



KW 嘉華國際集團有限公司
K. WAH INTERNATIONAL HOLDINGS LIMITED

於百慕達註冊成立之有限公司 Incorporated in Bermuda with limited liability

Stock code 股份代號 0173

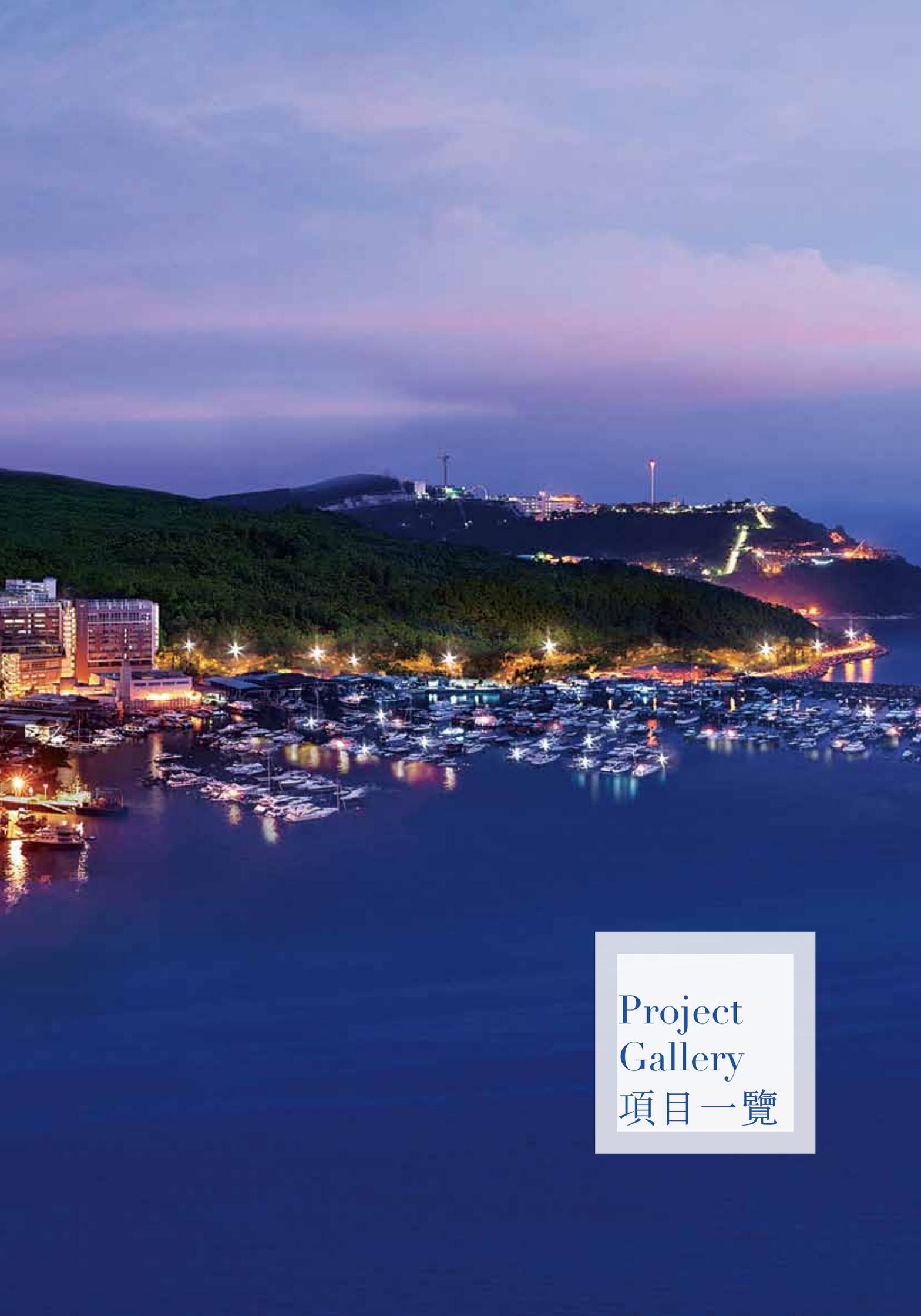
Excel and Sustain
碩果斐然 with *Quality*
品臻恆遠

| Annual Report 2012 年報



THE PALACE
嘉御庭





Project
Gallery
項目一覽

品精質優
為物業注入
豐厚價值

Achieving premium
pricing through
distinguished
design and quality





香港深灣9號 Marinella, Hong Kong

嘉華國際在香港房地產市場擁有逾40年經驗，擅長於開發精品物業，由旗下專業團隊所拓展之項目涵蓋住宅、甲級商廈、酒店、服務式公寓及特色商舖，物業皆匠心獨運，揉合特色設計、精湛技術、頂尖設備及創新元素於一身。

With over 40 years of experience in the property industry, KWIH is committed to delivering premium projects built to an uncompromising standard of quality. Our portfolio of residential developments, Grade A office towers, hotels, serviced apartments and retail complexes are truly one-of-a-kind. Each of our properties boasts a perfect interplay of superb design, delicate craftsmanship, top-notch facilities and innovative features, thanks to a team of seasoned professionals.



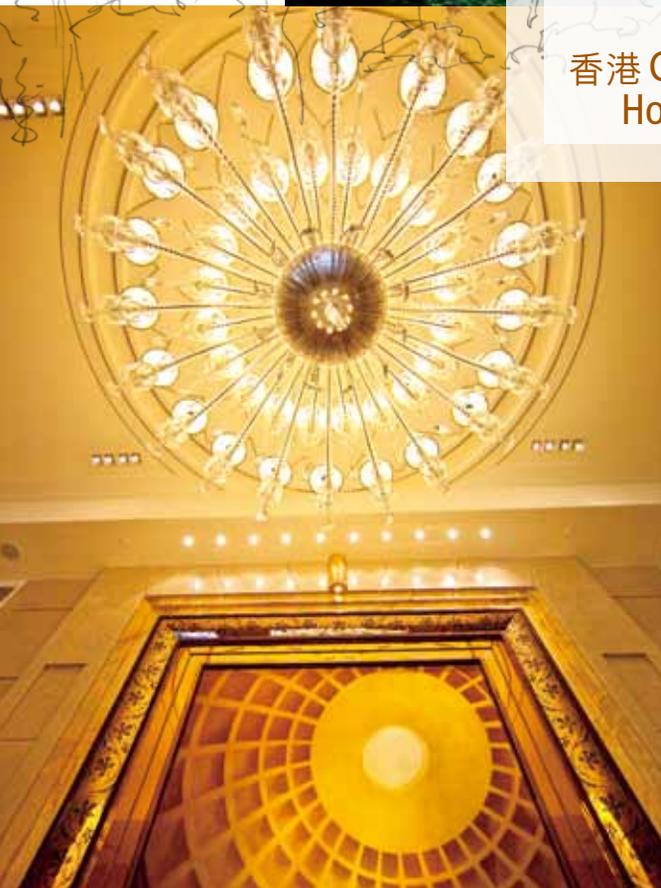


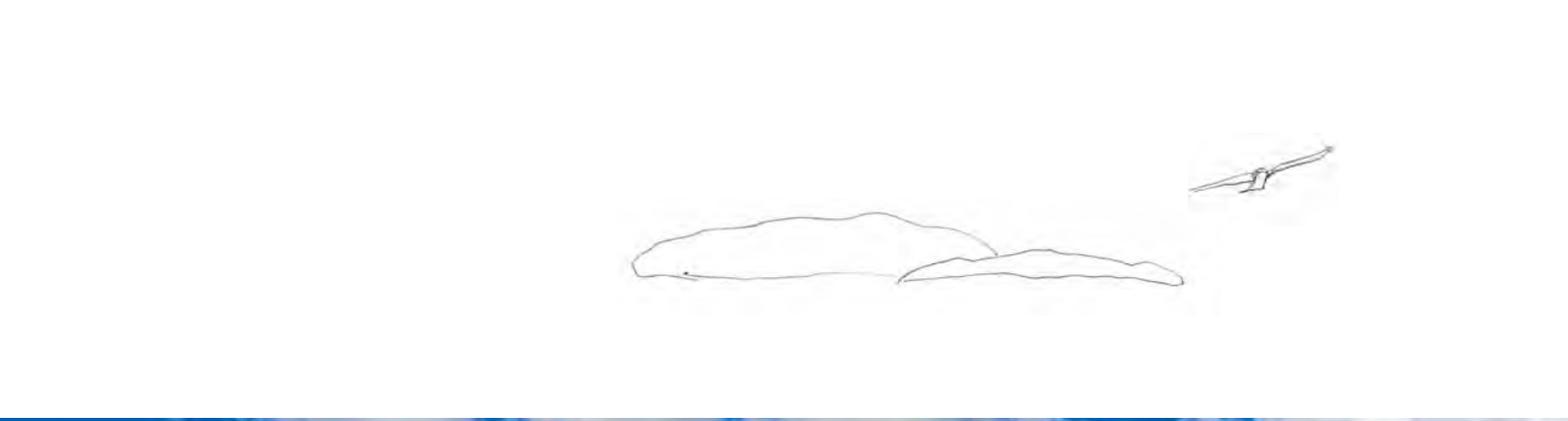
香港
深灣9號
Marinella,
Hong Kong





香港 Chantilly,
Hong Kong







香港天賦海灣
Providence Bay,
Hong Kong



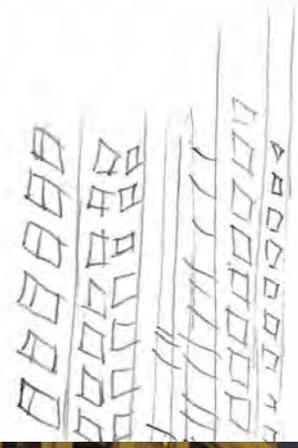




香港
濶玥·天賦海灣
Providence Peak,
Hong Kong







專注於
香港、長三角
和珠三角發展
優質特色項目

Strategic focus
on Hong Kong,
Yangtze and Pearl
River Deltas





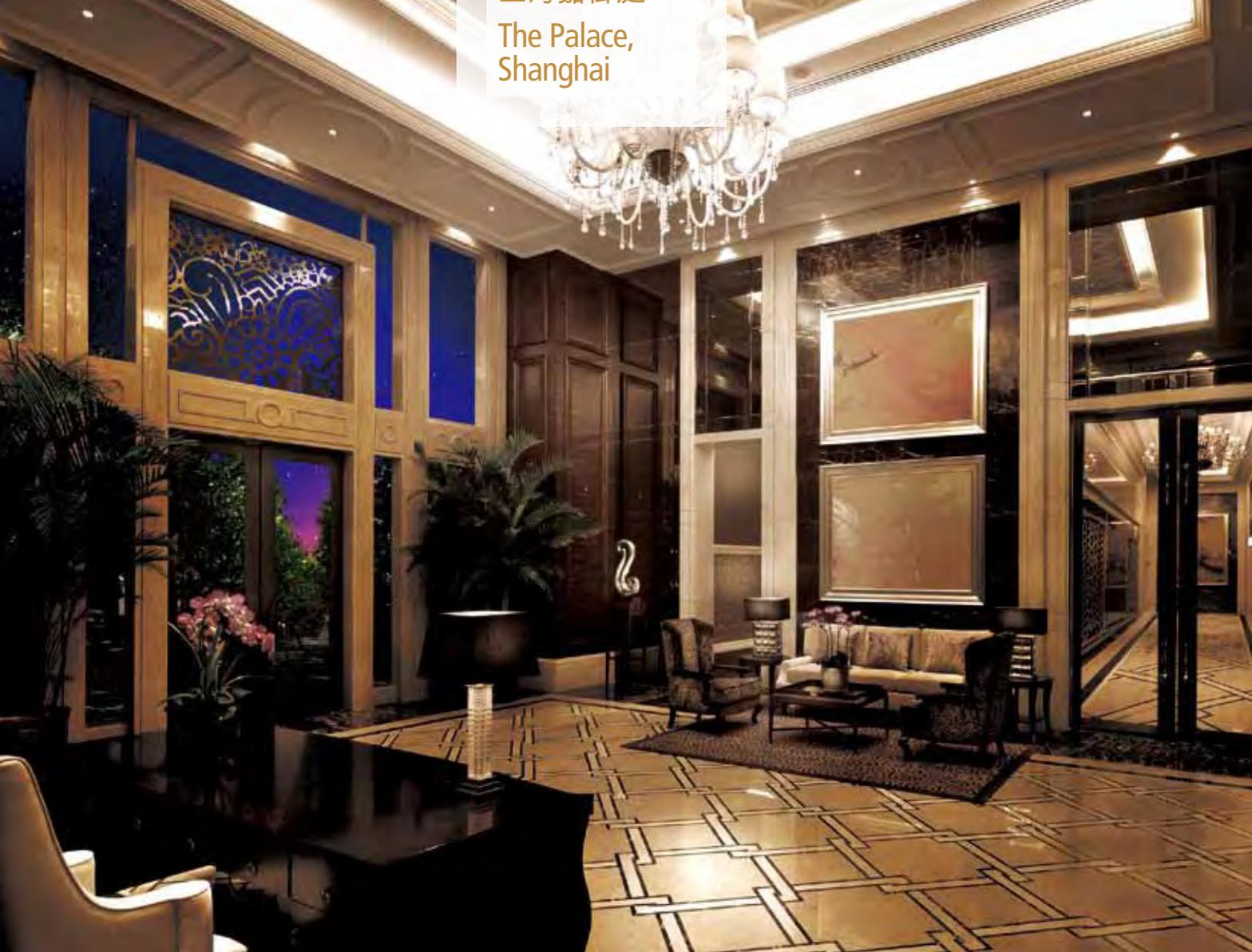
上海嘉御庭 The Palace, Shanghai

嘉華國際以締造理想居停為發展宗旨，因地制宜，以心建設品味獨特的優質物業，塑造現代生活新標準。多年來集團旗下物業質素備受市場認同，建築及設計屢獲國際殊榮。

Sharing the common vision and values of excellence and sustainability, we go beyond both in the projects we develop and the communities we help grow and cultivate. We have always been a trend-setter pioneering unique and sophisticated lifestyle. That is why we are honoured with a host of international accolades, besides earning a reputed name for impeccable living.



