution, along with a statement of not more than one thousand words with respect to the matter referred to in the resolution or the business to be dealt with at the general meeting. It must also be signed by the requisitionists and deposited at the Company's registered office for the attention of the Company Secretary not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution and not less than one week in the case of any other requisition.

- The requisition will be verified with the Company's share registrars and upon their confirmation that the requisition is in order, the Company will give notice of the resolution or circulate the statement provided that the requisitionists have deposited a sum reasonably sufficient to meet the Company's expenses in regard thereto.

- If the requisition is verified to be not in order or the requisitionists have failed to deposit sufficient money to meet the Company's expenses for the said purpose, the requisitionists will be advised of the result and accordingly, no action will be taken by the Company in that regard.

Procedures for shareholders to send enquiries to the Board

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

Other Information

Corporate Citizenship

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

Besides making charitable donations, we have also taken part in the programmes held by WWF-Hong Kong such as "Earth Hour 2013", and The Community Chest such as "Dress Casual Day".

In addition, the Company was awarded "5 years plus Caring Company" Logo by The Hong Kong Council of Social Service in February 2014 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 2013.

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 29 on the accounts.

Accounts

The profit of the Group for the year ended 31 December 2013 and the state of affairs of the Company and of the Group at that date are set out in the accounts on pages 54 to 123.

Dividends

An interim dividend of HK$0.21 per share (2012: HK$0.21 per share) was paid on 11 October 2013. The Directors now recommend that a final dividend of HK$0.36 per share (2012: HK$0.36 per share) be paid in respect of the year ended 31 December 2013.

Share Capital

Movements in share capital during the year are set out in note 24(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 2013.

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

Except for the production during the year under review, there has been 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 2013 are set out in notes 12, 22 and 23 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$217,020 (2012: HK$285,035).

Properties

Particulars of major properties and property interests of the Group are shown on pages 124 to 128 of the Annual Report.

Five-Year Financial Summary

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

Management Contracts

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

Directors

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

Mr Or Wai Sheun, *Chairman*
Mr Keith Alan Holman, *Deputy Chairman*
Mr Lai Ka Fai, *Executive Director*
Mr Or Pui Kwan, *Executive Director*
Ms Ng Chi Man, *Non-executive Director*
(formerly an Executive Director who has been re-designated with effect from 1 April 2013)
Mr Yeung Kwok Kwong, *Non-executive Director*
Mr Li Kwok Sing, Aubrey, *Independent Non-executive Director*
Mr Lok Kung Chin, Hardy, *Independent Non-executive Director*
Mr Seto Gin Chung, John, *Independent Non-executive Director*
Mr David John Shaw, *Independent Non-executive Director*

In accordance with Article 105 of the Articles of Association of the Company, Mr Lai Ka Fai, Ms Ng Chi Man, Mr Li Kwok Sing, Aubrey and Mr David John Shaw will retire at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Particulars of the Directors' emoluments, disclosed pursuant to 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 32 to 33 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 2013, 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 ordinary shares	Percentage of shareholding (Note 1)	Note
Or Wai Sheun	Founder and beneficiary of a trust	830,770,124		2
	Corporate	277,500		3
		831,047,624	72.22%	
Ng Chi Man	Beneficiary of a trust	830,770,124	72.20%	2
Or Pui Kwan	Beneficiary of a trust	830,770,124		2
	Personal	43,500		
		830,813,624	72.20%	
Lok Kung Chin, Hardy	Founder and beneficiary of trusts	1,425,000	0.12%	4
Lai Ka Fai	Personal	751,000	0.07%	
Keith Alan Holman	Personal	688,000	0.06%	
David John Shaw	Personal	133,500		
	Family	67,000		5
		200,500	0.02%	
Yeung Kwok Kwong	Personal	180,000	0.02%	

2. Long positions in the shares of Polytec Asset

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

Notes:

(1) The percentage of shareholding is calculated based on 1,150,681,275 shares, being the total number of issued ordinary shares of the Company as at 31 December 2013.

(2) Such interest in shares is held by Intellinsight Holdings Limited ("Intellinsight"), a wholly-owned subsidiary of Polytec Holdings International Limited ("Polytec Holdings") which is wholly-owned by Ors Holdings Limited ("OHL"). OHL is in turn wholly-owned by a discretionary trust, the trustee of which is HSBC International Trustee Limited.

As Mr Or Wai Sheun is the founder of the trust and the discretionary objects of the trust include Mr Or Wai Sheun, Ms Ng Chi Man (his wife) and Mr Or Pui Kwan (his son), they are taken to be interested in the same block of shares held by the trust.

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

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

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

(6) The percentage of shareholding is calculated based on 4,438,967,838 shares, being the total number of issued ordinary shares of Polytec Asset as at 31 December 2013. 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 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 2013, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Substantial Shareholders' Interests

As at 31 December 2013, 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 ordinary shares	Percentage of shareholding (Note 1)	Note
HSBC International Trustee Limited	Trustee	832,016,474	72.30%	2
Ors Holdings Limited	Corporate	830,770,124	72.19%	3

Notes:

(1) The percentage of shareholding is calculated based on 1,150,681,275 shares, being the total number of issued ordinary shares of the Company as at 31 December 2013.

(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 2013. HSBC International Trustee Limited was then taken to be interested in 831,581,474 shares of the Company. Such interest included the shares owned by a company as explained in note (2) under the section headed "Directors' Interests and Short Positions".

(3) Such interest in shares is held by Intellinsight as explained in note (2) under the section headed "Directors' Interests and Short Positions".

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

Save as disclosed above, as at 31 December 2013, the Company had not been notified by any persons (other than the Directors or the chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange 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 2013 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 22 August 2013, New Basic Holdings Limited ("New Basic") entered into a co-investment agreement (the "Co-Investment Agreement") with its holding company, Polytec Holdings pursuant to which New Basic agreed to co-invest with Polytec Holdings at a ratio of 60% and 40% respectively in the development to be erected on three parcels of nearby land located at Dongjiang North Shore Wangjiang Lot, Huizhou, Guangdong Province, the People's Republic of China.

On 23 August 2013, the Company entered into an agreement (the "Huizhou Agreement") with Polytec Holdings pursuant to which the Company agreed to acquire the entire issued capital of New Basic for a consideration of HK$1,280,249,021 (the "Huizhou Acquisition").

(2) On 23 August 2013, Brilliant Idea Investments Limited ("Brilliant Idea"), a wholly-owned subsidiary of the Company, entered into an agreement (the "HK Agreement") with Partner Talent Limited ("Partner Talent") pursuant to which Brilliant Idea agreed to acquire the entire issued capital of Top Sail International Limited ("Top Sail") together with the assignment of the related shareholder's loan for an aggregate consideration of HK$368,557,890 (the "HK Acquisition"). Top Sail has interest in the site at 1–11 Tang Fung Street, Hong Kong.

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 (a Non-executive Director) and Mr Or Pui Kwan (an Executive Director). Partner Talent is beneficially wholly-owned by Polytec Holdings. As at 23 August 2013, Polytec Holdings through its wholly-owned subsidiary, Intellinsight, held 72.20% interest of the Company.

Given that each of Polytec Holdings and Partner Talent is indirectly owned by Mr Or Wai Sheun and his family members (of which Ms Ng Chi Man and Mr Or Pui Kwan are also Directors of the Company), Polytec Holdings and Partner Talent are connected persons of the Company. Accordingly, the Huizhou Acquisition and the HK Acquisition constituted discloseable and connected transactions for the Company under the Listing Rules. Details of the transactions were disclosed in the announcement and circular of the Company dated 23 August 2013 and 30 October 2013 respectively.

An Independent Board Committee comprising all the Independent Non-executive Directors was formed and an Independent Financial Adviser was engaged to review the above transactions (including the terms of the Huizhou Agreement, the Co-Investment Agreement and the HK Agreement) and confirmed that the above transactions were in the ordinary and usual course of business of the Group, on normal commercial terms, fair and reasonable and in the interest of the Company and its shareholders as a whole. The above transactions were approved by the independent shareholders at an extraordinary general meeting of the Company on 20 November 2013.

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 31 on the accounts, none of the Directors of the Company was materially interested in any contract or arrangement entered into by the Company, its subsidiaries or holding companies or its fellow subsidiaries which contract or arrangement subsisted at the balance sheet date or at any time during the year and which was significant in relation to the business of the Company and its subsidiaries.

Changes in Information of Directors

Pursuant to Rule 13.51B(1) of the Listing Rules, the monthly salary of the following Directors have been changed as follows with effect from 1 September 2013:

	1 January 2013 to 31 August 2013	1 September 2013 to 31 December 2013
Or Pui Kwan	HK$55,600	HK$60,000
Lai Ka Fai	HK$140,400	HK$146,000
Yeung Kwok Kwong	HK$158,700	HK$162,000

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

Disclosure pursuant to Rule 13.21 of the Listing Rules

During the year ended 31 December 2013, the Company had no disclosure obligation pursuant to Rule 13.21 of the Listing Rules.

Share Option Scheme

On 21 May 2003 (the "Adoption Date"), a Share Option Scheme of the Company was adopted. The Share Option Scheme had a life of ten years until 20 May 2013. No share options were granted following the Adoption Date. The total number of shares available for issue thereunder was 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 were eligible to join 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, at the discretion of the Directors, had contributed or would contribute to the growth and development of the Group or its invested entities. Under the Share Option Scheme, the Board might 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 should 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) were subject to approval by the dis-interested independent Directors. Besides, shareholders' approval was 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, were exercisable during a period of not more than ten years.

Upon acceptance of the share option, the grantee should 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 would 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 five business days immediately preceding the date of grant; and (iii) the nominal value of the shares of the Company.

The Share Option Scheme expired by effluxion of time on 20 May 2013. No further new/revised share option scheme has been adopted by the Company since then.

Retirement Schemes

Particulars of the retirement schemes operated by the Group are set out in note 30 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 34 to 43 of the Annual Report.

Review of Accounts

The Audit Committee has reviewed the Group's consolidated accounts for the year ended 31 December 2013, 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, 23 June 2014 to Tuesday, 24 June 2014, 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, 20 June 2014.

Auditors

The Group's consolidated accounts for the year ended 31 December 2013 have been audited by KPMG, Certified Public Accountants who retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment 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, 26 March 2014

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 54 to 123, which comprise the consolidated and Company balance sheets as at 31 December 2013, 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 2013 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

26 March 2014

Consolidated Income Statement

For the year ended 31 December 2013

(Expressed in Hong Kong dollars)

	Note	2013 $'000	2012 $'000
Turnover	3	**1,416,751**	2,555,824
Cost of sales		**(639,659)**	(1,030,112)
Other revenue		**21,169**	31,048
Other net income	4(a)	**245,852**	138,103
Depreciation and amortisation		**(13,454)**	(15,638)
Staff costs		**(179,406)**	(184,488)
Selling, marketing and distribution expenses		**(139,320)**	(381,977)
Impairment of oil production and exploitation assets	2(g)	**(296,400)**	–
Other operating expenses		**(95,025)**	(90,730)
Fair value changes on investment properties	11	**744,579**	883,550
Profit from operations		**1,065,087**	1,905,580
Finance costs	4(b)	**(102,049)**	(100,312)
Share of (losses)/profits of associated companies	4(d)	**(1,559)**	2,089
Share of profits of joint ventures	4(e)	**398,892**	340,214
Profit before taxation	4	**1,360,371**	2,147,571
Income tax	6(a)	**(59,571)**	(172,182)
Profit for the year		**1,300,800**	1,975,389
Attributable to:			
Shareholders of the Company	7	**1,293,672**	1,886,254
Non-controlling interests		**7,128**	89,135
Profit for the year		**1,300,800**	1,975,389
Earnings per share – Basic/Diluted	8	**$1.12**	$1.64

The notes on pages 61 to 123 form part of these accounts.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2013

(Expressed in Hong Kong dollars)

	2013 $'000	2012 $'000
Profit for the year	**1,300,800**	1,975,389
Other comprehensive income for the year		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of accounts of overseas subsidiaries	**124,073**	(1,156)
Changes in fair value of available-for-sale investments	**37**	(5,282)
Changes in fair value of interests in property development	**439,312**	7,277
Share of other comprehensive income of joint ventures and associated companies	**112,801**	374
Impairment of available-for-sale investments transferred to consolidated income statement	**4,160**	–
	680,383	1,213
Total comprehensive income for the year	**1,981,183**	1,976,602
Attributable to:		
Shareholders of the Company	**1,851,865**	1,904,194
Non-controlling interests	**129,318**	72,408
Total comprehensive income for the year	**1,981,183**	1,976,602

The notes on pages 61 to 123 form part of these accounts.

Consolidated Balance Sheet

At 31 December 2013

(Expressed in Hong Kong dollars)

	Note	2013 $'000	2013 $'000	2012 $'000	2012 $'000
Non-current assets					
Fixed assets					
– Investment properties			**10,268,917**		9,626,134
– Leasehold land held for own use			**216,489**		222,360
– Other property, plant and equipment			**1,052,394**		1,319,468
	11		**11,537,800**		11,167,962
Oil exploitation assets	13		**84,322**		109,014
Interests in property development	14		**11,917,819**		10,198,258
Interest in joint ventures	15		**2,686,880**		2,247,554
Interest in associated companies	16		**2,401,667**		2,331,841
Financial investments	17		**2,284**		8,485
Loans and advances			**32,741**		32,069
Deferred tax assets	10(a)		**100,579**		53,233
			28,764,092		26,148,416
Current assets					
Inventories	18	**14,942,538**		13,236,301	
Trade and other receivables	19	**629,309**		1,093,506	
Loans and advances		**12,748**		16,925	
Amounts due from joint ventures	15	**56,576**		86,524	
Financial investments	17	**97,951**		94,937	
Pledged bank deposits	28	**32,834**		35,396	
Cash and cash equivalents		**623,966**		564,889	
		16,395,922		15,128,478	
Current liabilities					
Trade and other payables	20	**3,034,768**		2,601,946	
Amounts due to non-controlling interests	21	**200,000**		200,000	
Amount due to a joint venture	15	**790,480**		762,368	
Bank loans	23	**1,334,314**		1,603,863	
Current taxation		**253,722**		285,117	
		5,613,284		5,453,294	
Net current assets			**10,782,638**		9,675,184
Total assets less current liabilities			**39,546,730**		35,823,600

Consolidated Balance Sheet

At 31 December 2013

(Expressed in Hong Kong dollars)

	Note	**2013** **$'000**	**$'000**	2012 $'000	$'000
Non-current liabilities					
Loan from ultimate holding company	22	**9,328,289**		6,509,137	
Bank loans	23	**3,861,567**		4,265,660	
Other payables		**41,416**		48,732	
Deferred tax liabilities	10(a)	**881,590**		859,073	
			14,112,862		11,682,602
NET ASSETS			**25,433,868**		24,140,998
Capital and reserves					
Share capital	24(b)		**115,068**		115,068
Reserves			**22,135,641**		20,939,664
Total equity attributable to the shareholders of the Company			**22,250,709**		21,054,732
Non-controlling interests			**3,183,159**		3,086,266
TOTAL EQUITY			**25,433,868**		24,140,998

Approved and authorised for issue by the board of directors on 26 March 2014.

Or Wai Sheun
Director

Lai Ka Fai
Director

The notes on pages 61 to 123 form part of these accounts.

Balance Sheet

At 31 December 2013

(Expressed in Hong Kong dollars)

	Note	2013 $'000	2013 $'000	2012 $'000	2012 $'000
Non-current assets					
Fixed assets					
– Investment properties			**6,826,000**		6,272,000
– Other property, plant and equipment			**2,725**		2,869
	11		**6,828,725**		6,274,869
Interest in subsidiaries	12		**13,961,659**		14,072,819
Interest in a joint venture	15		**584,079**		584,079
Interest in an associated company	16		**1,942,225**		1,942,225
			23,316,688		22,873,992
Current assets					
Loans to subsidiaries	12	**3,278,376**		1,679,624	
Trade and other receivables	19	**13,215**		19,292	
Cash and cash equivalents		**266,817**		155,326	
		3,558,408		1,854,242	
Current liabilities					
Trade and other payables	20	**103,798**		104,547	
Amounts due to subsidiaries	12	**260**		269	
Amount due to a joint venture	15	**790,480**		762,368	
Loans from subsidiaries	12	**267,119**		233,807	
Current taxation		**17,620**		16,827	
		1,179,277		1,117,818	
Net current assets			**2,379,131**		736,424
Total assets less current liabilities			**25,695,819**		23,610,416
Non-current liabilities					
Loan from ultimate holding company	22	**7,080,606**		5,666,253	
Loans from subsidiaries	12	**52,188**		48,877	
Bank loan	23	**3,280,000**		3,480,000	
Deferred tax liabilities	10(a)	**37,645**		35,189	
			10,450,439		9,230,319
NET ASSETS			**15,245,380**		14,380,097
Capital and reserves					
Share capital			**115,068**		115,068
Reserves			**15,130,312**		14,265,029
TOTAL EQUITY	24		**15,245,380**		14,380,097

Approved and authorised for issue by the board of directors on 26 March 2014.

Or Wai Sheun
Director

Lai Ka Fai
Director

The notes on pages 61 to 123 form part of these accounts.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2013

(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 2012	115,068	8,302,404	1,673	1,698,075	712,278	8,942,408	19,771,906	3,043,629	22,815,535
Changes in equity for 2012									
Profit for the year	–	–	–	–	–	1,886,254	1,886,254	89,135	1,975,389
Other comprehensive income	–	–	–	62	17,878	–	17,940	(16,727)	1,213
Total comprehensive income	–	–	–	62	17,878	1,886,254	1,904,194	72,408	1,976,602
Dividends approved in respect of the previous year	–	–	–	–	–	(379,725)	(379,725)	–	(379,725)
Dividends approved in respect of the current year	–	–	–	–	–	(241,643)	(241,643)	–	(241,643)
Dividend paid to non-controlling interests	–	–	–	–	–	–	–	(29,771)	(29,771)
At 31 December 2012	115,068	8,302,404	1,673	1,698,137	730,156	10,207,294	21,054,732	3,086,266	24,140,998
At 1 January 2013	**115,068**	**8,302,404**	**1,673**	**1,698,137**	**730,156**	**10,207,294**	**21,054,732**	**3,086,266**	**24,140,998**
Changes in equity for 2013									
Profit for the year	**–**	**–**	**–**	**–**	**–**	**1,293,672**	**1,293,672**	**7,128**	**1,300,800**
Other comprehensive income	**–**	**–**	**–**	**333,061**	**225,132**	**–**	**558,193**	**122,190**	**680,383**
Total comprehensive income	**–**	**–**	**–**	**333,061**	**225,132**	**1,293,672**	**1,851,865**	**129,318**	**1,981,183**
Dividends approved in respect of the previous year	**–**	**–**	**–**	**–**	**–**	**(414,245)**	**(414,245)**	**–**	**(414,245)**
Dividends approved in respect of the current year	**–**	**–**	**–**	**–**	**–**	**(241,643)**	**(241,643)**	**–**	**(241,643)**
Dividend paid to non-controlling interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(32,425)**	**(32,425)**
At 31 December 2013	**115,068**	**8,302,404**	**1,673**	**2,031,198**	**955,288**	**10,845,078**	**22,250,709**	**3,183,159**	**25,433,868**

As at 31 December 2013, loans from non-controlling interests of $2,513,000 (2012: $2,603,000) are classified as equity being the capital contributions on subsidiaries by the non-controlling interests.

The notes on pages 61 to 123 form part of these accounts.