上海嘉御庭
The Palace,
Shanghai



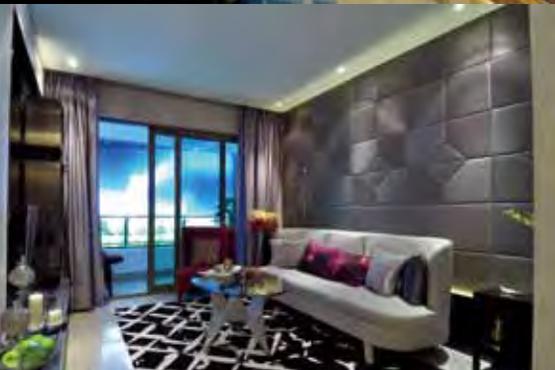






上海嘉悦天地
The Legend,
Shanghai







上海嘉怡水岸
Upstream Park,
Shanghai

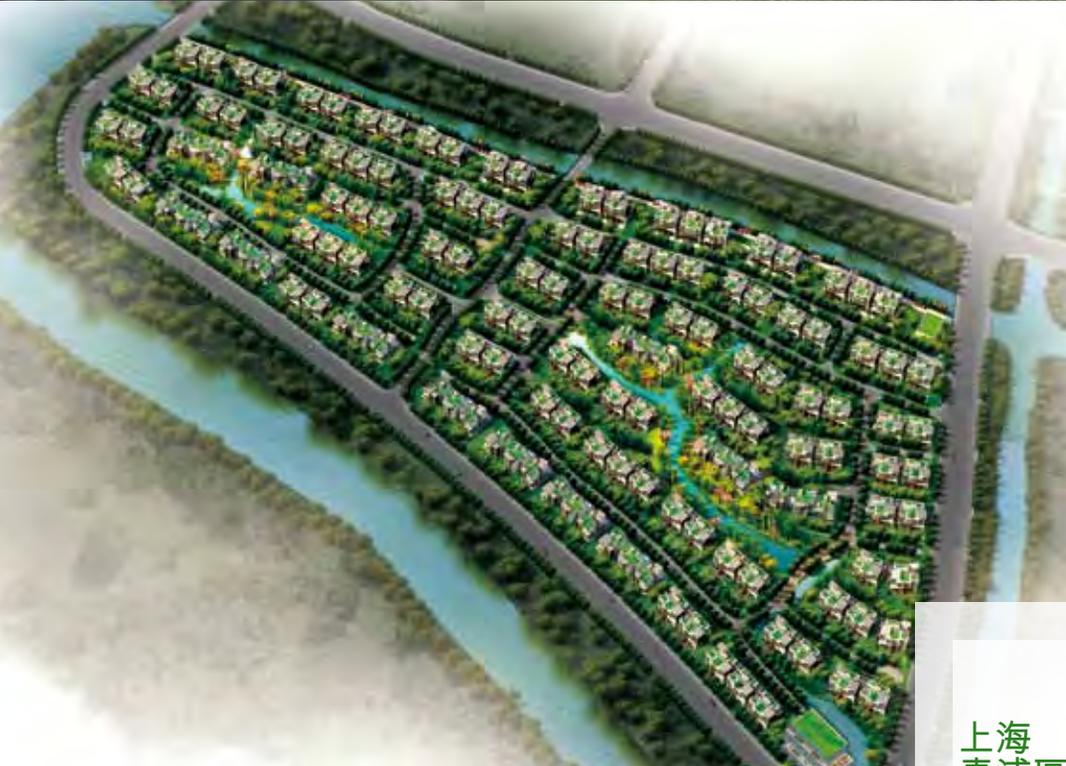




上海嘉天匯
Grand Summit,
Shanghai







上海
青浦區項目
Qingpu District
Project, Shanghai



財務實力雄厚
審慎進取開拓未來
Sustaining development
on strong financial
position





廣州花都嘉華廣場 Huadu Jiahua Plaza, Guangzhou

憑藉資深經驗及雄厚財政實力，嘉華國際將繼續以審慎進取的策略，物色具潛力的土地，為股東帶來長遠而持續的回報。集團亦秉持精益求精之理念，詮釋「嘉華」之優質品牌內涵。

Taking pride in our track record and strong financial capability, we will continue to adopt a progressive strategy with a disciplined approach to land acquisition, in strive for delivering long term shareholder value, and setting ever-higher standards of quality in the projects we undertake as a premier brand.





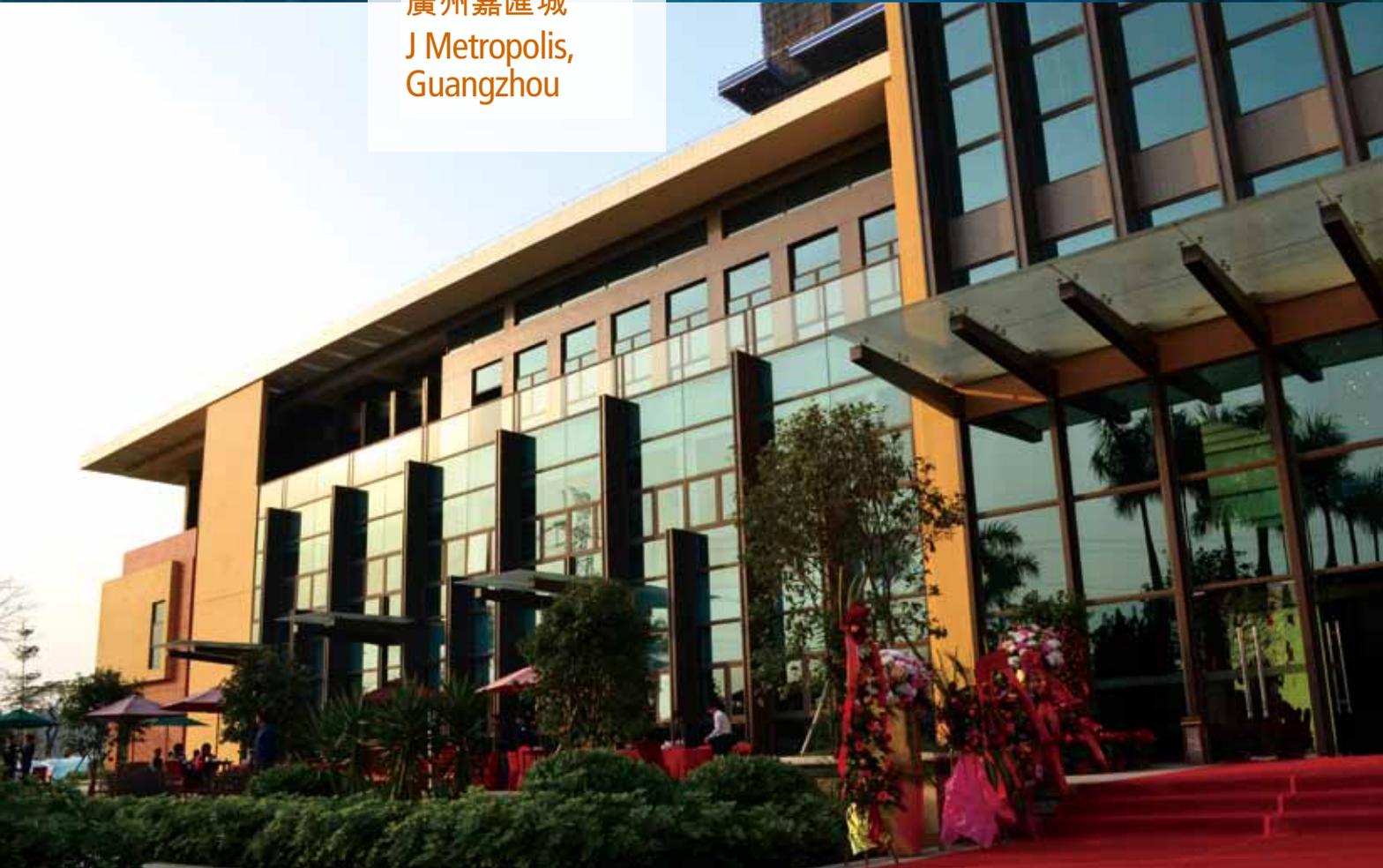
廣州嘉爵園
Le Palais,
Guangzhou







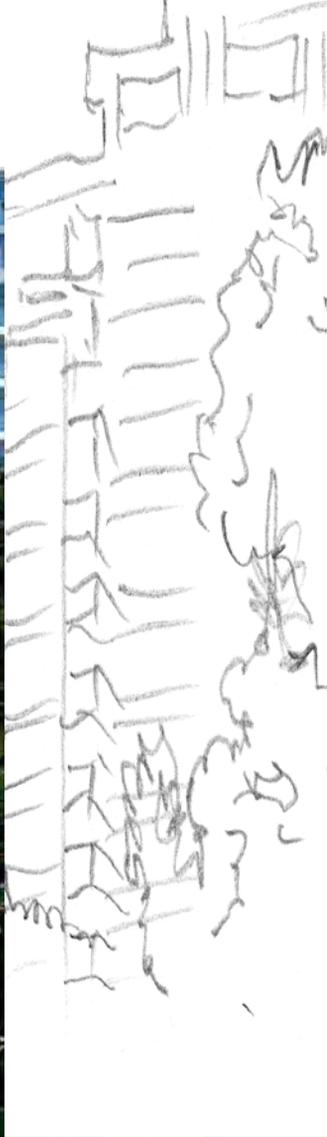
廣州嘉匯城
J Metropolis,
Guangzhou





廣州
花都嘉華廣場
Huadu
Jiahua Plaza,
Guangzhou





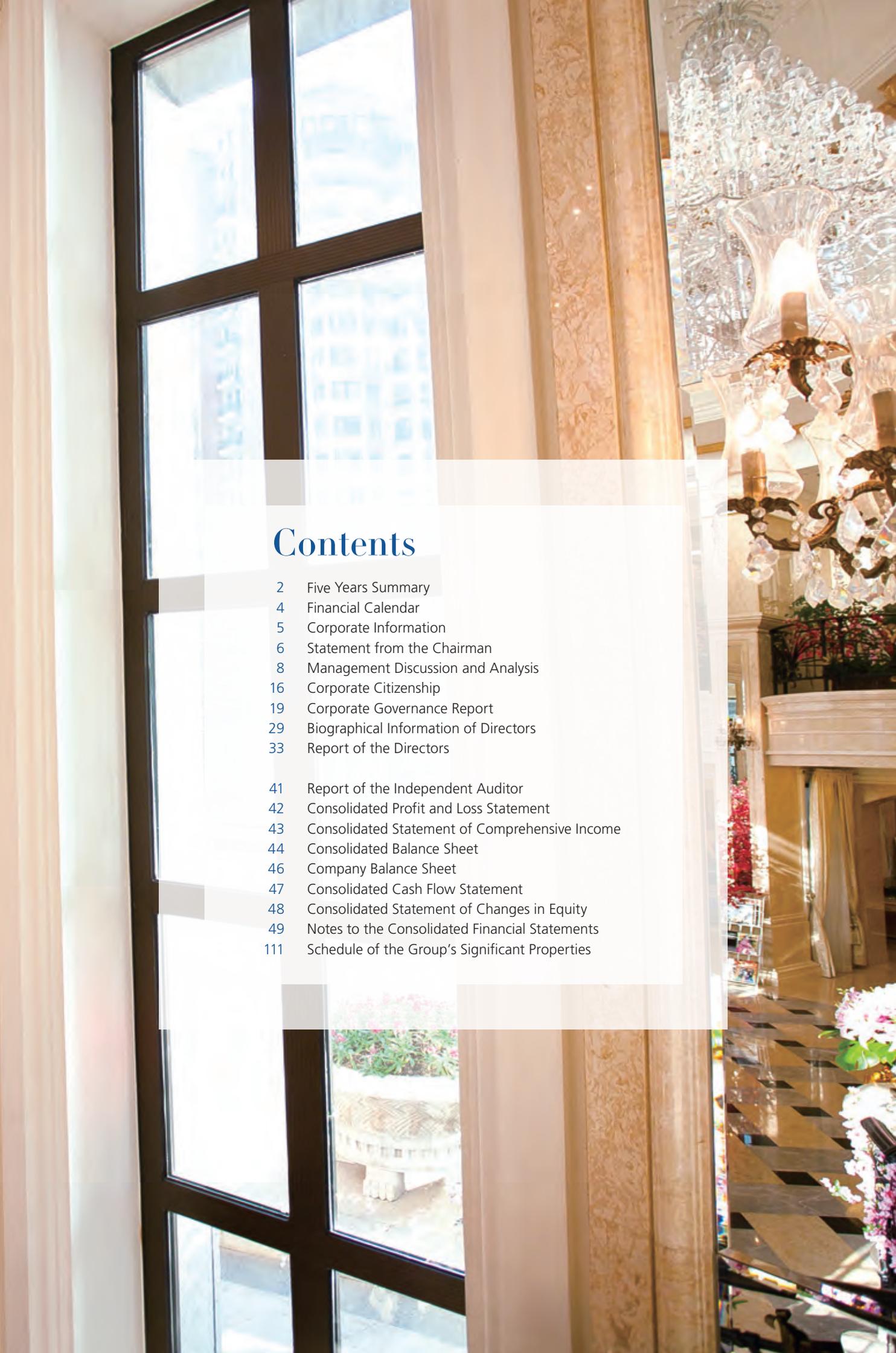




Our Mission 企業使命

It is our mission to focus on customer needs and pursue the spirit of excellence with quality products and services through our commitment to research, design and value creation. With vision, perseverance and teamwork, we strive to provide shareholders with the best return on their investment.

秉承以客為本及追求卓越之精神，不斷透過研究、設計及創造價值，恪守不屈不撓、群策群力及具遠見之經營理念，為客戶提供優質產品及服務，並為股東帶來理想投資回報。



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Hall of Achievement 傑出成就

嘉華國際主席呂志和博士 Dr Lui Che-woo, Chairman of KWIH

大紫荊勳章 — 香港特別行政區政府
Grand Bauhinia Medal by the HKSAR Government

亞太企業精神獎之終身成就獎
APEA Lifetime Achievement Award

亞洲酒店業卓越貢獻年度人物獎
Outstanding Achievement of the Year in Asia Hotel Awards

第13屆中國飯店金馬獎之終身成就獎
Lifetime Achievement Award in the 13th China Hotel Golden Horse Award



嘉華國際集團有限公司 K. Wah International Holdings Limited

財華社與騰訊網港股100強「飛騰獎」及「最有潛力獎」
Finet Group and Tencent Holdings — Quantum Leap Award and Most Promising Award at Top 100 HK Listed Companies 2012

嘉華(中國)投資有限公司 K. Wah (China) Investment Co. Ltd

2012上海最受歡迎樓盤 — 責任地產品牌企業
Responsible Property Developer in the Most Preferred Property Project in Shanghai 2012

深灣9號 Marinella

香港綠色建築議會及香港環保建築協會—Beam Plus 鉑金級前期認證
HKGBC & BEAM Society — Beam Plus Provisional Platinum

資本最佳發展商大獎2012 — 傑出銷售表現
Capital The Best Developer Awards 2012 — Outstanding Sales Performance

嘉御庭 The Palace

第七屆上海市優秀住宅 — 節能環保獎
Green Award in the 7th Shanghai Excellent Residential Projects

第七屆上海市優秀住宅 — 住宅產業化獎
Best Residential Award in the 7th Shanghai Excellent Residential Projects

2011–2012《地產星空》年度大獎
Best Property Award 2011–2012

嘉怡水岸 Upstream Park

第十屆最受歡迎樓盤評選 — 人居示範金獎
Gold Award in the 10th Most Preferred Property Project

2012上海品質標杆公寓樓盤
Best Residential Project in Shanghai 2012

嘉悅天地 The Legend

第七屆上海市優秀住宅銀獎
Silver Award in the 7th Shanghai Excellent Residential Projects

廣州花都皇冠假日酒店 Crowne Plaza Guangzhou Huadu

2011–2012國內商旅首選酒店《中國飯店》金馬獎
2011–2012 Golden Horse Award in Preferred Hotel for Domestic Business Travel by China Hotel