Consolidated Cash Flow Statement

For the year ended 31 December 2013

(Expressed in Hong Kong dollars)

	Note	2013 $'000	2012 $'000
Net cash (used in)/from operating activities	25(a)	**(176,677)**	408,647
Investing activities			
Proceeds from sale of fixed assets		**19**	2,261
Proceeds from sale of investment properties		**557,968**	207,902
Additions to fixed assets and properties		**(140,970)**	(221,279)
Increase in investment in an associated company		**–**	(9,866)
Decrease/(Increase) in pledged bank deposits		**2,562**	(20,396)
Decrease/(Increase) in loan to an associated company		**3**	(195,110)
Dividend received from an associated company		**980**	–
Acquisition of subsidiaries	25(b)	**(1,466,046)**	(100,360)
Proceeds from liquidation of an interest in an associated company		**2,180**	–
Net cash used in investing activities		**(1,043,304)**	(336,848)
Financing activities			
Drawdown of bank loans		**1,338,867**	263,069
Repayment of bank loans		**(2,012,509)**	(340,325)
Increase in loan from ultimate holding company		**2,636,400**	456,636
Dividend paid to shareholders of the Company		**(655,235)**	(620,828)
Dividend paid to non-controlling interests		**(32,425)**	(29,771)
Net cash from/(used in) financing activities		**1,275,098**	(271,219)
Net increase/(decrease) in cash and cash equivalents		**55,117**	(199,420)
Cash and cash equivalents at 1 January		**564,889**	764,144
Effect of foreign exchange rate changes		**3,960**	165
Cash and cash equivalents at 31 December		**623,966**	564,889
Analysis of balances of cash and cash equivalents at 31 December			
Deposits with banks and other financial institutions		**6,054**	117,643
Cash at bank and in hand		**617,912**	447,246
		623,966	564,889

The notes on pages 61 to 123 form part of these accounts.

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies

(a) Statement of compliance

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

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

(b) Measurement basis

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

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

(c) Basis of consolidation

The consolidated accounts include the accounts of Kowloon Development Company Limited and all of its subsidiaries made up to 31 December, together with the Group's share of the results for the year and net assets of its associated companies and joint ventures. 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 new HKFRSs and amendments to HKFRSs 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 and the Company's accounts:

- Amendments to HKAS 1, "Presentation of financial statements – Presentation of items of other comprehensive income"
- HKFRS 10, "Consolidated financial statements"
- HKFRS 11, "Joint arrangements"
- HKFRS 12, "Disclosure of interest in other entities"
- HKFRS 13, "Fair value measurement"

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

1 Significant accounting policies *(Continued)*

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

HKFRS 12, Disclosure of interests in other entities

HKFRS 12, brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by HKFRS 12 are generally more extensive than those previously required by the respective standards. To the extent that the requirements are applicable to the Group and the Company, the Group and the Company has provided those disclosures in notes 12, 15 and 16.

HKFRS 13, Fair value measurement

HKFRS 13 replaces existing guidance in individual HKFRSs with a single source of fair value measurement guidance. HKFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. To the extent that the requirements are applicable to the Group and the Company, the Group and the Company has provided these disclosures in notes 11 and 32. The adoption of HKFRS 13 does not have any material impact on the fair value measurements of the Group's and the Company's assets and liabilities.

Other developments have had no material impact on the Group's and the Company's accounts.

(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. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has the power, only substantive rights (held by the Group and other parties) are considered.

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 cash flow 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, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interest that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' 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 other 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 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 joint venture (see note 1(g)).

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 (or included in a disposal group that is classified as held for sale).

(g) Associated companies and joint ventures

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

A joint venture is an arrangement whereby the Group or the Company and other parties contractual agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associated company or a joint venture is accounted for in the consolidated accounts under the equity method, unless it is classified as held for sale (or included in a disposal group that 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 investee'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 investee'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 investee 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 investee's other comprehensive income is recognised in the consolidated statement of comprehensive income.

1 Significant accounting policies *(Continued)*

(g) Associated companies and joint ventures *(Continued)*

When the Group's share of losses exceeds its interest in the associated company or the joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associated company or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associated company and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associated company becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other case, when the Group ceases to have significant influence over an associated company or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or 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)).

In the Company's balance sheet, investments in associated companies and joint ventures are stated at cost less impairment losses, unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(h) Fixed assets

(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 semi-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 in which case they are stated at cost less any impairment losses. All changes in fair value of investment properties are recognised directly in the income statement.

(ii) 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)*

(h) Fixed assets *(Continued)*

(iii) Other property, plant and equipment

Other property, plant and equipment (other than buildings held for own use) are stated at cost less accumulated depreciation and impairment losses (see note 1(r)).

(iv) Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

(i) Interests in property development

Interests in property development are stated at fair value. Changes in fair value are recognised in other comprehensive income and accumulated in the fair value reserve, unless there is objective evidence that the interests in property development have been impaired, whereupon 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 reversals of impairment losses are recognised in the income statement. The fair value of interests in property development is determined based on the estimated entitlements to the interests in property development. The amount of impairment loss is the difference between the cost (net of any distribution) and current fair value, less any impairment loss on the interests in property development previously recognised in the income statement. When the interests in property development are derecognised, the cumulative gain or loss previously recognised directly in equity is transferred to the income statement.

(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 based on unit of production method based upon the estimated proved and probable oil reserves.

(k) Inventories

(i) 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.

(ii) 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.

(iii) 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.

(iv) Trading goods and consumables

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, other than properties, 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.

1 Significant accounting policies *(Continued)*

(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 joint ventures, are as follows:

Financial assets are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. 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.

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. As an exception to this, investments in equity securities that no not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 1(r)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 1(t)(vi) and 1(t)(vii) respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debts securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 1(r)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. 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.

1 Significant accounting policies *(Continued)*

(o) Cash and cash equivalents

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

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

(p) Borrowings

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

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

(q) Depreciation and amortisation

(i) Leasehold land and buildings

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

(ii) Oil production assets

Oil production assets included all the fixed assets arising from oil exploration and production activities. Depreciation of certain oil production assets is calculated based on a 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.

Except for certain oil production assets as set out in note 1 (q)(ii) above, depreciation is calculated on a straight line method to write off the assets over their estimated useful lives as follows:

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

1 Significant accounting policies *(Continued)*

(r) Impairment of assets

(i) Impairment of investments in debt and equity securities, interests in property development and other receivables

Investments in debt and equity securities, interests in property development and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associated companies and joint ventures accounted for under the equity method in the consolidated accounts (see note 1(g)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(r)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(r)(ii).
- For unquoted equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  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 loss was recognised, the impairment loss is reversed through profit or loss. 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.

1 Significant accounting policies *(Continued)*

(r) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities, interests in property development and other receivables *(Continued)*

– For available-for-sale securities and interests in property development, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Other assets

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

– property, plant and equipment (other than properties carried at revalued amounts);

– leasehold land held for own use;

– intangible assets;

– goodwill; and

– investments in subsidiaries, associated companies and joint ventures in the Company's balance sheet.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

1 Significant accounting policies *(Continued)*

(r) Impairment of assets *(Continued)*

(ii) Other assets *(Continued)*

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong limited, 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 (see notes 1(r)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, interests in property development, available-for-sale equity securities and unquoted equity securities 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 securities increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

1 Significant accounting policies *(Continued)*

(s) Income tax

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

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

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

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(h)(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 is initially recognised as deferred income within trade and other payables. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm's length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. 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 profit or loss 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 and oil production assets 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 a 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 a valuation performed by an independent firm of professional valuers at the balance sheet date based on certain assumptions (see note 11(d)).

The fair value of investment properties is assessed semi-annually by independent qualified valuers, by using income capitalisation approach with reference to sales transactions as convertible in the market. The income capitalisation approach is the sum of the term value and the reversionary value calculated by discounting the contracted annual rent at the capitalisation rate over the existing lease period; and the sum of average unit market rent at the capitalisation rate after the existing lease period.

The fair value of investment properties under development is assessed semi-annually by independent qualified valuers, by estimating the fair value of such properties as if they were completed in accordance with relevant development plan, which makes reference to the average selling prices based on certain comparable sales transactions in the market and adjusted for differences such as location, size, timing and other factors collectively, 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 measured using a discounted cash flow model. In preparing the discounted cash flow model, the Group estimates the future cash flows expected to arise from the interests in property development and a suitable discount rate 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, associated companies and joint ventures

In considering the impairment that may be required for the Company's interest in subsidiaries, associated companies and joint ventures, 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, associated companies and joint ventures. 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, associated companies and joint ventures.

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

(g) Estimated impairment of oil production and exploitation assets

Oil production and exploitation assets are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amounts may exceed the recoverable amounts, which is considered to be the higher of the fair value less costs of disposal and value in use. The fair value of oil production and exploitation assets is determined based on the present value of estimated future cash flows arising from the continued use of the assets. Cash flows are discounted to their present value using a discount rate that reflects the time value of money and the risks specific to the assets. 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. The impairment reviews and calculations are based on assumptions that are consistent with the Group's business plan and all relevant licences and permits are obtained. However, the business environment, such as the crude oil price, is affected by a wide range of global and domestic factors, which are all beyond the control of the Group. Any adverse change in the key assumptions could increase the impairment provision.

The normal crude oil production of the South Alibek Oilfield of Caspi Neft TME, a wholly owned subsidiary of Polytec Asset Holdings Limited (73.4% owned by the Group), in Kazakhstan has been temporarily suspended since 1 January 2013, as the gas flaring permit to flare associated gas for the South Alibek Oilfield expired on 31 December 2012. Caspi Neft TME applied to the Kazakhstan Government for the gas flaring permit in October 2012. Caspi Neft TME provided the information as requested by the Kazakhstan Government. Up to the date of approval of these accounts, it has obtained the approvals from the Ecology Committee and the Geology Committee of the Kazakhstan Government for the gas flaring permit. Further approvals from other local authorities are now required to obtain the gas flaring permit in order to resume normal crude oil production. Caspi Neft TME has been taking all necessary steps to obtain the permit. Caspi Neft TME is also currently considering several alternatives to resolve the issue regarding the treatment and utilisation of associated gas permanently, including obtaining approvals from the relevant authorities of the Kazakhstan Government and engaging in active communication with other external parties in order to substantiate the alternatives. Based on advice received from its technical experts and external legal advisor and the alternatives under consideration, the Group considers that there is no indication that the gas flaring permit will not be renewed. Normal crude oil production will be resumed as soon as practicable upon obtaining the permit.

Due to the above issue, the normal crude oil production of the Group has been suspended for an unexpected prolonged period. The Group has reassessed the operation and the risk exposures of its oil exploration and production business as a whole and estimated that at 31 December 2013, the carrying amount of the oil production and exploitation assets exceeded their estimated recoverable amount by $296,400,000 (2012: $Nil). Accordingly, impairment of oil production assets and oil exploitation assets amounting to $273,200,000 (2012: $Nil) and $23,200,000 (2012: $Nil) respectively, were recognised as a separate line item in the Group's consolidated income statement. The recoverable amount was determined based on the value in use calculations applying a discount rate of 12.5%.

Crude oil price assumptions were based on market expectations. At 31 December 2013, it is estimated that an increase/decrease of 5% in the estimated crude oil price used in the assessment, with all other variables held constant would have increased/decreased the carrying amounts of the oil production assets and the oil exploitation assets by totalling $118,492,000/$119,920,000.

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

(h) Land appreciation tax ("LAT")

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

3 Segment reporting

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

- Property development segment (Hong Kong/Mainland China/Macau): the development and sales of properties and interests in property development. 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 and interest income.

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

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

3 Segment reporting *(Continued)*

(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.

	2013						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'000
Turnover	1,416,751	26,000	734,120	125,561	311,733	62,623	156,714
Reportable segment profit	341,014	1,047	180,858	80,976	336,871	(347,209)	88,471
Other net income	240,658	5,218	–	–	235,440	–	–
Fair value changes on investment properties	744,579	–	–	–	744,579	–	–
Share of fair value changes on investment properties of a joint venture	223,520	–	–	–	223,520	–	–
Head office and corporate expenses	(87,351)						
Finance costs	(102,049)						
Profit before taxation	1,360,371						
Share of losses of associated companies	(1,559)	–	(8,048)	–	–	–	6,489
Share of profits of joint ventures	398,892	–	132,008	–	266,884	–	–
Interest income	45,712	–	–	–	–	–	45,712
Depreciation and amortisation	(38,481)	–	–	–	–	(24,142)	(14,339)
Impairment of oil production and exploitation assets	(296,400)	–	–	–	–	(296,400)	–

3 Segment reporting *(Continued)*

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

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

3 Segment reporting *(Continued)*

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

	2013						
		Property development					
	Consolidated $'000	Hong Kong $'000	Mainland China $'000	Macau $'000	Property investment $'000	Oil $'000	Others $'000
Reportable segment assets	**44,389,965**	**7,877,617**	**12,845,302**	**10,792,824**	**11,309,742**	**1,116,039**	**448,441**
Deferred tax assets	**100,579**						
Pledged bank deposits	**32,834**						
Cash and cash equivalents	**623,966**						
Head office and corporate assets	**12,670**						
Consolidated total assets	**45,160,014**						
Interest in associated companies	**2,401,667**	**–**	**2,379,464**	**–**	**–**	**–**	**22,203**
Interest in and amounts due from joint ventures	**2,743,456**	**–**	**1,713,688**	**–**	**1,029,768**	**–**	**–**

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

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 joint ventures, the location of operations.

	Revenue		Non-current assets	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
Hong Kong (place of domicile)	**463,966**	1,596,149	**9,282,402**	8,745,807
Mainland China	**753,967**	302,268	**5,353,982**	5,004,455
Macau	**125,561**	3,091	**997,002**	730,118
Kazakhstan	**62,623**	641,255	**1,077,283**	1,375,991
Others	**10,634**	13,061	**–**	–
	1,416,751	2,555,824	**16,710,669**	15,856,371

In addition to the above non-current assets, the Group has interests in property development of $10,614,101,000 (2012: $10,198,258,000) and $1,303,718,000 (2012: $Nil) in Macau and Mainland China respectively.

(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 $235,440,000 (2012: $101,616,000), impairment of properties written back of $5,218,000 (2012: $21,805,000), impairment of an associated company written back of $2,180,000 (2012: $Nil) and a fair value gain on held for trading listed investments of $3,014,000 (2012: $14,682,000).

4 Profit before taxation *(Continued)*

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

(b) Finance costs

	2013 $'000	2012 $'000
Interest on bank loans and overdrafts	**99,133**	113,299
Interest on loan from ultimate holding company	**108,025**	90,991
Less: Amount capitalised *(Remark)*	**(102,500)**	(99,004)
	104,658	105,286
Less: Interest expenses included as other operating expenses	**(2,609)**	(4,974)
	102,049	100,312

Remark: Borrowing costs were capitalised at rates of 1.35% – 2.38% (2012: 1.19% – 2.36%) per annum in Hong Kong and 6.15% – 8.00% (2012: 6.15% – 8.00%) per annum in Mainland China.

(c) Other items

	2013 $'000	2012 $'000
Auditors' remuneration	**4,665**	4,996
Amortisation of oil exploitation assets *(Remark)*	**2,589**	11,771
Depreciation and amortisation of fixed assets *(Remark)*	**35,892**	170,496
Staff costs *(Remark)*	**204,994**	203,105
Impairment of bad and doubtful debts	**1,575**	1,312
Impairment of available-for-sale investments	**4,160**	–
Rentals receivable under operating leases less outgoings	**(294,063)**	(276,659)
Rental income	**(311,733)**	(300,388)
Less: Outgoings	**17,670**	23,729
Interest income	**(45,712)**	(20,153)
Impairment of bad and doubtful debts written back	**(14,199)**	(1,922)

Remark: Cost of sales includes $28,416,000 (2012: $177,852,000) relating to staff costs and depreciation and amortisation expenses, which amount is also included in the respective total amounts disclosed separately above.

(d) The Group's share of losses of associated companies for the year, after non-controlling interests, dividend and taxation, attributable to shareholders of the company was $2,539,000 (2012: share of profits $2,089,000).

(e) The Group's share of profits of joint ventures for the year, after non-controlling interests, dividend and taxation, attributable to shareholders of the Company was $328,007,000 (2012: $298,460,000).

5 Directors' and management's emoluments

(a) Directors' emoluments

Directors' remuneration 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	2013 Total $'000
Executive directors					
Or Wai Sheun	–	–	–	–	–
Lai Ka Fai	160	1,853	246	171	2,430
Or Pui Kwan	–	745	128	18	891
Non-executive directors					
Keith Alan Holman	240	–	–	–	240
Ng Chi Man *(Remark)*	–	–	–	–	–
Yeung Kwok Kwong	240	2,080	237	192	2,749
Independent non-executive directors					
Li Kwok Sing, Aubrey	240	–	–	–	240
Lok Kung Chin, Hardy	240	–	–	–	240
Seto Gin Chung, John	240	–	–	–	240
David John Shaw	240	–	–	–	240
	1,600	4,678	611	381	7,270

Remark: Ms Ng Chi Man redesignated as Non-executive director on 1 April 2013.

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

Remark: Mr Tam Hee Chung retired from the office of the Company on 28 June 2012.

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2012: two) are directors whose emoluments are disclosed in note 5(a). The aggregate of the emoluments in respect of the remaining three (2012: three) individuals are as follows:

	2013 $'000	2012 $'000
Salaries and allowances	**6,815**	6,748
Performance related bonuses	**1,352**	2,370
Provident fund contributions	**54**	54
	8,221	9,172

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:

	2013	2012
$2,000,001 – $2,500,000	**2**	–
$2,500,001 – $3,000,000	**–**	2
$3,000,001 – $3,500,000	**1**	–
$3,500,001 – $4,000,000	**–**	1

6 Income tax

(a) Taxation in the consolidated income statement represents:

	2013 $'000	2012 $'000
Current tax – Hong Kong		
Provision for the year	**52,763**	126,609
(Over)/Under provision in respect of prior years	**(249)**	1,222
	52,514	127,831
Current tax – Outside Hong Kong		
Provision for the year	**54,052**	15,715
Under/(Over) provision in respect of prior years	**163**	(6,270)
	54,215	9,445
LAT	**12,811**	38,599
Deferred tax		
Change in fair value of investment properties	**3,593**	43,285
Origination and reversal of temporary differences	**(63,562)**	(46,978)
	(59,969)	(3,693)
	59,571	172,182

The provision for Hong Kong profits tax is calculated at 16.5% (2012: 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.

6 Income tax *(Continued)*

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

Under the Provisional Regulations on LAT in Mainland China, all gains arising from the 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.

Mainland 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. Undistributed earnings generated prior to 1 January 2008 are exempt from such withholding tax. Provision for withholding tax is recognised for the dividends that have been declared and deferred tax liability is recognised for those to be declared in the foreseeable future.

The Group did not recognise any withholding tax for the year of 2013 and 2012.

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

	2013 $'000	2012 $'000
Profit before taxation	**1,360,371**	2,147,571
Tax at applicable tax rates	**209,089**	339,527
Non-deductible expenses	**20,653**	26,654
Non-taxable revenue	**(231,009)**	(197,882)
Unrecognised tax losses	**46,524**	18,420
Previously unrecognised tax losses utilised	**(54)**	(62,477)
Previously unrecognised tax losses now recognised	**(2,604)**	(2,771)
LAT on properties sold	**12,811**	38,599
Deferred LAT on changes in fair value of investment properties	**(50)**	20,239
Overprovision in respect of prior years	**(86)**	(5,048)
Others	**4,297**	(3,079)
Actual tax expense	**59,571**	172,182

7 Profit attributable to shareholders

The consolidated profit attributable to shareholders of the Company includes a profit of $1,020,886,000 (2012: $1,055,443,000) 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 $1,293,672,000 (2012: $1,886,254,000) and the weighted average number of ordinary shares in issue during the year of 1,150,681,275 (2012: 1,150,681,275).

(b) Diluted earnings per share

There are no dilutive potential shares in existence during the years ended 31 December 2013 and 2012.