熱選商務酒店《高球假期》2012高球熱選大獎
The Choice of Business Hotel in Golfers' Choice Award 2012

Excel and Sustain
碩果斐然 with *Quality*
品臻恆遠



Five Years Summary

CONSOLIDATED PROFIT AND LOSS STATEMENT

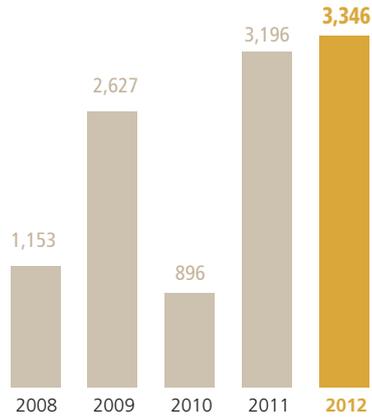
	2008	(Restated) 2009	2010	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	1,152,989	2,627,182	896,056	3,196,361	3,346,477
(Loss)/profit before tax	(406,998)	2,047,952	441,714	1,825,726	5,105,421
Taxation charge	(164,869)	(768,465)	(194,362)	(543,289)	(733,130)
(Loss)/profit from continuing operations	(571,867)	1,279,487	247,352	1,282,437	4,372,291
Profit/(loss) from discontinued operations	—	2,905	(6,621)	—	—
Non-controlling interests	(45,380)	(363,519)	(47,592)	(38,923)	(72,112)
(Loss)/profit attributable to equity holders of the Company	(617,247)	918,873	193,139	1,243,514	4,300,179
(Loss)/earnings per share (HK cents)	(25.0)	37.2	7.6	48.3	163.4
Dividend per share (HK cents)	2.0	11.0	2.0	10.0	15.0

CONSOLIDATED BALANCE SHEET

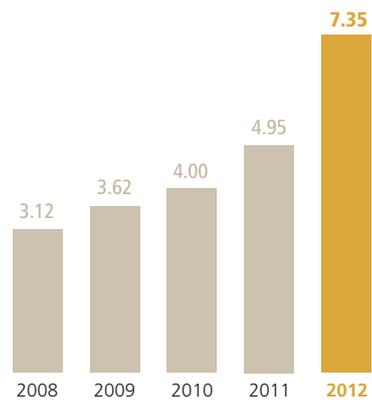
	2008	(Restated) 2009	2010	2011	2012
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets	3,871,113	4,674,551	5,109,299	5,218,133	5,579,639
Associated companies and jointly controlled entities	2,996,863	3,131,260	3,801,951	3,986,234	4,276,383
Other non-current assets/investments	177,091	618,436	1,525,786	2,417,304	4,924,835
Net current assets	4,793,691	7,188,725	7,138,393	8,484,564	15,184,661
Employment of capital	11,838,758	15,612,972	17,575,429	20,106,235	29,965,518
Financed by:					
Share capital	247,038	247,038	255,082	257,690	263,379
Reserves	7,458,661	8,707,479	9,953,423	12,491,475	19,093,656
Shareholders' funds	7,705,699	8,954,517	10,208,505	12,749,165	19,357,035
Non-controlling interests	1,198,556	1,492,701	896,919	996,486	1,052,460
Long-term liabilities	2,325,615	4,427,579	5,661,799	5,448,377	8,412,763
Non-current liabilities	608,888	738,175	808,206	912,207	1,143,260
Capital employed	11,838,758	15,612,972	17,575,429	20,106,235	29,965,518
Net assets value per share (HK\$)	3.12	3.62	4.00	4.95	7.35

Note: The summary of 2008 has not been restated following the adoption of certain revised Hong Kong Financial Reporting Standards in 2010.

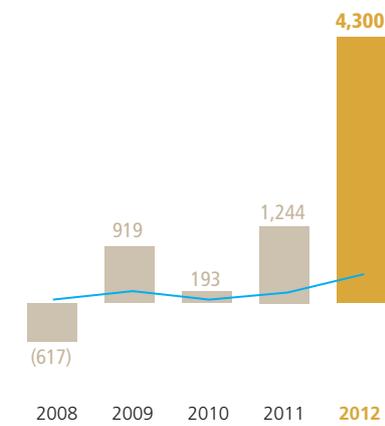
Revenue (HK\$ Million)



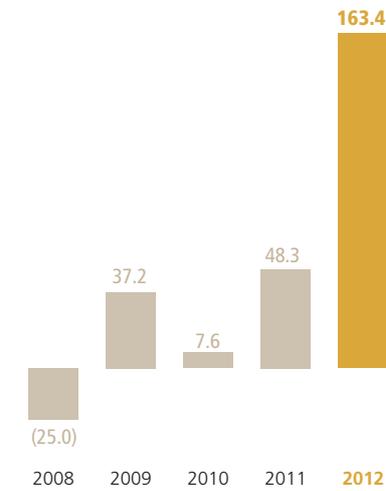
Net Assets Value Per Share (HK\$)



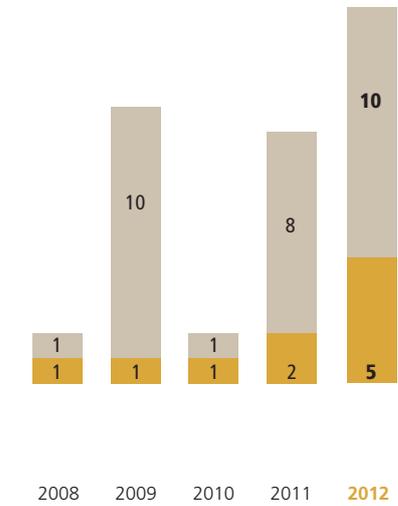
Dividend and (Loss)/Profit Attributable to Equity Holders of the Company (HK\$ Million)



(Loss)/Earnings Per Share (HK Cents)



Dividend Per Share (HK Cents)



■ (Loss)/Profit Attributable to Equity Holders of the Company
— Dividend

■ Final Dividend
■ Interim Dividend



Financial Calendar

DATES	EVENTS
28 August 2012	Announcement of Interim Results for the six months ended 30 June 2012
9 November 2012	Payment of 2012 Interim Scrip Dividend (with cash option) of 5 HK cents per share
27 March 2013	Announcement of Annual Results for the year ended 31 December 2012
31 May 2013 to 5 June 2013 (both dates inclusive)	Closure of Registers of Members for ascertaining Shareholders' entitlement to attend and vote at the 2013 Annual General Meeting
5 June 2013	2013 Annual General Meeting
14 June 2013 to 18 June 2013 (both dates inclusive)	Closure of Registers of Members for ascertaining Shareholders' entitlement to the 2012 Final Dividend
18 June 2013	Record Date for 2012 Final Dividend
24 July 2013	Payment of 2012 Final Scrip Dividend (with cash option) of 10 HK cents per share

Corporate Information

CHAIRMAN & MANAGING DIRECTOR

Dr. Lui Che-woo, *GBM, MBE, JP, LLD, DSSc, DBA*

EXECUTIVE DIRECTORS

Mr. Francis Lui Yiu Tung

Ms. Paddy Tang Lui Wai Yu, *BBS, JP*

Mr. Alexander Lui Yiu Wah

NON-EXECUTIVE DIRECTOR

Dr. Moses Cheng Mo Chi, *GBS, OBE, JP*

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Robin Chan Yau Hing, *GBS, LLD, JP*

Dr. William Yip Shue Lam, *LLD*

Professor Poon Chung Kwong, *GBS, PhD, DSc, JP*

Mr. Au Man Chu

Mr. Wong Kwai Lam

AUDIT COMMITTEE

Dr. William Yip Shue Lam, *LLD, (Chairman)*

Professor Poon Chung Kwong, *GBS, PhD, DSc, JP*

Mr. Au Man Chu

REMUNERATION COMMITTEE

Dr. William Yip Shue Lam, *LLD, (Chairman)*

Dr. Lui Che-woo, *GBM, MBE, JP, LLD, DSSc, DBA*

Mr. Wong Kwai Lam

NOMINATION COMMITTEE

Dr. Lui Che-woo, *GBM, MBE, JP, LLD, DSSc, DBA, (Chairman)*

Dr. William Yip Shue Lam, *LLD*

Mr. Wong Kwai Lam

COMPANY SECRETARY

Ms. Cecilia Lee Wai Kwan, *LLM, FCIS, FCS*

INDEPENDENT AUDITOR

PricewaterhouseCoopers

PRINCIPAL BANKERS

Bank of China

Bank of Communications

Bank of East Asia

DBS Bank

Hang Seng Bank

Hongkong and Shanghai Banking Corporation

Industrial and Commercial Bank of China

China Minsheng Bank

SOLICITORS

Baker & McKenzie

Mayer Brown JSM

Philip K.H. Wong, Kennedy Y.H. Wong & Co.

P.C. Woo & Co.

REGISTERED OFFICE

Canon's Court

22 Victoria Street

Hamilton HM 12

Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

29th Floor, K. Wah Centre

191 Java Road

North Point

Hong Kong

PRINCIPAL SHARE REGISTRARS

Butterfield Fulcrum Group (Bermuda) Limited

26 Burnaby Street

Hamilton HM 11

Bermuda

HONG KONG BRANCH SHARE REGISTRARS

Computershare Hong Kong Investor Services Limited

Shops 1712-1716

17th Floor, Hopewell Centre

183 Queen's Road East

Wanchai

Hong Kong

AMERICAN DEPOSITARY RECEIPTS ("ADR")

The Bank of New York Mellon

P. O. Box 43006

Providence, RI 02940-3006

USA

WEBSITE ADDRESS

<http://www.kwih.com>

SHARE LISTING

The Stock Exchange of Hong Kong Limited ("SEHK")

STOCK CODE

SEHK : 173

Bloomberg : 173 HK

Reuters : 0173.HK

ADR : KWHAY

Statement from the Chairman

Dear Shareholders:

2012 was a year of record performance at K. Wah International Holdings Limited (“KWIH”), thanks to the enthusiastic reception of several quality projects that we launched in Hong Kong and Mainland China. During the period, attributable revenue increased 2.7 times to HK\$11,842 million, while profit attributable to equity holders of the company rose 2.5 times to HK\$4,300 million.

Our Board recommended a final dividend of 10 HK cents per share. Together with the interim dividend of 5 HK cents per share, the total dividend for the year amounted to 15 HK cents per share, a 50% increase compared with the year before.

ROBUST SALES SUPPORTED BY STRATEGIC DECISION-MAKING

Severe challenges remained in the international economic landscape in 2012, as the ongoing Euro debt crisis, concerns about the economic recovery and debt ceiling of the US, and moderated economic growth in emerging markets weighed down the world economy. The Asian economies, on the other hand, performed well with China reporting a 7.8% growth in Gross Domestic Product and Hong Kong recording a mild 1.4% growth.

Governments continued their quantitative easing policies in a bid to bolster economic growth. Ample liquidity together with low interest rates fuelled robust demand for assets. Throughout most of 2012, property prices were on an upward trend in Hong Kong and, to a lesser extent, Mainland China.

During the year, KWIH made strategic moves to launch high quality projects in Hong Kong, including Marinella on Island South, The Coronation in West Kowloon, and Providence Bay and Providence Peak at Pak Shek Kok, Tai Po, all of which were well received by the market. We are especially pleased to report that Marinella, a landmark luxury seafront residential project featuring sophisticated designs and numerous green features, became the first residential project in Hong Kong to be honoured with BEAM Plus Platinum Certification. This recognition acknowledged our support of sustainable development and our long-standing commitment to innovation and excellence.



In Mainland China, the Group achieved satisfactory sales with the launch of projects in Shanghai, including The Palace, a luxury development in the city centre tailored for the high-end market, as well as large-scale residential developments catering to the underlying demand for housing, such as The Legend and Upstream Park. In Guangzhou, the first batch of units in J Metropolis, another sizeable residential development, drew keen market interest after their launch in early 2013.

These remarkable sales results reflect our strategy of timing our launches flexibly to capitalize on the demand for quality properties, while further underpinning K. Wah’s reputation for quality in both Hong Kong and Mainland China.

During the same period, the investment property portfolio of the Group, including Shanghai K Wah Centre, a grade A office building, Huadu Jiahua Plaza in Guangzhou, and J SENSES in Hong Kong, continued to generate significant recurrent income.

REPLENISHING OUR LANDBANK FOR FUTURE GROWTH

During the year, KWIH acquired five high quality land parcels in Hong Kong and Mainland China for the sum of approximately HK\$5 billion, bringing our total attributable landbank under development and planning up to 1.8 million square metres. These acquisitions were made possible by our growing financial strength, which was enhanced by strong sales in Mainland China and Hong Kong, and prudent financial management. Located in well developed, highly accessible communities and supported by comprehensive ancillary facilities, the parcels we acquired have enormous potential for development. The Group has started project planning with the aim of delivering unique and innovative premium housing that will be launched according to market conditions in the coming years.

As at the end of 2012, our cash and bank balances amounted to HK\$7.2 billion, and our net gearing ratio remained at a healthy level of approximately 21%. Supported by our strong financial position and ongoing cash inflows from property launches, the Group will continue to replenish its landbank in Hong Kong, the Yangtze River Delta and the Pearl River Delta in a disciplined approach. This will be achieved by acquiring quality sites through a stringent selection process and identifying investment opportunities with good potential in order to deliver the best possible value for our shareholders.

SEIZING MARKET OPPORTUNITIES TO CREATE LONG-TERM VALUE

Uncertainty will continue to prevail in the macro-economic landscape in the year ahead as governments in Hong Kong and Mainland China introduce additional measures to regulate the property market, which we believe will contribute to its healthy and stable development over the long term. In the meantime, we see sustained demand for quality properties. The Central Government and the Hong Kong SAR Government have also made it clear that if property prices continue to rise, they will respond swiftly. At KWIH, we will remain alert to regulatory changes and make future investment decisions based on our disciplined approach.

The Hong Kong SAR Government's commitment to increase the medium- to long-term land supply will also present opportunities for experienced developers with a strong financial position. Over the past decades, K. Wah has won the trust of homebuyers and firmly established itself as a builder of outstanding property developments. We are confident that with our projects and replenished landbank we are well positioned to implement our flexible marketing strategy and to launch projects with opportune timing.

STRONG CORPORATE GOVERNANCE UNDERPINS THE GROUP'S SUCCESS

We recognize that the trust placed in us by our shareholders is based on a strong foundation of corporate governance, transparency and ethical business behaviour. Our Board comprises leaders in various professions or social sectors whose experience brings immense benefit to our business operations. In their role, they approve the annual budgets prepared by our management and ensure the overall standard of corporate governance at KWIH is maintained at the highest level.

Our exceptional achievement for the year has been made possible by the dedication of our staff, in particular our team of seasoned professionals whose acute market sense and strong execution capabilities have contributed to our business success. On behalf of the Board, I would like to take this opportunity to thank them sincerely for their unwavering commitment to serving the Group.

I take great pride in having such an outstanding team at KWIH and look forward to our continuous success in the years ahead.

Dr Lui Che-woo
Chairman

27 March 2013

Management Discussion and Analysis

REVIEW OF OPERATIONS

For the Company, the year 2012 was one of unprecedented growth during which the financial results of the Group reached a new historical high. The revenue of the Group for 2012 was HK\$3,346 million, which was mainly derived from the property sales of Westwood Phase III in Shanghai, Chantilly in Hong Kong and Le Palais in Guangzhou, as well as from the rental income of Shanghai K. Wah Centre. The attributable revenue of the Group (“Attributable Revenue”), comprising the revenue of the Group, revenue contributions from jointly controlled entities amounting to HK\$6,281 million and from associated companies amounting to HK\$2,215 million, increased by 2.7 times to a record high of HK\$11,842 million in 2012. The increase was mainly attributable to our joint venture projects in Hong Kong, namely, Marinella, The Coronation, Providence Bay and Providence Peak.

Attributable Contracted Sales of the Group (being contracted sales of the Group and contributions from jointly controlled entities and associated companies) in 2012 amounted to approximately HK\$7,500 million, mainly attributable to our joint venture projects in Hong Kong and The Palace, Westwood Phases II and III as well as Upstream Park in Shanghai. Of the contracted sales during the year, approximately HK\$5,200 million has been recognised as attributable revenue in the accounts of the Group in 2012.

Profit attributable to equity holders of the Company for the year ended 31 December 2012 increased by 2.5 times to a record high of HK\$4,300 million as compared with the previous year. Underlying profit of the Group in 2012 was HK\$4,127 million, an increase of 2.4 times as compared with the previous year. The profit recognised was mainly derived from various joint venture projects in Hong Kong, Westwood Phase III and a gain on the disposal of a non-core asset (Shanghai Baoland).

Total comprehensive income attributable to equity holders of the Company increased by 169% to HK\$6,919 million for the year ended 31 December 2012, as compared with the previous year. The substantial increase in total comprehensive income was primarily due to the increase in fair value of HK\$2,613 million on non-current investments of an approximately 3.9% interest in Galaxy Entertainment Group Limited, in addition to the increase in profit attributable to equity holders.

	Property development			Property investment	Others	Total
	Mainland			HK\$'000	HK\$'000	HK\$'000
	Hong Kong HK\$'000	China HK\$'000	Others HK\$'000			
Year ended 31 December 2012						
Revenue	450,777	2,512,665	22,637	279,463	80,935	3,346,477
Adjusted EBITDA	243,703	1,448,346	9,995	239,844	(214,258)	1,727,630
Other income and expenses/gains, net						(10,689)
Depreciation and amortisation						(42,986)
Operating profit						1,673,955
Year ended 31 December 2011						
Revenue	1,150,310	1,728,591	29,308	266,439	21,713	3,196,361
Adjusted EBITDA	696,849	1,098,453	15,372	231,749	(189,778)	1,852,645
Other income and expenses/gains, net						(99,022)
Depreciation and amortisation						(25,836)
Operating profit						1,727,787

Revenue by Division

For the year ended 31 December 2012
(HK\$'000)



Hong Kong

Employment of Total Assets

As at 31 December 2012
(HK\$'000)



Hong Kong

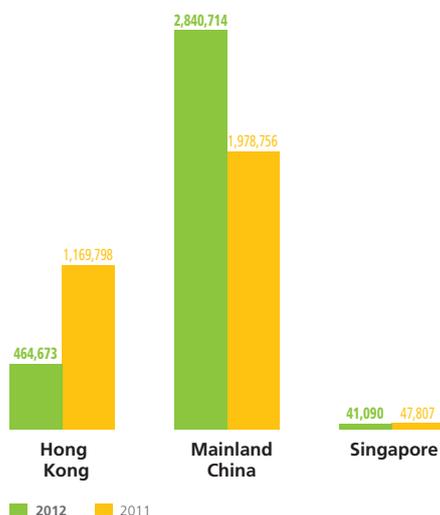
During the year, occupation permits for our four joint venture projects, namely, Marinella, The Coronation, Providence Bay and Providence Peak, were obtained with excellent profits recognised from the sale of units. In the retail sector, the leasing market remained strong, and the Group achieved satisfactory occupancy and rental rates from its investment properties.

- | | |
|--|---------------------------------------|
| 1 Chantilly | 6 Tseung Kwan O Town Lot No.115 & 117 |
| 2 2 Grampian Road | 7 Yuen Long Town Lot No. 513 |
| 3 Marinella | 8 30 Po Shan Road |
| 4 Providence Bay, Providence Peak, Tai Po Town Lot 201 | 9 J SENSES |
| 5 The Coronation | |

Management Discussion and Analysis

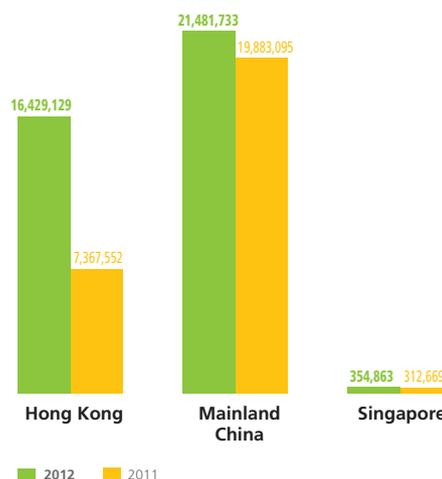
Revenue by Geographical Area

For the year ended 31 December 2012
(HK\$'000)



Total Assets by Geographical Area

As at 31 December 2012
(HK\$'000)



For its project pipeline, the Group invested over HK\$3 billion in three new residential projects in Hong Kong during the second half of 2012. These projects are planned for completion within the next three to five years.

(A) Current Major Development Properties

(i) *Chantilly, 6 Shiu Fai Terrace, Stubbs Road (100% owned)*

This exclusive low-rise residential project with a total GFA of approximately 8,100 square metres has 24 luxury apartments in 12 storeys, an exclusive club-house and a swimming pool. The project has now been completed and over 20% of the residential units have been sold.

(ii) *2 Grampian Road, Kowloon (100% owned)*

The Group plans to develop this project into a premium residential development comprising small-to medium-sized units with a total GFA of approximately 3,200 square metres. Foundation work has been completed with a targeted completion in 2014.

(iii) *Marinella, Aberdeen, Hong Kong (35% owned)*

Marinella is a luxury residential development under a joint venture with other property developers. The Group is the lead partner and project manager in this development. Total GFA is approximately 69,300 square metres comprising 411 units. The certificate of compliance was obtained in November 2012, and over 90% of the residential units have been sold.

(iv) *Providence Bay, Tai Po (15% owned)*

This is a luxury residential development under a joint venture with other property developers. Total GFA is approximately 78,400 square metres. The certificate of compliance was obtained in February 2013, and over 50% of the residential units have been sold.

(v) *The Coronation, West Kowloon (15% owned)*

A joint venture with other developers, this luxury residential development covers a total GFA of approximately 70,000 square metres, of which approximately 8,000 square metres will be for retail and shop use. The certificate of compliance was obtained in December 2012, and almost all the residential units have been sold.

(vi) *Providence Peak, Tai Po (25% owned)*

This is a luxury residential development under a joint venture with other developers. Total GFA is approximately 83,600 square metres. The occupation permit was obtained in December 2012, and around 70% of the residential units have been sold.

(vii) *Tai Po Town Lot 201, Tai Po (15% owned)*

Covering a total GFA of approximately 67,000 square metres, this luxury residential development is under a joint venture with another developer. Superstructure work is in progress with an expected completion date by 2014.

(viii) Tseung Kwan O Town Lot No.115, Area 66D1 (100% owned)

The Group acquired the site in August 2012 for residential development. Covering a total GFA of approximately 28,000 square metres, the project will soon begin foundation work. Completion of the project is expected by 2016.

(ix) Tseung Kwan O Town Lot No.117, Area 66C2 (40% owned)

In September 2012, the Group joined with another developer to acquire this site for residential development. Total GFA is approximately 45,000 square metres. Foundation work will soon commence, and the project is expected to be completed by 2017.

(x) Yuen Long Town Lot No.513 (60% owned)

In October 2012, the Group joined with another developer and acquired this site for residential development. Total GFA is approximately 49,000 square metres. Site investigation and formation works will soon commence, and the project is expected to be completed by 2018.

(xi) 30 Po Shan Road, Mid-Levels, Hong Kong (50% owned)

This is a luxury residential development under a joint venture with another property developer. Total GFA is approximately 3,700 square metres, and planning and design work is in progress.

(B) Other properties in Hong Kong

J SENSES at J Residence, Johnston Road, Wan Chai (a joint development with the URA)

J SENSES is a premium dining and shopping arcade located in the heart of Hong Kong Island, with a GFA of approximately 3,400 square metres. It is almost fully occupied and continues to deliver stable rental income for the Group.

Mainland China

The Group has established a key presence in the Pearl River Delta and Yangtze River Delta regions of Mainland China. Its property development projects are mainly located in prime areas of first-tier cities such as Shanghai and Guangzhou.

During the year, the Group successfully acquired two sites: one in Puxing of Pudong District in Shanghai and the other in Shilong Town of Xihu District in Dongguan for a total sum of around HK\$1.6 billion. These projects are due for completion within the next three to four years.

(A) Current Major Development Properties

Shanghai

(i) The Legend, Guangzhong Road, Da Ning International Community (100% owned)

The Legend is the third phase of our large-scale residential project, Shanghai Westwood. It comprises five residential buildings covering approximately 106,000 square metres GFA. The development of four blocks was completed and handed over to buyers in 2012. The last block was completed in early 2013 and the units are being handed over to buyers. Almost all of the residential units have been sold.

(ii) The Palace, Jianguoxi Road, Xuhui District (100% owned)

This unique development is located in a traditional affluent residential area of Shanghai. The GFA of this project is approximately 140,000 square metres, featuring 13 blocks of luxury residential buildings and upscale commercial facilities. Pre-sales of Phase I of the project covering approximately 36,000 square metres GFA commenced in late 2011 and received positive comments in regard to its quality and location. Over 60% of the units in Phase I have been sold. Construction of Phase I was completed and the units are being handover to buyers.

(iii) Grand Summit, Urumqi Road, Jingan District (99% owned)

Situated in an upmarket area of Jingan District close to the vibrant central retail and business district of Nanjing West Road, this luxury residential project has a GFA of approximately 100,000 square metres. The residential buildings have been topped out, and pre-sales are planned for the end of 2013 or early 2014.

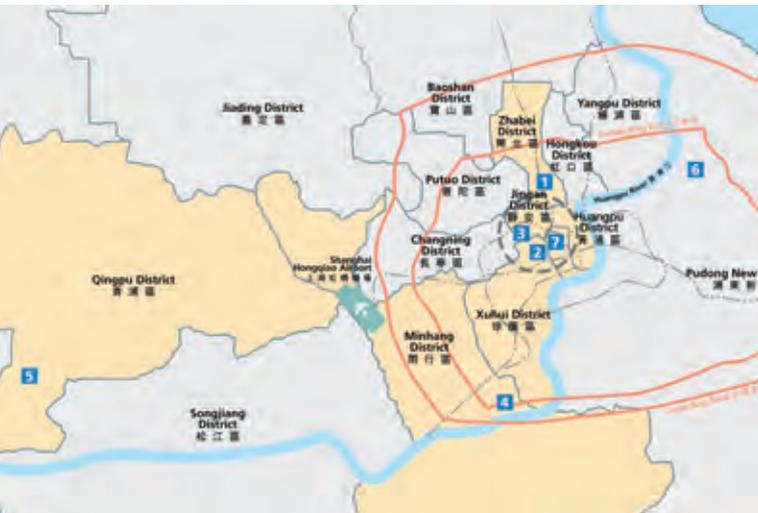
(iv) Upstream Park, Minhang District (100% owned)

Located on Wujing, Minhang District, this project is being developed into an integrated residential and commercial complex with a total GFA of approximately 172,000 square metres. Construction is underway with a targeted completion of late 2013. Pre-sales of the project started in July 2012 in phases. Over 75% of the units launched (approximately 73,000 square metres GFA) have been sold.

Management Discussion and Analysis



Shanghai



- 1 The Legend, Shanghai Westwood III
- 2 The Palace
- 3 Grand Summit
- 4 Upstream Park
- 5 Qingpu District Project
- 6 Lot 19-04, Puxing, Pudong District
- 7 Shanghai K. Wah Centre

(v) Qingpu District Project (100% owned)

Comprising low-rise residential buildings with ancillary shopping facilities in a popular tourist area, this project is located in Zhujiajiao Town, Qingpu District, with a total GFA of approximately 69,000 square metres. Construction of this project has already commenced with a targeted completion date of 2014.

(vi) Lot 19-04, Puxing, Pudong District (100% owned)

This newly-acquired site is located in Puxing of Pudong District, with a total GFA of approximately 31,000 square metres. It is within a well-developed residential area with good transportation links to the Pudong CBD. The project is in the planning and design stage and expected to reach completion in the next three to four years.

Guangzhou and Dongguan

(vii) Huadu Jiahua Plaza, Yingbin Road, Huadu District (100% owned)

This site is close to the New Baiyun International Airport and has a total GFA of approximately 269,000 square metres. The project is a composite development with hotel, offices and premium residential towers. The first phase, including a hotel and an office tower, has been completed. Construction of the second phase residential development has commenced and is targeted for completion in 2015, while the final phase is currently under planning.

(viii) Le Palais, Jianshebei Road, Huadu District (100% owned)

Located in the downtown area of Huadu, this residential development covers a total GFA of approximately 46,000 square metres and is about a 20-minute drive from the New Baiyun International Airport. The project was completed in 2012, and over half of the residential units have been sold.

(ix) Xinhuzhen, Huadu District (99.99% owned)

The total GFA of Xinhuzhen is approximately 828,000 square metres, with development to be undertaken in phases. The first phase comprises approximately 80,000 square metres. Following the launch of approximately 27,000 square metres in January 2013, the project received a favorable response in the market. Construction of the first phase is underway with a targeted



Guangzhou



- 1 Huadu Jiahua Plaza
- 2 Le Palais
- 3 Xinhuaazhen, Huadu District (Phase I: J Metropolis)

completion of 2014. Other phases are in the planning and design stages.

(x) Shilong Town Lot 11, Xihu District, Shilong Town, Dongguan (99% owned)

This newly acquired site is located in the Xihu District of Shilong Town with a total GFA of approximately 202,000 square metres and an expansive river frontage. It is within walking distance of the new Dongguan station due to open before the end of 2013. The project is in the planning and design stage for residential development, with completion targeted over the next three to four years.

(B) Investment Property (approximately 72,000 square meters)

Shanghai K. Wah Centre, Huaihai Zhong Road, Shanghai (69.6% effective interest)

This prime investment property continued to maintain a high occupancy rate throughout the year, achieving satisfactory rental income.