9 Dividends

(a) Dividends attributable to the year

	2013 $'000	2012 $'000
Interim dividend declared and paid of $0.21 (2012: $0.21) per share	**241,643**	241,643
Final dividend proposed after the balance sheet date of $0.36 (2012: $0.36) per share	**414,245**	414,245
	655,888	655,888

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

	2013 $'000	2012 $'000
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.36 (2012: $0.33) per share	**414,245**	379,725

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 2012	8,703	(776,998)	(51,566)	17,361	(802,500)
Exchange adjustments	–	14	–	–	14
Through acquisition of a subsidiary	–	(7,047)	–	–	(7,047)
Credited/(Charged) to the income statement	6,385	(27,444)	17,647	7,105	3,693
At 31 December 2012	15,088	(811,475)	(33,919)	24,466	(805,840)
At 1 January 2013	**15,088**	**(811,475)**	**(33,919)**	**24,466**	**(805,840)**
Exchange adjustments	**–**	**(3,635)**	**–**	**–**	**(3,635)**
Through acquisition of a subsidiary	**–**	**(31,505)**	**–**	**–**	**(31,505)**
Credited/(Charged) to the income statement	**3,722**	**12,665**	**51,296**	**(7,714)**	**59,969**
At 31 December 2013	**18,810**	**(833,950)**	**17,377**	**16,752**	**(781,011)**

Company

	Accelerated depreciation allowances 2013 $'000	2012 $'000
At 1 January	**(35,189)**	(32,778)
Charged to the income statement	**(2,456)**	(2,411)
At 31 December	**(37,645)**	(35,189)

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**	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
Net deferred tax asset recognised in the balance sheet	**100,579**	53,233	**–**	–
Net deferred tax liability recognised in the balance sheet	**(881,590)**	(859,073)	**(37,645)**	(35,189)
	(781,011)	(805,840)	**(37,645)**	(35,189)

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

The Group has not recognised deferred tax assets in respect of cumulative tax losses of $3,084,194,000 (2012: $2,892,763,000) 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 expire 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 2012	8,808,370	270,206	33,060	1,275,707	64,828	10,452,171
Exchange adjustments	(194)	–	–	–	(2)	(196)
Additions						
– Through acquisition of a subsidiary	380,000	–	–	–	–	380,000
– Reclassified to properties under development	(364,782)	–	–	–	–	(364,782)
– Others	25,440	–	–	182,474	13,082	220,996
Disposals	(106,250)	–	–	(2,756)	(1,309)	(110,315)
Revaluation surplus	883,550	–	–	–	–	883,550
At 31 December 2012	9,626,134	270,206	33,060	1,455,425	76,599	11,461,424
Representing						
Professional valuation	9,626,134	–	–	–	–	9,626,134
Cost	–	270,206	33,060	1,455,425	76,599	1,835,290
	9,626,134	270,206	33,060	1,455,425	76,599	11,461,424
At 1 January 2013	**9,626,134**	**270,206**	**33,060**	**1,455,425**	**76,599**	**11,461,424**
Exchange adjustments	**36,457**	**–**	**–**	**–**	**413**	**36,870**
Additions						
– Through acquisition of a subsidiary	**400,000**	**–**	**–**	**–**	**–**	**400,000**
– Reclassified to properties under development	**(217,898)**	**–**	**–**	**–**	**–**	**(217,898)**
– Others	**100,555**	**–**	**–**	**20,776**	**17,544**	**138,875**
Disposals	**(420,910)**	**–**	**–**	**(50)**	**(3,037)**	**(423,997)**
Revaluation surplus	**744,579**	**–**	**–**	**–**	**–**	**744,579**
At 31 December 2013	**10,268,917**	**270,206**	**33,060**	**1,476,151**	**91,519**	**12,139,853**
Representing						
Professional valuation	**10,268,917**	**–**	**–**	**–**	**–**	**10,268,917**
Cost	**–**	**270,206**	**33,060**	**1,476,151**	**91,519**	**1,870,936**
	10,268,917	**270,206**	**33,060**	**1,476,151**	**91,519**	**12,139,853**

11 Fixed assets *(Continued)*

(a) Group *(Continued)*

	Investment properties $'000	Leasehold land held for own use $'000	Other property, plant and equipment: Buildings $'000	Other property, plant and equipment: Oil production assets $'000	Other property, plant and equipment: Others $'000	Total $'000
Aggregate depreciation, amortisation and impairment losses						
At 1 January 2012	–	41,242	5,669	32,460	43,857	123,228
Exchange adjustments	–	–	–	–	7	7
Charge for the year	–	6,604	815	156,029	7,055	170,503
Written back on disposals	–	–	–	(41)	(235)	(276)
At 31 December 2012	–	47,846	6,484	188,448	50,684	293,462
At 1 January 2013	**–**	**47,846**	**6,484**	**188,448**	**50,684**	**293,462**
Exchange adjustments	**–**	**–**	**–**	**–**	**207**	**207**
Charge for the year	**–**	**5,871**	**467**	**21,553**	**8,595**	**36,486**
Impairment loss	**–**	**–**	**–**	**273,200**	**–**	**273,200**
Written back on disposals	**–**	**–**	**–**	**(11)**	**(1,291)**	**(1,302)**
At 31 December 2013	**–**	**53,717**	**6,951**	**483,190**	**58,195**	**602,053**
Carrying value						
At 31 December 2013	**10,268,917**	**216,489**	**26,109**	**992,961**	**33,324**	**11,537,800**
At 31 December 2012	9,626,134	222,360	26,576	1,266,977	25,915	11,167,962

In 2013, an amount of $594,000 (2012: $7,000) included in the depreciation and amortisation charge for the year was capitalised under inventories.

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 2013, investment properties under development stated at fair value amounted to $2,667,797,000 (2012: $2,247,634,000).

Key sources of estimation uncertainty relating to oil production assets are disclosed in note 2(g).

11 Fixed assets *(Continued)*

(b) Company

	Investment properties $'000	Other property, plant and equipment $'000	Total $'000
Cost or valuation			
At 1 January 2012	5,712,000	27,510	5,739,510
Additions	4,912	1,093	6,005
Disposals	–	(134)	(134)
Revaluation surplus	555,088	–	555,088
At 31 December 2012	6,272,000	28,469	6,300,469
Representing			
Professional valuation	6,272,000	–	6,272,000
Cost	–	28,469	28,469
	6,272,000	28,469	6,300,469
Cost or valuation			
At 1 January 2013	**6,272,000**	**28,469**	**6,300,469**
Additions	**692**	**1,111**	**1,803**
Disposals	**–**	**(251)**	**(251)**
Revaluation surplus	**553,308**	**–**	**553,308**
At 31 December 2013	**6,826,000**	**29,329**	**6,855,329**
Representing			
Professional valuation	**6,826,000**	**–**	**6,826,000**
Cost	**–**	**29,329**	**29,329**
	6,826,000	**29,329**	**6,855,329**

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 2012	–	24,307	24,307
Charge for the year	–	1,422	1,422
Written back on disposals	–	(129)	(129)
At 31 December 2012	–	25,600	25,600
At 1 January 2013	**–**	**25,600**	**25,600**
Charge for the year	**–**	**1,247**	**1,247**
Written back on disposals	**–**	**(243)**	**(243)**
At 31 December 2013	**–**	**26,604**	**26,604**
Carrying value			
At 31 December 2013	**6,826,000**	**2,725**	**6,828,725**
At 31 December 2012	6,272,000	2,869	6,274,869

11 Fixed assets *(Continued)*

(c) Analysis of carrying value of properties

	Group 2013 $'000	Group 2012 $'000	Company 2013 $'000	Company 2012 $'000
Investment properties				
In Hong Kong				
– Long leases	**7,260,470**	6,971,800	**6,826,000**	6,272,000
– Medium-term leases	**1,730,450**	1,490,000	**–**	–
Outside Hong Kong				
– Medium-term leases	**1,277,997**	1,164,334	**–**	–
	10,268,917	9,626,134	**6,826,000**	6,272,000
Other properties				
In Hong Kong				
– Long leases	**1,997**	926	**–**	–
– Medium-term leases	**240,601**	248,010	**–**	–
	242,598	248,936	**–**	–

11 Fixed assets *(Continued)*

(d) Fair values measurement of investment properties

The fair value of the Group's investment properties falls under Level 3 of the three-level fair value hierarchy as defined in HKFRS 13, "Fair value measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique.

During the year, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3.

The investment properties of the Group and of the Company were revalued at 31 December 2013 by Vigers Appraisal and Consulting Limited, an independent qualified professional valuer, who has appropriate qualifications and experience in the valuation of similar properties in the relevant locations. The Group's top management have held discussion with the valuer on the valuation assumptions and valuation results at each interim and annual reporting date.

Information about Level 3 fair value measurements

	Valuation techniques (Note 2(c))	Unobservable input	Range	Remark
Group				
Investment properties	Income capitalisation approach	Capitalisation rate	4% to 6%	(1)
Investment properties under development	Direct comparison approach	Unit sale rate	$700 to $44,000 per square foot	(2)
Company				
Investment properties	Income capitalisation approach	Capitalisation rate	4% to 5%	(1)

Remarks: Relationship of unobservable inputs to fair value:

(1) The fair value is negatively correlated to the unobservable input that the lower the factor will result in a higher fair value.

(2) The fair value is positively correlated to the unobservable input that the higher the factor will result in a higher fair value.

11 Fixed assets *(Continued)*

(d) Fair values measurement of investment properties *(Continued)*

Information about Level 3 fair value measurements *(Continued)*

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	Group		Company
	Investment properties $'000	Investment properties under development $'000	Investment properties $'000
At 1 January 2013	7,378,500	2,247,634	6,272,000
Exchange adjustments	–	36,457	–
Additions	11,359	271,298	692
Transfer in/(out)	5,010	(5,010)	–
Disposals	(420,910)	–	–
Fair value adjustment	627,161	117,418	553,308
At 31 December 2013	7,601,120	2,667,797	6,826,000

The fair value adjustment on investment properties is recognised in the line item "Fair value changes on investment properties" on the face of the consolidated income statement.

(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 an option to renew on expiry at which time all terms are renegotiated. Some leases have provision of turnover rent. Turnover rent of $1,971,000 was recognised in 2013 (2012: $1,479,000).

The gross carrying amounts of investment properties of the Group held for use in operating leases were $7,601,120,000 (2012: $7,378,500,000). The gross carrying amounts of other fixed assets of the Group held for use in operating leases were $7,510,000 (2012: $7,505,000) and the related accumulated depreciation charges were $7,199,000 (2012: $7,068,000).

The gross carrying amounts of investment properties of the Company held for use in operating leases were $6,826,000,000 (2012: $6,272,000,000). The gross carrying amounts of other fixed assets of the Company held for use in operating leases were $1,401,000 (2012: $1,401,000) and the related accumulated depreciation charges were $1,167,000 (2012: $1,075,000).

11 Fixed assets *(Continued)*

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

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	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
Within 1 year	**264,060**	224,954	**235,741**	182,511
After 1 year but within 5 years	**328,222**	137,976	**300,442**	71,234
After 5 years	**20,152**	–	**20,152**	–
	612,434	362,930	**556,335**	253,745

12 Interest in subsidiaries

	Company	
	2013	2012
	$'000	$'000
Unlisted shares, at cost	**3,529,511**	2,249,262
Loans to subsidiaries		
– interest free	**10,307,409**	11,648,901
– interest bearing	**1,715,969**	1,776,657
Amounts due from subsidiaries	**7,875**	10,113
Less: Impairment losses	**(1,599,105)**	(1,612,114)
	13,961,659	14,072,819
Loans to subsidiaries		
– interest free	**683,169**	244,191
– interest bearing	**2,595,207**	1,435,433
Loans from subsidiaries		
– interest free	**(92,301)**	(255,044)
– interest bearing	**(227,006)**	(27,640)
Amounts due to subsidiaries	**(260)**	(269)
	16,920,468	15,469,490

12 Interest in subsidiaries *(Continued)*

Loans to subsidiaries are unsecured and not expected to be repaid within one year, except for the amount of $3,278,376,000 (2012: $1,679,624,000) which is repayable within one year. Interest is charged at Hong Kong Interbank Offer Rate ("HIBOR") plus a margin per annum for interest bearing loans.

Loans from subsidiaries are unsecured and not expected to be repaid within one year, except for the amount of $267,119,000 (2012: $233,807,000) which is repayable within one year. Interest is charged at HIBOR plus a margin per annum for interest bearing loans.

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

Details of the principal subsidiaries are shown in note 29.

The following table lists out the information relating to Polytec Asset Holdings Limited, a material subsidiary of the Company which has non-controlling interests ("NCI"). The summarised financial information presented below represents the amounts before any inter-company elimination.

	2013 $'000	2012 $'000
NCI percentage	**26.6%**	26.6%
Current assets	**513,298**	537,579
Non-current assets	**12,931,837**	12,500,706
Current liabilities	**(172,893)**	(331,318)
Non-current liabilities	**(2,309,184)**	(2,082,006)
Net assets	**10,963,058**	10,624,961
Carrying amount of NCI	**2,939,327**	2,831,603
Revenue	**284,301**	731,762
Profit for the year	**32,919**	290,585
Total comprehensive income	**448,762**	297,862
Profit allocated to NCI	**29,702**	79,085
Dividend paid to NCI	**32,425**	29,771
Cash flows (used in)/from operating activities	**(81,586)**	286,186
Cash flows from/(used in) investing activities	**9,979**	(163,786)
Cash flows from/(used in) financing activities	**13,897**	(144,037)

13 Oil exploitation assets

	Group 2013 $'000	2012 $'000
Cost		
At 1 January	**129,060**	129,060
Additions during the year	**1,097**	–
At 31 December	**130,157**	129,060
Accumulated amortisation and impairment losses		
At 1 January	**20,046**	8,275
Amortisation during the year	**2,589**	11,771
Impairment loss	**23,200**	–
At 31 December	**45,835**	20,046
Carrying value	**84,322**	109,014

Key sources of estimation uncertainty relating to oil exploitation assets are disclosed in note 2(g).

14 Interests in property development

	Group 2013 $'000	2012 $'000
At 1 January	**10,198,258**	10,190,981
Change in fair value recognised in other comprehensive income	**439,312**	7,277
Through acquisition of a subsidiary	**1,280,249**	–
At 31 December	**11,917,819**	10,198,258

Interests in property development represent the Group's interests in the development of various properties in Macau and Mainland China under the co-investment agreements with the ultimate holding company, Polytec Holdings International Ltd ("Polytec Holdings") and two of its wholly owned subsidiaries. Pursuant to the terms of the co-investment agreements, the Group will provide funding to cover any shortfall in the funding of the development projects which is subject to an aggregate maximum amount. In return, Polytec Holdings and its two wholly owned subsidiaries will pay to the Group cash flows from the development projects according to the formulas set out in the co-investment agreements. 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 joint ventures

	Group 2013 $'000	2012 $'000	Company 2013 $'000	2012 $'000
Unlisted shares, at cost	**–**	–	**584,079**	584,079
Share of net assets	**2,467,380**	2,028,054	**–**	–
Loan to a joint venture	**219,500**	219,500	**–**	–
	2,686,880	2,247,554	**584,079**	584,079
Amounts due from joint ventures	**56,576**	86,524	**–**	–
Amount due to a joint venture	**(790,480)**	(762,368)	**(790,480)**	(762,368)
	1,952,976	1,571,710	**(206,401)**	(178,289)

Loan to a joint venture 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 and to joint ventures are unsecured, interest free and repayable on demand.

Details of the Group's interest in joint ventures which are accounted for using the equity method in the consolidated accounts are as follows:

Joint venture	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)*	Mainland China	50.0%	50.0%	–	Property development
South Bay Centre Company Limited	Macau	36.7%	–	50.0%	Property investment and trading

Remark:
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 and 佛山市山語湖酒店物業管理有限公司 whose principal business are the provision of educational services and provision of property management services respectively. The Group's effective interest is 50%.

All joint ventures are unlisted corporate entities whose quoted market price is not available.

15 Interest in joint ventures *(Continued)*

The aggregate financial information of joint ventures that are individually immaterial is as follows:

	2013 $'000	2012 $'000
Carrying amount in the consolidated accounts	**2,467,380**	2,028,054
The Group's effective share of joint ventures:		
Profit for the year	**398,892**	340,214
Other comprehensive income	**40,434**	(207)
Total comprehensive income	**439,326**	340,007

16 Interest in associated companies

	Group		**Company**	
	2013 $'000	2012 $'000	**2013 $'000**	2012 $'000
Unlisted shares, at cost	**–**	–	**151,063**	151,063
Share of net assets	**441,702**	380,116	**–**	–
Loan to associated companies	**1,959,965**	1,954,842	**1,791,162**	1,791,162
Loan from an associated company	**–**	(3,117)	**–**	–
	2,401,667	2,331,841	**1,942,225**	1,942,225

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

All of associated companies are unlisted corporate entities whose quoted market price is not available.

Associated company	Place of incorporation/ operation	Proportion of nominal value of shares held		Principal activities
		Direct	Indirect	
CITIC Polytec Property (Tianjin) Co., Ltd	Mainland China	39.0% *(Remark)*	–	Property development
Easy Living Property Management Limited	Hong Kong	–	49.0%	Building surveying, property management and guarding service
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

Remark:
In accordance with an agreement in relation to the acquisition of a property development site in Tianjin, Mainland China, the Group is entitled to 49% profit sharing in the associated company.

16 Interest in associated companies *(Continued)*

All of the associated companies are accounted for using the equity method in the consolidated accounts.

The aggregate financial information of associated companies that are individually immaterial is as follows:

	2013 **$'000**	2012 $'000
Carrying amount in the consolidated accounts	**441,702**	380,116
The Group's effective share of associated companies:		
(Loss)/Profit for the year	**(1,559)**	2,089
Other comprehensive income	**72,367**	581
Total comprehensive income	**70,808**	2,670

17 Financial investments

	Group	
	2013 **$'000**	2012 $'000
Non-current assets		
Available-for-sale investments		
– Investment fund, unlisted	**2,284**	8,485
Current assets		
Held for trading listed investments		
– Equity shares, listed in Hong Kong	**20,265**	22,925
– Bonds, listed outside Hong Kong	**77,686**	72,012
	97,951	94,937
	100,235	103,422
Market value of financial investments		
– Listed in Hong Kong	**20,265**	22,925
– Listed outside Hong Kong	**77,686**	72,012

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

18 Inventories

	Group 2013 $'000	2012 $'000
Land held for future development	**1,549,253**	1,563,982
Properties under development	**12,798,732**	11,370,087
Properties held for sale	**582,796**	287,730
Trading goods and consumables	**11,757**	14,502
	14,942,538	13,236,301

The amount of properties held for future development and under development expected to be recovered after more than one year is $1,549,253,000 (2012: $1,423,349,000) and $5,675,185,000 (2012: $5,627,865,000) 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 2013 $'000	2012 $'000
In Hong Kong		
– Long leases	**1,809,316**	1,438,090
– Medium-term leases	**4,024,928**	3,947,543
	5,834,244	5,385,633
Outside Hong Kong		
– Freehold/Unspecified	**32,625**	57,876
– Long leases	**2,078,588**	2,232,274
– Medium-term leases	**2,670,096**	2,456,909
	4,781,309	4,747,059
	10,615,553	10,132,692

19 Trade and other receivables

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

	Group 2013 $'000	Group 2012 $'000	Company 2013 $'000	Company 2012 $'000
Current and less than 3 months	**344,628**	816,576	**1,375**	614
3 months to 6 months	**1,239**	1,496	**–**	5
More than 6 months	**5,528**	9,208	**15**	–
Trade receivables	**351,395**	827,280	**1,390**	619
Utility and other deposits	**70,792**	57,271	**1,985**	1,965
Other receivables and prepayments	**207,122**	208,955	**9,840**	16,708
	629,309	1,093,506	**13,215**	19,292

Utility and other deposits of the Group and of the Company of $16,798,000 (2012: $5,289,000) and $1,947,000 (2012: $1,946,000) respectively are expected to be recovered after more than one year.

Receivables and prepayments of the Group of $473,000 (2012: $1,685,000) 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 2013, the Group's trade and other receivables of $6,635,000 (2012: $11,290,000) was individually determined to be impaired and specific allowances for doubtful debts of $5,440,000 (2012: $5,675,000) were recorded. An impairment loss in an amount of $295,000 (2012: $75,000) 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.