Major Properties in Singapore

San Centre, Chin Swee Road (100% owned)

San Centre is a 12-storey office building, in which the Group owns a total GFA of approximately 5,800 square metres. During the year, it maintained a satisfactory occupancy rate and delivered stable rental income.

Investment in Galaxy Entertainment Group Limited ("GEG")

The Group maintains a non-current investment of 162 million shares or an approximately 3.9% interest of GEG carried at fair market value. As of 31 December 2012, the share price of GEG was HK\$30.30 compared with HK\$14.22 as of 31 December 2011. The increase in fair value of approximately HK\$2,613 million was directly recorded as an increase in reserve. This investment has materially increased the net asset position of the Group.

OUTLOOK

2013 is likely to prove to be a challenging year for the global economy. Amongst the very few bright spots is the slow recovery of the US economy, together with the resolution of the fiscal cliff and tackling of the debt ceiling. Europe is largely in recession, and the lengthy process for the resolution of the debt crisis is still underway, causing continuing uncertainty.

The Asian economies are expected to maintain growth, despite the global economic slowdown. In Mainland China, GDP is projected to grow at 7.5% in 2013

Management Discussion and Analysis

on the back of fixed asset investment and domestic consumption. Hong Kong is anticipated to sustain modest growth as a result of stable labour market conditions and local consumption.

The property market in Hong Kong saw a strong price rise of around 20% in the residential sector in 2012. In response, the Hong Kong Government announced three rounds of tightening measures in the space of five months since October 2012. The central government in the Mainland has also been resolute in its determination to rein in property price rises by issuing various warnings and directives to local governments, the latest being the “Five Points Policy” issued right before the commencement of the National People’s Congress.

With strong fundamentals in both Hong Kong and the Mainland, the residential property market is now much more influenced by government policy initiatives. The outlook for 2013 is that property prices are likely to be stable or even subdued, although transaction volume may be affected materially by the various policy measures.

The Group is planning to launch the Grampian Road project in Hong Kong this year. This premium residential project comprises small- to medium-sized units. Sale of the remaining units of Chantilly and Marinella will continue, as will the marketing efforts for our joint venture projects in Tai Po (Providence Bay and Providence Peak).

In the Mainland, we will continue marketing the Palace and Upstream Park projects in Shanghai. Depending on the progress of the project and market conditions, Grand Summit will also be considered for launch towards the end of the year or early next year. In Guangzhou, we launched

the initial batch of units in J Metropolis which were very well received at the beginning of the year. The Group is currently examining the timing for the launch of the second batch. The remaining units in Le Palais in Guangzhou will continue to be marketed.

The contracted sales for the Palace and the last block of the Westwood project (T19) will be recognised in the first half of the year. Depending on the progress of the project, the sales in respect of Upstream Park may be booked towards the end of the year. The sales of the Grampian Road in Hong Kong and J Metropolis in Guangzhou will not be recognised in 2013.

The Group successfully acquired interests in three sites in Hong Kong and two in the Mainland during the second half of 2012. The planning for these five projects is well underway, and they are expected to be developed and marketed within the normal development cycle. It is the strategy of the Group to continue selling its development properties notwithstanding challenging market conditions while replenishing its project pipeline selectively with the net sales proceeds. These acquisition initiatives are well underpinned by the Group’s strong financial position in terms of its relatively low gearing and high cash resources on hand. In Hong Kong, we will continue to participate in land acquisition opportunities while in the Mainland, we are closely monitoring opportunities in the Yangtze and Pearl River Delta areas.

REVIEW OF FINANCE

(1) Financial Position

The financial position of the Group remained strong. Total funds employed were increased to HK\$31 billion as of 31 December 2012 (2011: HK\$22 billion). The number of the issued shares of the Company increased to 2,633,793,837 as of 31 December 2012 (2011: 2,576,902,149) as a result of certain share options being exercised and the issue of a scrip dividend during the year.

(2) Group Liquidity, Financial Resources and Gearing Ratio

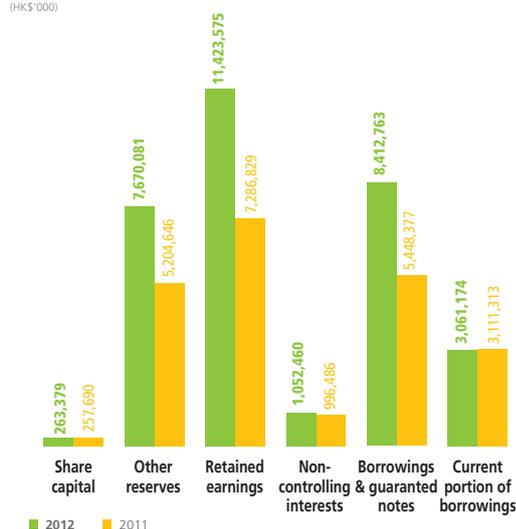
The Group monitors its liquidity requirements on a short- to medium-term basis and arranges refinancing of the Group’s borrowings when appropriate. As of 31 December 2012, cash and bank deposits stood at HK\$7,239 million, and total borrowings amounted to HK\$11,474 million. Of the long-term bank borrowings, around 77% had maturities over a period of one year and above.

In addition, the Group had available undrawn facilities totalling HK\$2,520 million and HK\$2,737 million for working capital and project facility purposes respectively.

The gearing ratio, defined as the ratio of total borrowings less cash, bank deposits and structured

Sources of Funding

As at 31 December 2012
(HK\$'000)



bank deposits to total equity, stayed at a healthy level of 21% as of 31 December 2012 (2011: 29%).

In May and December 2012, the Group successfully issued 5-year US\$200 million and HK\$150 million guaranteed notes respectively under the US\$1 billion MTN programme. The latter was done through a private placement which opened up another fund-raising source for the Group. In August 2012, the Group successfully arranged a 3-year syndicated loan of HK\$2,800 million with a well-diversified consortium of banks. Part of the proceeds will be used for refinancing, while the remaining will serve as general working capital to enhance the Group's liquidity.

(3) Treasury Policies

The Group continues to adopt a conservative approach regarding foreign exchange exposure to minimise risk. The majority of the Group's borrowings are in Hong Kong dollars. Forward foreign exchange contracts are utilised when suitable opportunities arise and when considered appropriate to mitigate foreign exchange exposures. Interest rate swap contracts are also utilised when considered appropriate to avoid the impact of any undue interest rate fluctuations on the Group's operations.

During the year, the Group engaged in the use of foreign exchange contracts to mitigate US dollar exposure in respect of the principal of the 5-year US\$200 million guaranteed notes issued in May 2012. The Group has also engaged in the use of interest rate swap contracts to avoid the impact of any undue interest rate fluctuations on the 5-year HK\$150 million guaranteed notes issued in December 2012.

(4) Charges on Group Assets

As of 31 December 2012, certain subsidiaries of the Group pledged assets (comprising investment properties, development properties, leasehold land and land use rights, and buildings) with aggregate carrying values of HK\$15,220 million (2011: HK\$12,115 million) to banks to secure the Group's borrowing facilities.

(5) Guarantees

As of 31 December 2012, the Company has executed guarantees in favour of banks and financial institutions in respect of facilities granted to certain subsidiaries, jointly controlled entities and associated companies amounting to HK\$9,825 million (2011: HK\$8,304 million), HK\$117 million (2011: HK\$2,521 million) and HK\$641 million (2011: HK\$1,650 million), of which facilities totaling HK\$6,285 million (2011: HK\$6,134 million), HK\$117 million (2011: HK\$1,860 million) and HK\$394 million (2011: HK\$1,054 million) have been utilised respectively.

In addition, a subsidiary of the Company provided guarantees amounting to HK\$154 million (2011: HK\$26 million) in respect of mortgage facilities granted by banks relating to the mortgage loans arranged for purchasers of the Group's properties.

The Company has executed a guarantee in favour of the HKSAR Government in respect of the performance obligation of an investee company under a contract with the HKSAR Government.

EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2012, the Group, excluding its associated companies and jointly controlled entities, employs 811 employees in Hong Kong, Mainland China and Singapore. Employee costs, excluding Directors' emoluments, amounted to approximately HK\$262 million for the year under review.

The Group believes its success, long-term growth and development depend upon the quality, performance and commitment of its employees. The Group's remuneration policy aims to offer competitive remuneration packages to attract, retain and motivate competent individuals. The Group believes the remuneration packages of its employees are fair, reasonable and competitive in relation to comparable organizations in the areas in which the Group operates its principal business.

Following approval by the Shareholders in 1989, the Group has put in place a share option scheme for its executives and employees for the purposes of providing competitive remuneration package as well as retaining talents in the long term. Likewise in Mainland China, employees' remuneration is commensurate with market pay levels and the Group puts emphasis on the provision of training and development opportunities.

TRAINING AND DEVELOPMENT

Human capital is the driving force of the Group, and continuous education plays a vital part in enhancing the core competencies of the Group's work force. To this end, the Group provides full support to its employees in appropriate training and development programmes for continuous improvement.

In 2012, the Group organized a suit of focused training and development programmes for targeted employees to enhance their knowledge and capability. In addition, the Group implemented a holistic development plan comprised of job rotations, training programmes and special assignments to nurture staff of high calibre to be future leaders for succession purpose. The Group also sponsors its employees to attend external job-related seminars or workshops in Hong Kong and Mainland China organized by the accredited educational institutions and professional bodies.

Corporate Citizenship

At KWIH we put sustainability at the core of our operations, as we believe our continued business success depends on our on-going commitment to stakeholders and the communities we serve. From developing our human capital and caring for the environment to supporting meaningful causes, KWIH enriches lives through a holistic range of corporate social responsibility initiatives. These are the foundations on which KWIH stands in its quest to create a better, more sustainable future.

WE EXCEL WHEN OUR STAFF EXCEL

Staff development is crucial to ensuring a well-trained, well-motivated workforce capable of contributing to the company's long-term success. During the year we launched a broad range of programmes to refresh the skills and knowledge of our staff. These included seminars and workshops on disclosure of inside information (photo 2), managing EQ, business writing and team-building. The team-building workshop (photos 4&5) was especially valuable for enhancing team spirit among our staff — one of the core values of KWIH.

We also organized other celebratory activities to build cohesiveness among staff, including a Chinese New Year Party (photos 1&3) and the Annual Dinner with other business divisions of K. Wah Group.





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CARE FOR THE COMMUNITY

KWIH's caring spirit is also extended to the community, with a variety of events that support volunteerism among our staff. The year's highlights were the Walk for Millions (photo 7) and Mid-Autumn Festival Celebration with the elderly of St James Settlement.

In an effort to reinforce Hong Kong's stature as a dynamic international capital of the arts, KWIH pledged its financial support as an Honorary Patron to Opera Hong Kong with a four-year programme to encourage the development of local arts education and arts management professionals (photo 6). During the year, the Company also became a title sponsor of the classic Chinese opera, *The Chinese Orphan*.



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COMMITTED TO BUILDING A GREEN SOCIETY

As our concern for the community goes beyond today's needs, we have pioneered a number of green initiatives that help to promote a sustainable future. One of our greatest achievements in green construction and management, our signature Marinella project in Island South, became the first residential project to be honoured with BEAM Plus Platinum Certification (photo 8) in Hong Kong. We also joined Friends of the Earth as a Saturn Partner to organize an array of green practices in the workplace.



8

Corporate Citizenship

In recognition of KWIH's commitment in caring the community, employees and environment over the year, the Company was awarded the Caring Company Logo by The Hong Kong Council of Social Service.



DEVELOP YOUNG MINDS FOR A BRIGHTER FUTURE

The Chairman of KWIH, Dr Lui Che-woo, has been a keen supporter of education, both locally and overseas, for many years. Among the numerous donations he has made in support of elementary and tertiary education, in 2012 Dr Lui pledged the sum of HK\$100 million under the Lui Che Woo Foundation to establish the Lui Che Woo Institute of Innovative Medicine at the Chinese University of Hong Kong. Dr Lui also made a donation to support the 50th anniversary of Hong Kong Polytechnic University.

Moreover, Dr Lui is keen to share his experience and philosophy with the younger generation. In 2012, he met with EMBA students of the Chinese University of Hong Kong (photo 9) and law students of the University of Hong Kong (photo 10), passing on his wisdom and knowledge to help build a lasting business legacy in Hong Kong.



MAINTAIN COMMUNICATION WITH INVESTMENT COMMUNITY

We believe that transparent and timely communication is key to maintaining the confidence of the investment community. During the year, we maintained a high level of transparency by communicating regularly with the investment community and disseminating the Company's latest developments through our website. Investor briefings (photo 11), one-on-one meetings, site visits, roadshows and informal gatherings were also arranged to facilitate their understanding of the Company's development.



Corporate Governance Report

As at 27 March 2013

The Board presents this Corporate Governance Report in the Company's annual report for the year ended 31 December 2012.

The objective of the management structure within the Group — headed by our Board and led by the Chairman — is to deliver sustainable value to our Shareholders. To this end, good corporate governance plays a significant role.

The Board has applied the code provisions ("CP") in the Code on Corporate Governance Practices during the period from 1 January 2012 to 31 March 2012 and the Corporate Governance Code during the period from 1 April 2012 to 31 December 2012 as set out in Appendix 14 ("CG Code") of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

BOARD OF DIRECTORS

The Board Led by the Chairman, the Board as the highest governing body of the Company has the responsibility for leadership and control of the Group. The Board sets the strategy of the Group and approves the annual operating budget prepared and presented by the management for achieving the Group's strategic objectives.

Chairman and Managing Director Dr. Lui Che-woo currently takes the roles of both the Chairman and the Managing Director of the Company. He leads the Board and heads the management on the day-to-day operations of the Group.

Board Composition The Board currently comprises 10 Board members: the Chairman and Managing Director, 3 other executive Directors ("EDs"), one Non-executive Director ("NED") and 5 independent non-executive Directors ("INEDs"); of which one of the INEDs has professional accounting qualification. The biographical details of each Director who served during the year up to the date of this Report are set out on pages 29 to 32 of this annual report as well as on the websites of the Company and The Hong Kong Exchanges and Clearing Limited ("HKEx") respectively. The list of Directors with their roles and functions is also

disclosed on the websites of the Company and HKEx respectively.

The EDs are employees of the Company who carry out executive functions in addition to their duties as Directors. They are collectively responsible for promoting the success of the Company by directing strategic objectives and overseeing the management's performance to ensure the efficient disposition of the Group's resources for the achievement of the strategic objectives set by the Board.

The NED and INEDs are not employees of the Company and do not participate in the daily management of the Group's business. Our NED and INEDs bring external perspectives, constructively challenge and help develop proposals on strategies, scrutinize the management in meeting agreed goals and monitor performance reporting. Through their wealth of experience across a number of industries and business sectors, our NED and INEDs contribute valuable views and proposals for the Board's deliberation and decisions. One of our INEDs has professional accounting qualification.