20 Trade and other payables

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

	Group		Company	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
Not yet due or on demand	**773,047**	698,536	**628**	609
Within 3 months	**40,066**	133,986	**1,686**	1,872
3 months to 6 months	**53**	2,436	**–**	–
More than 6 months	**29,670**	28,393	**–**	–
Trade payables	**842,836**	863,351	**2,314**	2,481
Rental and other deposits	**73,121**	172,760	**58,301**	54,250
Other payables and accrued expenses	**191,495**	350,863	**43,183**	47,816
Deposits received on sale of properties	**1,927,316**	1,214,972	**–**	–
	3,034,768	2,601,946	**103,798**	104,547

Rental and other deposits of the Group and of the Company of $66,468,000 (2012: $61,796,000) and $57,869,000 (2012: $53,778,000) respectively are expected to be refunded after more than one year. Included in the balance, there was deposits received on sales of investment properties of the Group of $Nil (2012: $98,250,000).

Payables and accrued expenses of the Group and of the Company of $325,958,000 (2012: $198,151,000) and $216,000 (2012: $254,000) respectively are expected to be settled after more than one year.

Deposits received on sale of properties of the Group of $1,574,444,000 (2012: $703,402,000) are expected to be recognised as income within one year.

21 Amounts due to non-controlling interests

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

22 Loan from ultimate holding company

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

23 Bank loans

At 31 December, bank loans were repayable as follows:

	Group		Company	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
Within 1 year or on demand	**1,334,314**	1,603,863	**–**	–
After 1 year but within 2 years	**200,000**	4,265,660	**–**	3,480,000
After 2 years but within 5 years	**3,661,567**	–	**3,280,000**	–
	3,861,567	4,265,660	**3,280,000**	3,480,000
	5,195,881	5,869,523	**3,280,000**	3,480,000

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

	Group		Company	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
Bank loans				
– secured	**4,895,881**	5,869,523	**3,280,000**	3,480,000
– unsecured	**300,000**	–	**–**	–
	5,195,881	5,869,523	**3,280,000**	3,480,000

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

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

24 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 2012		115,068	8,302,404	5,356,938	13,774,410
Final dividend declared and paid	9(b)	–	–	(379,725)	(379,725)
Interim dividend declared and paid	9(a)	–	–	(241,643)	(241,643)
Profit for the year		–	–	1,227,055	1,227,055
At 31 December 2012		115,068	8,302,404	5,962,625	14,380,097
At 1 January 2013		**115,068**	**8,302,404**	**5,962,625**	**14,380,097**
Final dividend declared and paid	9(b)	**–**	**–**	**(414,245)**	**(414,245)**
Interim dividend declared and paid	9(a)	**–**	**–**	**(241,643)**	**(241,643)**
Profit for the year		**–**	**–**	**1,521,171**	**1,521,171**
At 31 December 2013		**115,068**	**8,302,404**	**6,827,908**	**15,245,380**

The Group's share of profits retained in the accounts of the associated companies at 31 December 2013 after non-controlling interests was $4,784,000 (2012: $6,251,000).

The Group's share of profits retained in the accounts of the joint ventures at 31 December 2013 after non-controlling interests was $1,148,111,000 (2012: $820,104,000).

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 2013 amounted to $824,787,000 (2012: $512,812,000).

24 Total equity *(Continued)*

(b) Share capital

	2013		2012	
	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 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 2013 is 62.5% (2012: 56.1%).

25 Notes to consolidated cash flow statement

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

	2013 $'000	2012 $'000
Profit before taxation	**1,360,371**	2,147,571
Adjustments for:		
Unclaimed dividend written back	**(457)**	(338)
Loss on disposal of other fixed assets	**1,740**	1,528
Gain on disposal of investment properties	**(235,440)**	(101,616)
Share of losses/(profits) of associated companies	**1,559**	(2,089)
Share of profits of joint ventures	**(398,892)**	(340,214)
Impairment of properties written back	**(5,218)**	(21,805)
Impairment of an associated company written back	**(2,180)**	–
Impairment of available-for-sale investment	**4,160**	–
Impairment of oil production and exploitation asset	**296,400**	–
Fair value changes on investment properties	**(744,579)**	(883,550)
Interest income	**(9,192)**	(3,590)
Interest expenses	**102,049**	100,312
Depreciation and amortisation	**38,481**	182,267
Operating profit before working capital changes	**408,802**	1,078,476
Decrease/(Increase) in financial investments	**3,224**	(8,893)
Decrease/(Increase) in loans and advances	**3,505**	(23,653)
Increase in inventories	**(1,292,854)**	(1,015,391)
Decrease/(Increase) in trade and other receivables	**465,001**	(497,932)
Decrease in amounts due from joint ventures	**29,948**	45,138
Increase in amount due to a joint ventures	**28,112**	181,168
Increase in trade and other payables	**523,288**	994,118
Cash generated from operations	**169,026**	753,031
Interest received	**9,220**	3,581
Interest paid	**(203,987)**	(199,351)
Profits tax paid	**(150,941)**	(149,314)
Profits tax refunded	**5**	700
Net cash (used in)/from operating activities	**(176,677)**	408,647

25 Notes to consolidated cash flow statement *(Continued)*

(b) Acquisition of subsidiaries

	2013 $'000	2012 $'000
Fair value of assets of subsidiaries acquired		
Investment properties	**400,000**	380,000
Interests in property development	**1,280,249**	–
Trade and other receivables	**54**	1,887
Cash and cash equivalents	**9**	81
Trade and other payables	**–**	(90)
Shareholder's loan	**(182,752)**	(274,390)
Deferred tax liabilities	**(31,505)**	(7,047)
Net assets acquired	**1,466,055**	100,441
Shareholder's loan assigned	**182,752**	274,390
Cash consideration on acquisition of subsidiaries	**1,648,807**	374,831
Cash and bank balances acquired	**(9)**	(81)
Loan from ultimate holding company	**(182,752)**	(274,390)
Cash outflow on acquisition of subsidiaries	**1,466,046**	100,360

In 2013, the Group entered into agreements with Polytec Holdings and one of its wholly owned subsidiary for the acquisition of a 100% equity interest in two wholly owned subsidiaries of Polytec Holdings together with the assignment of related shareholders loans for an aggregate consideration of $1,648,807,000. The assets held by the two subsidiaries are substantially properties located in Hong Kong and interests in property development located in Mainland China.

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

Acquisitions of the subsidiaries have been accounted for using the purchase method. The total revenue of the acquired subsidiaries for the year was $4,000 (2012: $Nil) which contributed $Nil (2012: $Nil) to the revenue of the Group. Profit of the acquired subsidiaries for the year was $189,711,000 (2012: $31,245,000). The profit attributable to the shareholders of the Company for the year included a loss of $406,000 (2012: loss of $8,178,000) which related to the acquired subsidiaries.

26 Capital commitments

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

	Group		Company	
	2013	2012	**2013**	2012
	$'000	$'000	**$'000**	$'000
Contracted for	**68,056**	5,409	**1,400**	1,942
Authorised but not contracted for	**–**	–	**–**	–

27 Contingent liabilities

As at 31 December 2013, the Group and the Company has provided guarantees of $407,005,000 (2012: $798,000,000) representing a 50% proportional guarantee in respect of an aggregate of $814,010,000 term loan facilities (2012: $1,596,000,000) to a joint venture in Mainland China. The facilities were utilised to the extent of $814,010,000 (2012: $1,460,000,000) at 31 December 2013.

The Company has given guarantees in respect of banking facilities and other obligations of certain subsidiaries to the extent of $1,307,559,000 (2012: $2,412,259,000). The banking facilities and other obligations were utilised to the extent of $1,207,559,000 (2012: $1,730,778,000) at 31 December 2013.

28 Pledge of assets

At 31 December 2013, properties of the Group with an aggregate carrying value of approximately $11,260,792,000 (2012: $11,391,657,000) and bank deposits of $32,834,000 (2012: $35,396,000) were pledged to banks under fixed charges mainly to secure general banking facilities granted to the Group.

29 Subsidiaries

Details of the subsidiaries of Kowloon Development Company Limited, which principally affected the results, assets or liabilities of the Group, 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

29 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
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
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

29 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	
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
Marble King International Limited	British Virgin Islands	US$2	100.0%	–	Investment holding
Mass Ventures International Limited	British Virgin Islands/ Hong Kong	US$1	–	100.0%	Property development
New Basic Holdings Limited	British Virgin Islands	US$1	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	$1,071,849,840 *(Remark 1)*	–	80.0%	Property development

29 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	
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
Top Sail International Limited	British Virgin Islands/ Hong Kong	US$1	–	100.0%	Property development
Triumph Glory Investments Limited	British Virgin Islands	US$1	100.0%	–	Investment holding
Tyleelord Development & Agency Company Limited	Hong Kong	$100,000	–	100.0%	Property investment
Un Chau Properties Limited	Hong Kong	$2	–	100.0%	Property investment
Units Properties Limited	Hong Kong	$2	–	100.0%	Property investment
Union Way Management Limited	Hong Kong	$2	–	100.0%	Investment holding
Wealrise Investments Limited	Hong Kong	$2	–	100.0%	Property development and investment
Wealth Genesis Limited	Hong Kong	$2	100.0%	–	Property development
中山市長江兆業地產開發有限公司 *(Remark 2)*	Mainland China	$80,000,000 *(Remark 1)*	–	70.0%	Property development
保利達地產(瀋陽)高悦有限公司 *(Remark 2)*	Mainland China	US$59,600,000 *(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.

30 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 2013 and 2012. There were no unutilised forfeited contributions at the balance sheet date of both years. The Group's annual contribution for the year was $588,000 (2012: $566,000).

Contributions to the Mandatory Provident Funds of $4,135,000 (2012: $3,854,000) 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 $3,461,000 (2012: $2,971,000) 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.

31 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) As at 31 December 2013, the Group has given guarantees to an insurance company in respect of performance bonds entered into by an associated company to the extent of $14,528,000 (2012: $14,028,000).