During the year under review, Dr. Lui Che-woo had been re-designated as a member of the Remuneration Committee and appointed as a chairman of the Nomination Committee, Dr. William Yip Shue Lam had been re-designated as the chairman of the Remuneration Committee and appointed as a member of the Nomination Committee and Mr. Wong Kwai Lam had been appointed as a member of the Nomination Committee, all with effect from 22 March 2012.

Board Practices In 2012, the Board held 4 Board meetings at approximately quarterly intervals, the dates of which had been scheduled at the beginning of the year. Notice of at least 14 days in advance was given for convening a regular Board meeting. The Directors actively participated in person at each Board meeting to approve the annual budget in advance and to review the business progress against the budget. Matters requiring Board consents were given by vote at the Board meeting where Board members acted collectively as a unit. Between scheduled Board meetings, routine/operational matters were considered and approved by

Corporate Governance Report

As at 27 March 2013

the Board via the circulation of written resolutions with supporting materials, explanatory write-ups from the Company Secretary or briefings from the management as appropriate.

The Company has a set of comprehensive induction materials for newly appointed Directors. The Company Secretary has regularly updated Directors on compliance developments. All Directors have access to the advice and services from the management and the Company Secretary with a view to ensuring that Board procedures, and applicable rules and regulations, are followed. There are also arrangements in place for providing continuous professional development training (including attendance at external forums or briefing sessions and delivering of speeches on the relevant topics) and relevant reading materials to Directors to help ensure that they are apprised of the latest changes in the commercial, legal and regulatory environment in which the Group conducts its businesses and to refresh their knowledge and skills on the roles, functions and duties of a listed company director. The Company receives notification from each Director on an annual basis a list showing the nature of offices he holds in other public companies and organizations and other significant commitments and also indication of the respective estimated time involved.

The Company has arranged appropriate directors' and officers' liability insurance cover in respect of potential legal actions against their risks and exposure arising from the Group's business and activities.

Our NED and INEDs are either veteran professionals or businessmen who have brought not only a wide range of skills and experience to the Group but also independent judgment to bear on issues of strategy, performance, risk and people through their contributions at Board meetings and also at meetings of the audit committee ("Audit Committee"), the remuneration committee ("Remuneration Committee") and the nomination committee ("Nomination Committee") of the Company.

The Board has procedures in place to ensure that conflict of interest will be resolved in accordance with the

spirit and requirement of code provision A.1.8 of CG Code of the Listing Rules on the Stock Exchange. The Company assists the INEDs with professional advice (at the Company's expenses) and management briefings for them to arrive at their recommendations on matters involving conflict of interest.

Supply and Access to Information The Company Secretary circulated meeting agenda (with arrangements for Directors to include their own items if thought fit) and supporting papers to the Directors at least 3 days in advance of a Board meeting, and attended Board meeting to assist in the proceedings.

All Directors have access to and open contact with senior management for any information and are entitled to have access to board papers and related materials as they require to make informed decisions on matters placed before them. Assisted by the Company Secretary, the Chairman of the Board has ensured that the Directors have been properly briefed on issues arising at Board meetings and supplied with information and papers as promptly and fully as possible. The Directors have access to independent professional advice when it becomes necessary and also the services of the Company Secretary who has been regularly updating the Directors on governance and regulatory matters. The service of independent professional advice at the Company's expenses is also available to the members of the Audit Committee, the Nomination Committee and the Remuneration Committee. The external auditor (namely, PricewaterhouseCoopers ("PwC")) attended all the Audit Committee meetings as well as Board meetings convened for approving annual and interim results.

The Company Secretary has kept all the minutes of Board meetings, which together with any supporting board papers, are available for all Board members for inspection. These minutes recorded matters considered by the Board and views expressed by the Directors. Draft and final versions of these minutes are sent to all Directors for their comments and records respectively, in both cases, within a reasonable time after each meeting.

Directors' attendance at Board and other meetings in 2012 is as follows:

Name of Director	Meetings attended/Eligible to attend			
	Board Meeting (4)	Audit Committee Meeting (2)	Remuneration Committee Meeting (1)	Annual General Meeting (1)
Executive Directors				
Lui Che-woo (Chairman & Managing Director) ¹	4/4	N/A	1/1	1/1
Francis Lui Yiu Tung ²	0/4	N/A	N/A	0/1
Paddy Tang Lui Wai Yu ³	4/4	N/A	N/A	1/1
Alexander Lui Yiu Wah ⁴	4/4	N/A	N/A	1/1
Non-executive Director				
Moses Cheng Mo Chi	3/4	N/A	N/A	0/1
Independent Non-executive Directors				
Robin Chan Yau Hing	4/4	N/A	N/A	1/1
William Yip Shue Lam ⁵	4/4	2/2	1/1	1/1
Poon Chung Kwong	4/4	2/2	N/A	1/1
Au Man Chu	3/4	2/2	N/A	1/1
Wong Kwai Lam ⁶	4/4	N/A	1/1	1/1
Total	34/40	6/6	3/3	8/10
Average attendance rate	85%	100%	100%	80%

1. Dr. Lui Che-woo is the father of Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah. Dr. Lui had been re-designated as a member of the Remuneration Committee and appointed as a chairman of the Nomination Committee, both effective on 22 March 2012.
2. Mr. Francis Lui Yiu Tung is the son of Dr. Lui Che-woo, the younger brother of Ms. Paddy Tang Lui Wai Yu and the elder brother of Mr. Alexander Lui Yiu Wah.
3. Ms. Paddy Tang Lui Wai Yu is the daughter of Dr. Lui Che-woo, the elder sister of Mr. Francis Lui Yiu Tung and Mr. Alexander Lui Yiu Wah.
4. Mr. Alexander Lui Yiu Wah is the son of Dr. Lui Che-woo, the younger brother of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.
5. Dr. William Yip Shue Lam had been re-designated as a chairman of the Remuneration Committee and appointed as a member of the Nomination Committee, both effective on 22 March 2012.
6. Mr. Wong Kwai Lam has been appointed as a member of the Nomination Committee with effect from 22 March 2012.

Corporate Governance Report

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Appointment, Re-election and Removal All our NED and INEDs are appointed for a specified term of 3 years, subject to re-election by Shareholders at the annual general meeting of the Company.

In accordance with Bye-law 109(A) of the Bye-laws of the Company, other than the Chairman and the Managing Director of the Company, one-third of the Directors for the time being (or the number nearest one-third) shall retire by rotation and stand for re-election at each annual general meeting of the Company. At the forthcoming 2013 annual general meeting ("2013 AGM") of the Company, Dr. Moses Cheng Mo Chi (NED), Dr. Robin Chan Yau Hing (INED) and Professor Poon Chung Kwong (INED) will retire by rotation and, being eligible, will offer themselves for re-election.

Pursuant to CP A.4.3 of the CG Code, any re-appointment of INED who served more than 9 years shall be subject to a separate resolution to be approved by the shareholders of the Company ("Shareholders"). Dr. Robin Chan Yau Hing (INED) served the Company for more than 9 years and is due to retire at the 2013 AGM. During his years of appointment, Dr. Robin Chan Yau Hing has demonstrated his ability to provide an independent view to the Company's matters. Notwithstanding his years of service as an INED, the Board is of the view that Dr. Robin Chan Yau Hing is able to continue to fulfill his role as required and thus recommends him for re-election at the 2013 AGM. Dr. Robin Chan Yau Hing had made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board is satisfied that Dr. Robin Chan Yau Hing remains independent, and there is no evidence that his tenure has had an impact on his independence. Separate resolution will be proposed for his re-election at the 2013 AGM.

Particulars of the said retiring Directors and the recommendation of the Board for their re-election are set out in a circular accompanied with this annual report for being despatched to the Shareholders.

Confirmation of Independence The Board considers all of its INEDs independent in character and judgment as within the guidelines under Rule 3.13 of

the Listing Rules. In reaching its determination, the Board has concluded that there are no relationships or circumstances that are likely to affect any INED's judgment. In accordance with Rule 3.13 of the Listing Rules, each of the 5 INEDs determined by the Board as independent has provided an annual confirmation of his independence to the Company. The Company has identified its INEDs as such in all its corporate communications to the Shareholders.

Directors' Induction and Continuous Professional Development

All Directors has participated in continuous professional development training (including attendance at external forums or briefing sessions, delivering of speeches and in-house seminars on the relevant topics) and have been provided with relevant reading materials to ensure they are apprised of the latest changes on the relevant laws, rules and regulations to further strengthen their knowledge and skills on their roles, functions and duties. The Company from time to time provides written training materials and latest development of the Listing Rules, applicable laws, rules and regulatory relating to the Directors' duties and responsibilities.

During the year under review, the Company at its own expenses had provided Directors with written training materials and arranged in-house seminars sessions conducted by qualified professionals experienced on the following topics for the Directors and the management of the Company to attend:

- (1) seminar on "Update on the latest corporate governance code changes in Hong Kong" (*highlights of key changes to the CG Code in Hong Kong which are effective from 2012*);
- (2) seminar on "China risk 2012" (*overview of the risks in the business environment*);
- (3) seminar on "Update on Guidelines on Disclosure of Inside Information"; and
- (4) reading materials on the Listing Rules Amendments on CG Code and Associated Listing Rules effective from 2012.

The Company has maintained records of training provided by each Director, summarized as follows:

Members of the Board	Attending Seminars	Reading Materials
Executive Directors		
Lui Che-woo	(1),(2)	(3),(4)
Francis Lui Yiu Tung	—	(1),(2),(3),(4)
Paddy Tang Lui Wai Yu	(1),(2),(3)	(4)
Alexander Lui Yiu Wah	(3)	(1),(2),(4)
Non-executive Director		
Moses Cheng Mo Chi	(3)	(1),(2),(4)
Independent Non-executive Directors		
Robin Chan Yau Hing	—	(1),(2),(3),(4)
William Yip Shue Lam	(1),(2),(3)	(4)
Poon Chung Kwong	(1),(2),(3)	(4)
Au Man Chu	(1),(2)	(3),(4)
Wong Kwai Lam	(1),(2)	(3),(4)

Model Code for Securities Transactions by Directors The Board has adopted a code for transactions in the Company's securities by Directors and their connected persons that complies with the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") as set out in Appendix 10 of the Listing Rules. Each Director has confirmed that he or she has complied with the adopted code throughout the year ended 31 December 2012. The Company has also adopted written guidelines — on no less exacting terms than the Model Code — for transactions in the Company's securities by some of its employees.

Other than the connected transaction and continuing connected transaction disclosed in the Report of the Directors, none of the Directors had, at any time during the year or at the balance sheet date, a material interest, directly or indirectly, in any contract of significance with the Company or any of its subsidiaries.

Corporate Governance Functions The Board is responsible for determining the policy for the corporate governance of the Company and performing the following corporate governance duties as required under the Code:

- To develop and review the Company's policies and practices on corporate governance and make recommendation to the Board;
- To review and monitor the training and continuous professional development of Directors and senior management;
- To review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements (where applicable);
- To develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors of the Group; and
- To review the Company's compliance with the Code and disclosure requirements in the Corporate Governance Report.

Corporate Governance Report

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During the year under review, the Board approved the revised terms of reference of the Audit Committee and the Remuneration Committee, the establishment of Nomination Committee, the adoption of shareholders communication policy and corporate governance policy and also reviewed the terms of the continuing connected transaction of the Group and the effectiveness of the internal controls and risk management systems of the Group through the Internal Audit Department and the Audit Committee.

DELEGATION BY THE BOARD

Executive Board Within the clear guidelines which it sets, the Board has delegated to an executive board (“Executive Board”) established by it, comprising all the EDs, authority to oversee the implementation of the Group’s strategy set by the Board, monitor the Group’s investment and trading performance and funding and finance requirements, and review management performance. The Board retains to itself authority on annual budgets and accounts, dividends, share capital, derivative transactions, connected transactions and transactions requiring Shareholders’ approval, and certain financing, acquisitions, disposals and operation issues above predetermined thresholds.

The Executive Board also meets regularly and operates as a general management committee under the direct authority of the Board. The Executive Board reports through the Chairman and Managing Director to the Board. The Executive Board sub-delegates day-to-day administration details to its members charged with specific operation tasks under the leadership of the Chairman and Managing Director.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Remuneration Committee The Remuneration Committee currently comprises 3 members identified in the table on page 21 of whom 2 are INEDs (Dr. William Yip Shue Lam and Mr. Wong Kwai Lam). Dr. Lui Che-woo ceased to act as the chairman of the Remuneration Committee but remains as a member of the Remuneration Committee with effect from 22 March 2012. Dr. William Yip Shue Lam (INED) has been

re-designated as the chairman of the Remuneration Committee in replacement of Dr. Lui with effect from 22 March 2012. The Company Secretary acts as the secretary of the Remuneration Committee, who has kept full minutes of the Remuneration Committee meetings with drafts and final versions circulating to members for their comments and records respectively after the relevant meetings. The written terms of reference of the Remuneration Committee (in both English and Chinese versions) is available on the websites of the Company and HKEx respectively.

In accordance with its terms of reference, the Remuneration Committee:

- on 17 January 2012, (i) reviewed and approved the 2011 year-end bonus paid to the EDs; and (ii) considered and endorsed the Executive Board’s Share Option Scheme 15th Offer Proposal on granting options to (among others) certain Directors;
- on 14 March 2012, reviewed the level of Directors’ fees for 2011 as well as remuneration packages of EDs (who also constituted senior management of the Company) for 2012;
- on 21 January 2013, (i) reviewed and approved the 2012 year-ended bonus paid to EDs; and (ii) considered and endorsed the Executive Board’s Share Option Scheme 16th Offer Proposal on granting options to (among others) certain Directors; and
- on 20 March 2013, reviewed the level of Directors’ fees for 2012 as well as remuneration packages of EDs (who also constituted senior management of the Company) for 2013.

The Remuneration Committee’s proposals on the EDs’ remuneration packages and the Directors’ fees for 2012 have been endorsed by the Board, and the proposed Directors’ fees will be recommended for Shareholders’ approval at the 2013 AGM. The Remuneration Committee submitted its written report and/or recommendations to the Board after its meeting.

No Director had participated in the determination of his or her own remuneration.

Details of Directors' Remuneration and Five Highest Pay Individuals of the Group for the year ended 31 December 2012 are set out in notes 11 and 12 to the 2012 Financial Statements respectively.

Nomination Committee The Nomination Committee of the Company was set up on 22 March 2012 with specific written terms of reference. It currently comprises 3 members identified in the table on page 21 of whom 2 are INEDs (Dr. William Yip Shue Lam and Mr. Wong Kwai Lam). Dr. Lui Che-woo is the chairman of the Nomination Committee. The Company Secretary acts as the secretary of the Nomination Committee, who has kept full minutes of the Nomination Committee meetings with drafts and final versions being circulated to members for their comments and records respectively after the relevant meetings.

The Nomination Committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually; making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifying individuals suitably qualified to become members of the Board and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; conducting assessment of the independence of each INED and the management of Board succession. In order to facilitate its functions, a policy for nomination of directors ("Nomination Policy") has been adopted by the Board on 22 March 2012 and revised on 27 March 2013 to be performed by the Nomination Committee for the nomination of procedures and the process and criteria to select and recommend candidates for directorship of the Company. The Nomination Committee is also responsible for assessing the independence of INEDs and reviewing their annual confirmation on their independence. The written terms of reference of the Nomination Committee (in both English and Chinese versions) is available on the websites of the Company and HKEx respectively.

The Nomination Committee met on 20 March 2013 with all members attended. At the meeting, the Committee reviewed the structure, size and composition of the Board; assessed the independence of all INEDs; made recommendation on the retirement and re-appointment of Directors at the forthcoming 2013 AGM. The Committee also considered and proposed for the Board's approval of the amendment of the Nomination Policy to include board diversity from a number of factors, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and other qualities of Directors. The Nomination Committee submitted its written report and/or recommendations to the Board after its meeting.

Audit Committee The Audit Committee is accountable to the Board and assists the Board in ensuring its compliance with its external financial reporting obligations and internal control and compliance.

The Audit Committee comprises 3 INEDs, identified in the table on page 21. The Company Secretary acts as the secretary of the Audit Committee, who has kept full minutes of the Audit Committee meetings with drafts and final versions being circulated to the members for their comment and records respectively soon after the relevant meetings. Regular attendees at the Audit Committee meetings are the senior management of the Company responsible for the accounting and financial reporting function, head of the internal audit function, and the senior representatives of PwC.

In 2012, the Audit Committee met twice in March 2012 for reviewing the Group's 2011 annual results and financial statements and in August 2012 for reviewing the Group's 2012 interim results and financial statements. At its meeting on 20 March 2013, the Audit Committee reviewed the Group's annual results and financial statements for 2012 and also the report on the effectiveness of the risk assessment and internal control system of the Group from the internal audit department. Each meeting received written reports and papers from PwC.

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The revised written terms of reference of the Audit Committee (in both English and Chinese versions) is available on the websites of the Company and HKEx respectively.

The Audit Committee was satisfied with the independence of PwC during the year and has recommended the Board to propose for the re-appointment of PwC as the external auditor of the Company at the 2013 AGM. An analysis of the fees for 2012 paid to Auditors appears in note 9 to the 2012 Financial Statements.

Company Secretary The Company Secretary is an employee of the Company, who reports to the Chairman and assists the Board in ensuring effective information flow within the Board and that the Board policy and procedures including those on corporate governance matters are followed. The Company Secretary had complied with Rule 3.29 of the Listing Rules during the year under review.

ACCOUNTABILITY

Financial Reporting The Board is accountable for the proper stewardship of the Group's affairs, and Directors acknowledge their responsibility for preparing the financial statements of the Company in accordance with generally accepted accounting standards in Hong Kong, the requirements of the Listing Rules and applicable laws as well as the integrity of the financial information so reported. Such responsibility is extended to cover not only the annual and interim reports but also announcements and other financial disclosures of the Company required under the Listing Rules. The external auditor has a primary responsibility for auditing and reporting on the financial statements and the Report of the Independent Auditor to the Shareholders is set out on page 41 of this annual report.

The management of individual businesses within the Group provides the Directors with such information and explanations necessary to enable them to make an informed assessment of the financial and other information put before the Board for approval. Starting from April 2012, the Company provided all Directors with monthly management updates giving a balanced

and understandable assessment of the Company's performance, financial position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties under Rule 3.08 and Chapter 13 of the Listing Rules.

The Group has adopted the going concern basis in preparing its financial statements.

Internal Controls The Board acknowledges its responsibility for maintaining and reviewing the effectiveness of the Group's system of internal controls.

The Group has a clear organizational structure with well-defined responsibilities, reporting lines and authority limits and budgetary controls for managers of operating divisions. The scope of internal controls and risk management covering financial, operational and compliance areas, and control procedures are to identify and then manage risks.

The Company's internal audit function — currently staffed by qualified professionals — is set up to provide the Board with reasonable assurance that the internal control system of the Company is effective, and that the risks associated with the achievement of business objectives of the Group are being managed properly. During the year, the internal audit function drew up internal audit plan, discussed with management on areas of risk identified, and reviewed its internal audit report with the Audit Committee. The chairman of the Audit Committee has open access to the head of the internal audit function.

In compliance with the CP C.2.2 of CG Code of the Listing Rules, internal audit department had assessed the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget. The result of the assessment is satisfactory.

During the year 2012 and up to the date of the financial statements, there was no significant control failure, as the internal audit department so reported to the Board through the Audit Committee.

COMMUNICATION WITH SHAREHOLDERS AND INVESTOR RELATIONS

The Board established a shareholders communication policy in March 2012 setting out the principles of the Company in relation to its communication with the Shareholders, with the objective of ensuring the effective and timely dissemination of information to the Shareholders at all times. In addition to sending annual reports, interim reports, circulars and notices to the Shareholders, the Company also makes sure these materials, which contain extensive information about the Group's activities, timely available for access by the Shareholders on both the websites of the Company and HKEx. The Company's website at www.kwih.com is also a valuable platform for investors and it contains a dedicated investor relations section offering timely and direct access to our financial reports, corporate announcements, press releases and other business information.

The Company has a number of its senior management specifically charged with Investor relations functions. The Company responds to enquiries from Shareholders and investors on matters relating to the business of the Group in an informative and timely manner. Every year, upon announcing results, the Company holds a press conference and briefings with the investment community, and the EDs also have regular dialogues with institutional investors and financial analysts. In between times, the Company organizes site visits and meetings for analysts in order to provide them with a comprehensive knowledge of our products.

The Company received coverage and regular reports on its business and stock performance from leading financial commentators and analysts of local and international securities houses.

The Company encourages the Shareholders to attend annual general meetings and all its other shareholders' meetings to discuss progress and matters. The Chairman of the Board and other Directors are available at these meetings to answer Shareholders' questions. All the resolutions proposed at the 2012 Annual General Meeting ("2012 AGM") were passed by way of poll in compliance with the rules 13.39(4) of the Listing Rules.

The Chairman of the 2012 AGM had at the meeting ensured that an explanation of the detailed procedures for conducting a poll was provided. The Company's branch share registrars in Hong Kong had acted as the scrutineer for the vote-taking at the 2012 AGM, the voting results of which had been announced by the Company in accordance with Rule 2.07C of the Listing Rules on the websites of the Company and HKEx respectively. The Company had sent the notice of 2012 AGM to Shareholders more than 20 clear business days before the 2012 AGM. The Chairman of the 2013 AGM (and chairman of any other shareholders' meetings) will ensure that any vote of Shareholders at the 2013 AGM (and any other shareholders' meetings) will be taken by poll in compliance with the said Rule 13.39(4) of the Listing Rules.

SHAREHOLDERS' RIGHTS

Convening a special general meeting by shareholders

Pursuant to the provisions of Section 74 of the Company Act of Bermuda, a special general meeting may be convened by the Board of Directors upon requisition by any shareholder(s) holding not less than one-tenth of the paid up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company. The requisition must state the purposes of the meeting, and must be signed by the relevant shareholder(s) and deposited at the principal place of business in Hong Kong of the Company. If the Board of Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the shareholder(s), or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Putting forward proposals at general meeting A shareholder shall make a written requisition to the Board of Directors or the Company Secretary of the Company at the principal place of business in Hong Kong of the Company, specifying the shareholding information of the Shareholder, his/her contact details and the proposal he/she intends to put forward at general meeting

Corporate Governance Report

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regarding any specified transaction/business and its supporting documents.

Proposal for election of Director If a shareholder intends to propose a person other than a retiring Director of the Company for election as Director, the procedures have been set out in the Company's website.

Enquiries to the Board Shareholders may put forward their enquiries about the Company to the Board of Directors at the Company's principal place of business in Hong Kong or by email through the Investor Relations of the Company.

CONSTITUTIONAL DOCUMENTS

The Company's Memorandum of Association and Bye-Laws (in both English and Chinese versions) has been published on the websites of the Company and HKEx respectively. There have been no changes in the Company's Memorandum of Association and Bye-Laws since the last alteration in June 2007.

COMPLIANCE WITH APPENDIX 14 OF THE LISTING RULES

The Board and the management of the Company are committed to the principles of good corporate governance which are consistent with prudent enhancement and management of shareholder value. The full Board is entrusted with the overall responsibility of developing and monitoring and performing the Corporate Governance Policy and the Shareholders Communication Policy as adopted by the Board in March 2012. The Company will continue putting effort in maintaining high standards of corporate governance and enhancing corporate transparency, accountability and independence and will review the management structure regularly to ensure it continues to meet these objectives and is in line with industry practices.

Throughout the year ended 31 December 2012, the Company had complied with all of the CPs of the CG Code as set out in Appendix 14 of the Listing Rules, except the following CPs:

CP A.2.1 — there was no separation of the roles of the Chairman and the Managing Director, both of the

roles are currently undertaken by Dr. Lui Che-woo. The Board is of the view that the current management structure has been effective in facilitating the Company's operation and business development and that necessary checks and balances consistent with sound corporate governance practices are in place. The implementation of strategies and policies of the Board and the operations of each business unit are overseen and monitored by designated responsible EDs. The Board found that the current management had worked effectively in enabling it to discharge its responsibilities satisfactorily. In addition, the 5 INEDs have contributed valuable views and proposals independently for the Board's deliberation and decisions.

CP A.4.2 — Given that the other Directors do retire by rotation in accordance with the Bye-Laws of the Company and the Board considers that the Group is best served by not requiring the Chairman and the Managing Director to retire by rotation as his continuity in office is of considerable benefit to the Company and his leadership, vision and profound knowledge in the widespread geographical business of the Group is a valuable asset of the Company.

CP A.6.7 — A Non-executive Director was unable to attend the 2012 AGM held on 30 May 2012 as he was away from Hong Kong due to another engagement.

Biographical Information of Directors

EXECUTIVE DIRECTORS

Dr. Lui Che-woo, GBM, MBE, JP, LLD, DSSc, DBA, aged 83, the founder of the Group, has been the Chairman since June 1989 and is presently the Chairman and the Managing Director, a member of the remuneration committee (ceased to act as the chairman on 22 March 2012 but remains as a member) as well as the chairman of the nomination committee (appointed on 22 March 2012) of the Company. Dr. Lui is also the chairman and an executive director of Galaxy Entertainment Group Limited. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. He has over 50 years' experience in quarrying, construction materials and property development. He was the founding chairman of the Institute of Quarrying in UK (Hong Kong Branch) and the chairman of the Tung Wah Group of Hospitals. Dr. Lui is also the founding chairman of The Federation of Hong Kong Hotel Owners, the president of Tsim Sha Tsui East Property Developers Association, the founding president of Hong Kong — Guangdong Economic Development Association and an Honorary President of Hong Kong — Shanghai Economic Development Association. Dr. Lui has been appointed as member of Steering Committee on MICE (Meetings, Incentives, Conventions and Exhibitions) since 2007. Furthermore, Dr. Lui was a committee member of the 9th Chinese People's Political Consultative Conference, a member of the Selection Committee for the First Government of the HKSAR and a member of the Election Committee of the HKSAR. In 1995, an asteroid discovered by the Purple Mountain Observatory in Nanjing was named "Lui Che Woo Star". Dr. Lui was presented the Outstanding Contribution Award in Guangzhou in 1996. Dr. Lui was awarded the Gold Bauhinia Star by the Government of the HKSAR in July 2005. Dr. Lui was also awarded the Grand Bauhinia Medal by the Government of the HKSAR in June 2012. Dr. Lui has been again elected as a member of the Election Committee of the HKSAR in December 2006. Dr. Lui was awarded Business Person of the Year 2007 by DHL/SCMP Hong Kong Business Awards and the Lifetime Achievement Award by American Academy of Hospitality Sciences of 2007 respectively. Dr. Lui was presented the Diamond Award by Macau Tatler and the Lifetime Achievement Award by All Leaders Publication Group Limited, both in 2011. Dr. Lui is the father of Mr.

Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah.

Mr. Francis Lui Yiu Tung, aged 57, joined K. Wah group in 1979. He has been an executive Director of the Company since June 1989. Mr. Lui is also the deputy chairman and a member of each of the executive board, nomination committee and remuneration committee as well as the chairman of corporate governance committee of Galaxy Entertainment Group Limited. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. He holds a Bachelor of Science degree in civil engineering and a Master of Science degree in structural engineering from the University of California at Berkeley, USA. Mr. Lui is a member of the National Committee of the Chinese People's Political Consultative Conference and a member of the Election Committee of the HKSAR. He is also a director of the 68th Term of Macao Chamber of Commerce and an Honorary Chairman of the 18th Term of Kiang Wu Hospital Charitable Association. Mr. Lui is the son of Dr. Lui Che-woo, the younger brother of Ms. Paddy Tang Lui Wai Yu and the elder brother of Mr. Alexander Lui Yiu Wah.

Ms. Paddy Tang Lui Wai Yu, BBS, JP, aged 59, joined the K. Wah group in 1980 and has been an executive Director since June 1989. She is also an executive director of Galaxy Entertainment Group Limited. Save as disclosed herein, she has no previous directorships in other public listed companies in the last 3 years. She holds a Bachelor of Commerce degree from McGill University, Canada and is a member of The Institute of Chartered Accountants in England and Wales. Ms. Lui has been elected as a member of the Shanghai Committee of the Chinese People's Political Consultative Conference in December 2012. Ms. Lui has been re-appointed as a non-executive director of the Mandatory Provident Fund Schemes Authority from 17 March 2013 for two years. She is also a member of various public and social service organizations, including the General Committee of The Chamber of Hong Kong Listed Companies. Ms. Lui was appointed as a member of the Standing Committee on Company Law Reform, the Tourism Strategy Group, the Statistic Advisory Board, the Hong Kong Arts Development Council and the Board of

Biographical Information of Directors

Ocean Park Corporation. Ms. Lui has been elected as a member of the Election Committee of the HKSAR since 1998. Ms. Lui is the daughter of Dr. Lui Che-woo and the elder sister of Mr. Francis Lui Yiu Tung and Mr. Alexander Lui Yiu Wah.