(c) During the year, the remuneration for key management personnel being short-term employee benefits amounted to $15,491,000 (2012: $16,857,000) 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.

32 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 at the appropriate time.

At 31 December 2013, it is estimated that an increase/decrease in interest rates by 100 basis points, with all other variables held constant, would have decreased/increased the Group's result attributable to shareholders of the Company and retained profits by approximately $74 million (2012: $57million).

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 has been performed on the same basis for 2012.

(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 2013 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.

32 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 2013						
Trade and other payables	**714,577**	**310,587**	**–**	**81,769**	**1,106,933**	**1,106,933**
Amount due to non-controlling interests	**–**	**–**	**–**	**200,000**	**200,000**	**200,000**
Bank loans	**1,415,692**	**263,297**	**3,717,943**	**–**	**5,396,932**	**5,195,881**
Loan from ultimate holding company	**–**	**–**	**–**	**9,328,289**	**9,328,289**	**9,328,289**
Amount due to a joint venture	**790,480**	**–**	**–**	**–**	**790,480**	**790,480**
Other payables	**–**	**–**	**–**	**41,416**	**41,416**	**41,416**
	2,920,749	**573,884**	**3,717,943**	**9,651,474**	**16,864,050**	**16,662,999**
At 31 December 2012						
Trade and other payables	1,028,022	152,997	29,814	77,135	1,287,968	1,287,968
Amount due to non-controlling interests	–	–	–	200,000	200,000	200,000
Bank loans	1,694,574	4,279,349	–	–	5,973,923	5,869,523
Loan from ultimate holding company	–	–	–	6,509,137	6,509,137	6,509,137
Amount due to a joint venture	762,368	–	–	–	762,368	762,368
Other payables	–	–	–	48,732	48,732	48,732
	3,484,964	4,432,346	29,814	6,835,004	14,782,128	14,677,728

32 Financial risk management and fair values *(Continued)*

(c) Liquidity risk *(Continued)*

The Group is exposed to liquidity risk that arises from guarantees in respect of banking facilities of a joint venture. The guarantees are callable if the joint venture is unable to meet its obligations. Further details are set out in to note 27.

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 2013						
Trade and other payables	**45,194**	**–**	**–**	**58,085**	**103,279**	**103,279**
Bank loans	**42,968**	**42,968**	**3,322,262**	**–**	**3,408,198**	**3,280,000**
Loan from ultimate holding company	**–**	**–**	**–**	**7,080,606**	**7,080,606**	**7,080,606**
Loans from subsidiaries	**267,119**	**–**	**–**	**52,188**	**319,307**	**319,307**
Amounts due to subsidiaries	**260**	**–**	**–**	**–**	**260**	**260**
Amount due to a joint venture	**790,480**	**–**	**–**	**–**	**790,480**	**790,480**
	1,146,021	**42,968**	**3,322,262**	**7,190,879**	**11,702,130**	**11,573,932**
At 31 December 2012						
Trade and other payables	49,759	–	–	54,033	103,792	103,792
Bank loans	46,197	3,481,925	–	–	3,528,122	3,480,000
Loan from ultimate holding company	–	–	–	5,666,253	5,666,253	5,666,253
Loans from subsidiaries	233,807	–	–	48,877	282,684	282,684
Amounts due to subsidiaries	269	–	–	–	269	269
Amount due to a joint venture	762,368	–	–	–	762,368	762,368
	1,092,400	3,481,925	–	5,769,163	10,343,488	10,295,366

The Company is exposed to liquidity risk that arises from guarantees in respect of banking facilities of certain subsidiaries and a joint venture. The guarantees are callable if the respective subsidiary or joint venture is unable to meet its obligations. Further details are set out in note 27.

32 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 a 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. Subsequent to the balance sheet date, Kazakhstan Tenge is pegged to a basket of currencies, including United States Dollars, Euros and Russian Rubles. 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 2013, 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, would have increased/decreased the result attributable to shareholders of the Company and retained profits by $5 million (2012: $5 million). The analysis has been performed on the same basis for 2012.

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 have arisen 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.

32 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 has a team reporting to the top management which performs the valuation of the interests in property development required for financial reporting purposes. Discussions of valuation processes and results are held between the top management and the team at least once every six months, in line with the Group's half-yearly reporting dates. The key unobservable market data used in the model includes estimated selling prices of the underlying properties which are derived from observable market data, including average market prices of residential properties in Macau and Mainland China, with certain adjustments to reflect the impacts of those factors on the development. The adjustments to the selling price range from –10% to +10%. The fair value measurement is positively correlated to adjustments to the selling prices of the underlying properties. At 31 December 2013, it is estimated that an increase/decrease of 5% in the 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, would have increased/decreased the Group's fair value reserve by $895,628,000/$890,673,000 (2012: $327,645,000/$327,665,000).

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 2012.

(g) Fair values measurement of financial instruments

Financial assets and liabilities measured at fair value

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 13,"Fair value measurement", 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

32 Financial risk management and fair values *(Continued)*

(g) Fair values measurement of financial instruments *(Continued)*

Financial assets and liabilities measured at fair value *(Continued)*

	2013			
	Level 1 $'000	**Level 2 $'000**	**Level 3 $'000**	**Total $'000**
Assets				
Available-for-sale investment fund	**–**	**–**	**2,284**	**2,284**
Trading securities	**97,951**	**–**	**–**	**97,951**
Interests in property developments	**–**	**–**	**11,917,819**	**11,917,819**
	97,951	**–**	**11,920,103**	**12,018,054**

	2012			
	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Available-for-sale investment fund	–	–	8,485	8,485
Trading securities	94,937	–	–	94,937
Interests in property development	–	–	10,198,258	10,198,258
	94,937	–	10,206,743	10,301,680

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	
	2013 $'000	2012 $'000
At 1 January	**10,206,743**	10,210,536
Additions	**1,280,249**	–
Gain recognised in other comprehensive income	**439,349**	1,995
Distributions	**(6,238)**	(5,788)
At 31 December	**11,920,103**	10,206,743

33 Parent and ultimate holding company

At 31 December 2013, 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.

34 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2013

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 2013 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 2013

A. Major Investment Properties

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

B. Major Properties Under Development

Location	Usage	Approximate Total Site Area (sq m)	Approximate Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Hong Kong						
Cadogan 37A Cadogan Street Kennedy Town	Residential and Commercial	1,318	13,200	Fitting-out work in progress	2014	100.0
35 Clear Water Bay Road Ngau Chi Wan	Residential and Commercial	19,335	196,400	Part of foundation work completed	To be determined	100.0
MacPherson Place 38 Nelson Street Mongkok	Stadium, Youth Centre, Residential and Commercial	2,400	24,800 *(Note 1)*	Obtained Certificate of Compliance in January 2014	Completed	Joint Venture with Urban Renewal Authority and Hong Kong Playground Association
Upper West 18 Fuk Chak Street Tai Kok Tsui	Residential and Commercial	781	6,600	Superstructural work in progress	2015/2016	100.0
45-65A Pok Fu Lam Road Sai Ying Pun	Residential and Commercial	1,388	11,100	Demolition work completed	2018	100.0
1-11 Tang Fung Street Aberdeen	Residential	738	6,000	Foundation work and site formation in progress	2016/2017	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	Construction work in progress (second phase)	First phase 2014	100.0
Le Cove City (江灣城) 6 Hun Nan Er Road Hun Nan Xin District Shenyang	Residential and Commercial	165,303	712,000	Construction work in progress (third phase)	By phases from 2011 onwards	100.0

B. Major Properties Under Development *(Continued)*

Location	Usage	Approximate Total Site Area (sq m)	Approximate Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Mainland China *(Continued)*						
Le Cove City (江灣城) Tongyun Road and Gongyun Road Chong An District Wuxi	Residential and Commercial	68,833	404,400 *(Note 2)*	Fitting out work in progress (first phase)	First phase 2014	80.0
Galaxy Heights (星際豪庭) 8 Xueyuan Road Shiqi District Zhongshan	Residential and Commercial	18,334	129,000	Fitting out work in progress	2014	70.0
Jiang Wan Nan An Hua Yuan (江灣南岸花園) Dongjiang North Shore Wangjiang Lot Huicheng District Huizhou *(Note 3)*	Residential and Commercial	146,056	519,900	Foundation work in progress	First phase 2015/2016	60.0
Macau						
Pearl Horizon (海一居) Lote P The Orient Pearl District Novos Aterros da Areia Preta *(Note 3)*	Residential and Commercial	68,000	699,700	Foundation work commenced	2017/2018	58.8
Lotes T+T1 The Orient Pearl District Novos Aterros da Areia Preta *(Note 3)*	Residential and Commercial	17,900	195,600	Foundation work commenced	2017/2018	58.8

Notes:
(1) Gross floor area attributable to the Group is approximately 18,100 sq m
(2) With additional underground gross floor area of approximately 15,000 sq m for the commercial portion and car parking spaces of over 2,300
(3) The development of these properties are under the co-investment agreements with the ultimate holding company and its wholly owned subsidiaries

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				
18–24 Wan On Street 1–27 Wan Shun Street 2–26 Wan Fuk Street 1–23 Wan King Street Hung Hom	Residential and Commercial	4,038	33,900	100.0

D. Investment Properties of Joint Venture

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

E. Properties Under Development of Joint Venture

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) Heshun Meijing Shuiku Sector Lishui Town Nanhai District Foshan	Residential and Commercial	4,020,743	1,600,000	Construction work in progress	By phases from 2009 onwards	50.0

F. Properties Under Development of Associated Companies

Location	Usage	Approximate Total Site Area (sq m)	Approximate Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Mainland China						
Lot No. Jin Dong Liu 2004-066 intersection of Shiyijing Road and Liuwei Road Hedong District Tianjin	Residential and Commercial	135,540	850,000 *(Note)*	Construction work in progress (First phase)	First phase 2015	49.0
Jun Tai Garden (君珆花園) East of Hongwei Road, Xi Ping She Qu, Nancheng District, Dongguan	Residential and Commercial	32,521	79,700	Fitting out work in progress	2014	40.0

Note:
With additional underground gross floor area of approximately 35,000 sq m for the commercial portion.

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