Mr. Alexander Lui Yiu Wah, aged 50, joined the K. Wah group in 1984 and is presently the Managing Director of Hong Kong Properties of the Group. He has been an executive Director since April 2010. Mr. Alexander Lui is also a director of a number of affiliated companies of the Group. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. He holds a Bachelor of Science degree in Industrial and Systems Engineering from the University of Southern California, USA. Mr. Lui was a committee member of Guangzhou Committee of the 11th Chinese People's Political Consultative Conference and has been again elected as a committee member of Guangzhou Committee of the 12th Chinese People's Political Consultative Conference in 2011. He has been elected as a committee member of Guangdong Provincial Committee of the 11th Chinese People's Political Consultative Conference on 14 January 2013. Mr. Lui was elected as a committee member of Jiangman City Xinhui District Committee of the 13th Chinese People's Political Consultative Conference in 2006 and has been again elected as a committee member of Jiangman City Xinhui District Committee of the 14th Chinese People's Political Consultative Conference in 2012. Mr. Lui was elected as the managing vice-chairman and director of the 5th Board of Directors of Guangzhou Municipal Committee Hong Kong Members Association in January 2013. Mr. Lui was re-appointed as the managing vice-chairman of the 6th Board of Directors of Guangzhou Overseas Friendship-Liaison Association on 26 March 2013. Mr. Lui has been appointed as the deputy chairman (vice president) of the Guangdong Federation of Industry and Commerce in PRC for the years from 2012 to 2017. He is a member of Estate Agents Authority (EAA) and also the vice president of The Hong Kong Real Estate Association. He has been a member of the board of directors of The Real Estate Developers Association of Hong Kong since 1999. Mr. Alexander Lui has been appointed as a director of Business & Professionals Federation of Hong Kong since

27 September 2002 and has become a member of the executive committee since 2003. He was the vice-chairman of the 5th Board of Directors of Guangzhou Municipal Committee Hong Kong Members Association from 25 September 2009 to 24 September 2012. He was a member of The Appeal Panel on Housing, Hong Kong during the period from 1 July 2002 to 31 March 2008. Mr. Alexander Lui is the son of Dr. Lui Che-woo, the younger brother of Mr. Francis Lui Yiu Tung and Ms. Paddy Tang Lui Wai Yu.

NON-EXECUTIVE DIRECTOR

Dr. Moses Cheng Mo Chi, *GBS, OBE, JP*, aged 63, has been a non-executive Director since August 2009. Dr. Cheng is a practising solicitor and a senior partner of P.C. Woo & Co., a Hong Kong firm of solicitors. He was also the founding chairman of The Hong Kong Institute of Directors of which he is now the Honorary President and Chairman Emeritus. Dr. Cheng was a member of the Legislative Council of Hong Kong and the chairman of the Main Board Listing Committee and the Growth Enterprise Market Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and a remuneration committee member of The Financial Reporting Council in Hong Kong. Dr. Cheng is currently an independent non-executive director in China Mobile Limited, China Resources Enterprise, Limited, Liu Chong Hing Investment Limited and Towngas China Company Limited, all being public listed companies on the Main Board of the Stock Exchange. He is also a non-executive director in Hong Kong Television Network Limited (formerly known as City Telecom (H.K.) Limited), Kader Holdings Company Limited and Tian An China Investments Company Limited, all being public listed companies on the Main Board of the Stock Exchange. He is also an independent non-executive director of ARA Asset Management Limited which is a listed company in Singapore. Dr. Cheng was appointed as the chairman of the Process Review Panel for Securities and Futures Commission on 1 November 2012. He has been re-designated as an independent non-executive director of Guangdong Investment Limited with effect from 15 November 2012. Dr. Cheng has retired as an independent non-executive director of China COSCO Holdings Company Limited and Hong Kong Exchanges and Clearing Limited (both are public listed companies

on the Main Board of the Stock Exchange) with effect from 17 May 2011 and 23 April 2012 respectively. He has also resigned as an independent non-executive director of ARA Asset Management (Fortune) Limited (formerly known as ARA Asset Management (Singapore) Limited) on 1 September 2010 which is the manager of Fortune Real Estate Investment Trust, both the company and the trust are listed in Singapore. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Robin Chan Yau Hing, GBS, LLD, JP, aged 80, has been a Director since June 1989 and has become an independent non-executive Director since 1998. Dr. Chan holds different positions in public listed companies on the Main Board of the Stock Exchange, including the chairman and an executive director of Asia Financial Holdings Limited and an independent non-executive director of both Chong Hing Bank Limited and Keck Seng Investments (Hong Kong) Limited. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. In addition, Dr. Chan is the vice chairman of All-China Federation of Returned Overseas Chinese and the ex-officio life honorary chairman of The Chinese General Chamber of Commerce, Hong Kong. He is also the founding chairman and president of the Hong Kong Federation of Overseas Chinese Associations Limited, the honorary chairman of the China Federation of Overseas Chinese Entrepreneurs and the executive vice chairman of the China Overseas Chinese Entrepreneurs Association. Dr. Chan had been a deputy to The National People's Congress of the People's Republic of China from March 1988 to February 2008. He has extensive experience in the banking industry and acts as an adviser to numerous other companies. Dr. Chan was awarded the Knight Commander (Second Class) of the Most Noble Order of the Crown of Thailand by His Majesty, the King of Thailand and the Gold Bauhinia Star by the Government of the HKSAR in 2000. Dr. Chan was conferred with the Honorary University Fellowships by Hong Kong Baptist University and the University of Hong Kong in 2010 and 2011 respectively.

Dr. William Yip Shue Lam, LLD, aged 75, has been an independent non-executive Director, the chairman of audit committee since June 2008 as well as the chairman of the remuneration committee and a member of the nomination committee (both appointed on 22 March 2012) of the Company. He holds a Bachelor of Arts degree and an honorary Doctor of Laws degree from the Concordia University, Canada. He is the founder and the chairman of Canada Land Limited, a company listed on the Australian Stock Exchange and engaged in real estate development and tourist attraction business. Dr. Yip is also an independent non-executive director of Galaxy Entertainment Group Limited. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years. He is also the chairman of Cantravel Limited, Guangzhou. Dr. Yip has been active in public services and has been appointed as an honorary standing committee member of The Chinese General Chamber of Commerce (November 2012 – October 2022) and the president of Concordia University Hong Kong Foundation Limited. He is also serving on the Board of Governors of The Canadian Chamber of Commerce in Hong Kong and the fellow member of The Hong Kong Institute of Directors. In addition, Dr. Yip has been elected a Guangzhou Municipal Honorable Citizen.

Professor Poon Chung Kwong, GBS, PhD, DSc, JP, aged 73, has been an independent non-executive Director since August 2009 and a member of the audit committee of the Company since March 2011. Professor Poon is currently the chairman of Virya Foundation Limited (a registered non-profit charitable organization). He is the President Emeritus of The Hong Kong Polytechnic University and had devoted 40 years of his life to advancing university education in Hong Kong before he retired in January 2009 from his 18-year presidency at The Hong Kong Polytechnic University. Professor Poon is a non-executive director of Lee & Man Paper Manufacturing Limited and an independent non-executive director of Hopewell Highway Infrastructure Limited, The Hong Kong and China Gas Company Limited, Henderson Land Development Company Limited and Chevalier International Holdings Limited, all of which are public listed companies on the Main Board of the Stock Exchange. Save as disclosed herein, he has

Biographical Information of Directors

no previous directorships in other public listed company in the last 3 years. Professor Poon was appointed a non-official Justice of the Peace (JP) in 1989, and he received the OBE award in 1991, the Gold Bauhinia Star (GBS) award by the Government of the HKSAR in 2002, the “Leader of the Year Awards 2008 (Education)” and also The Honorary Degree of Doctor of Humanities in 2009 from The Hong Kong Polytechnic University. In addition, Professor Poon was appointed a member of the Legislative Council (1985-1991) and a member of the National Committee of the Chinese People’s Political Consultative Conference (1998-2013).

Mr. Au Man Chu, aged 62, has been appointed as an independent non-executive Director and a member of the audit committee of the Company since August 2011. Mr. Au holds a Bachelor of Commerce degree from the University of Alberta in Canada and is a member of The Canadian Institute of Chartered Accountants. Mr. Au was an executive director of Noble Group Limited (a company listed in Singapore) from 1 December 1995 to 31 December 2003 and he has been re-designated as one of its non-executive directors since 1 January 2004. He is also a director of Hong Kong International Film Festival Society Limited. Save as disclosed herein, he has no previous directorships in other public listed companies in the last 3 years.

Mr. Wong Kwai Lam, aged 63, has been appointed as an independent non-executive Director and a member of the remuneration committee since August 2011 as well as a member of the nomination committee (appointed on 22 March 2012) of the Company. Mr. Wong obtained a degree of Bachelor of Arts from the Chinese University of Hong Kong in 1972 and a Ph. D from Leicester University, England in 1977. He has over 32 years of experience in the commercial and investment banking industry. He worked with Merrill Lynch (Asia Pacific) Ltd. (“Merrill Lynch”) from May 1993 to August 2009 where he served as a managing director in the Asia investment banking division since January 1995. Mr. Wong was appointed as a senior client advisor to Merrill Lynch in September 2009 and served in that position for one year. In his 17 years of experience in various senior positions with Merrill Lynch, Mr. Wong’s responsibilities included, among others, managing the overall business

of its Asia investment banking division from March 2003 to May 2005. Prior to joining Merrill Lynch, Mr. Wong had been a director in the investment banking division of CS First Boston (Hong Kong) Ltd. and a director and the head of primary market in Standard Chartered Asia Limited. Mr. Wong is currently the chairman of IncitAdv Consultants Ltd. and a director of Opera Hong Kong Limited. Mr. Wong has been appointed as a member of the investment committee and the Board of Trustees as well as a trustee of New Asia College of the Chinese University of Hong Kong. Mr. Wong is an independent non-executive director and a member of the remuneration and appraisal committee as well as related-party transactions control committee of China Merchants Bank Co., Ltd. (a public listed company on the Main Board of the Stock Exchange and The Shanghai Stock Exchange). Mr. Wong is also an independent non-executive director and a member of the audit committee of ARA Asset Management (Prosperity) Limited as the manager of Prosperity Real Estate Investment Trust (a publicly-listed company on the Main Board of the Stock Exchange). He was formerly a member of the Advisory Committee to the Securities and Futures Commission in Hong Kong, a member of the Real Estate Investment Trust (REIT) Committee of the Securities and Futures Commission in Hong Kong and a member of the China Committee to the Hong Kong Trade Development Council. Save as disclosed herein, he has no previous directorships in other publicly-listed companies in the last 3 years.

SENIOR MANAGEMENT

Assisted by head of departments, the executive Directors are under the direct responsibilities for the business and operations of the Group and the executive Directors are therefore regarded as the senior management of the Company.

Report of the Directors

The Directors have pleasure in presenting to the Shareholders their report together with the audited consolidated financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2012 ("2012 Financial Statements").

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Our principal subsidiaries, jointly controlled entities and associated companies are primarily engaged in property development and property investment in Hong Kong, Mainland China and Singapore, and their activities are set out in note 42 to the 2012 Financial Statements.

RESULTS AND APPROPRIATIONS

The 2012 Financial Statements on pages 42 to 110 of this annual report set out the results of the Group for the year ended 31 December 2012.

An interim scrip dividend (with cash option) of HK\$0.05 per ordinary share of the Company ("Share") was paid during the year. The Board recommends the payment of a final scrip dividend (with cash option) of HK\$0.1 per Share. Together with the interim dividend paid, the total dividends per Share for the year amount to HK\$0.15 (2011: HK\$0.1 per Share). Details of dividends are set out in note 16 to the 2012 Financial Statements.

SHARE CAPITAL

Note 29 to the 2012 Financial Statements contains details of the Company's share capital and the increase in issued share capital of the Company during the year was due to exercise of options and allotment of scrip dividends.

DEALINGS IN LISTED SECURITIES

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

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 31 to the 2012 Financial Statements.

DONATIONS

During the year, the Group made charitable donations amounting to HK\$40,776,000 (2011: HK\$11,389,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group during the year are set out in note 17 to the 2012 Financial Statements.

SIGNIFICANT PROPERTIES

Details of the significant properties held by the Group as at 31 December 2012 for investment and development purposes are set out on pages 111 to 112 of this annual report.

DIRECTORS

The Directors who served during the year and up to the date of this Report of Directors were Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu, Mr. Alexander Lui Yiu Wah, Dr. Moses Cheng Mo Chi, Dr. Robin Chan Yau Hing, Dr. William Yip Shue Lam, Professor Poon Chung Kwong, Mr. Au Man Chu and Mr. Wong Kwai Lam.

Biographical details of the current Directors are set out on pages 29 to 32 of this annual report.

In accordance with Bye-law 109(A) of the Bye-laws of the Company, Dr. Moses Cheng Mo Chi, Dr. Robin Chan Yau Hing and Professor Poon Chung Kwong will retire by rotation at the forthcoming 2013 annual general meeting of the Company ("2013 AGM") and being eligible, will offer themselves for re-election.

None of the Directors proposed for re-election has a service contract with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation (other than statutory compensation).

Report of the Directors

Subject to the approval of Shareholders at the 2013 AGM, the following fees in respect of year ended 31 December 2012 will be paid to the Directors:

	Chairman HK\$	Member HK\$
Board	170,000	140,000
Audit Committee	130,000	110,000
Remuneration Committee	60,000	50,000
Nomination Committee	60,000	50,000

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in this Report of Directors, no contracts of significance in relation to the Group's business, to which the Company or any of its subsidiaries was a party and in which a Director has or had a material beneficial interest, whether directly or indirectly, subsisted as at 31 December 2012 or at any time during the year ended on that date.

DIRECTORS' INTERESTS IN SECURITIES

As of 31 December 2012, the interests and short positions of each Director in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), if any,

and the details of any right to subscribe for Shares and of the exercise of such rights, as required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions, if any, which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register of the Company required to be kept under section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange, were as follows:

(A) Ordinary Shares

Name of Directors	Number of Shares (including Underlying Shares)					Approximate % of Issued Share Capital
	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	
Lui Che-woo	15,769,265	7,974,889 ⁽¹⁾	3,401,890 ⁽²⁾	1,569,584,304 ⁽³⁾	1,596,730,348	60.62
Francis Lui Yiu Tung	5,938,035	—	—	1,569,584,304 ⁽³⁾	1,575,522,339	59.82
Paddy Tang Lui Wai Yu	16,355,173	—	—	1,569,584,304 ⁽³⁾	1,585,939,477	60.22
Alexander Lui Yiu Wah	8,340,580	—	3,811,831 ⁽⁴⁾	1,569,584,304 ⁽³⁾	1,581,736,715	60.06
Moses Cheng Mo Chi	200,000	—	—	—	200,000	0.01
Robin Chan Yau Hing	1,707,235	—	—	—	1,707,235	0.06
William Yip Shue Lam	200,000	—	—	—	200,000	0.01
Poon Chung Kwong	200,000	—	—	—	200,000	0.01
Au Man Chu	200,000	—	—	—	200,000	0.01
Wong Kwai Lam	400,000	—	—	—	400,000	0.02

Unless otherwise stated, all personal interests stated above were held by the respective Directors in the capacity of beneficial owners.

Notes:

- (1) Dr. Lui Che-woo is deemed to be interested in 7,974,889 Shares through the interests of his spouse.
- (2) Such Shares are held by a company which is beneficially owned and controlled by Dr. Lui Che-woo.
- (3) Such interests in the Shares are indirectly held by a company which is the trustee of a discretionary family trust established by Dr. Lui Che-woo as founder. Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah are deemed to be interested in those Shares by virtue of being the beneficiaries of the discretionary family trust.
- (4) Such Shares are held by a company controlled by Mr. Alexander Lui Yiu Wah.

(B) Underlying Shares — Share Options

Details are set out in the SHARE OPTION SCHEME section below.

All the interests stated above represent long positions.

Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah, by virtue of their deemed interests in the Shares as described in Note (3) above and as Directors of the Company, are deemed to be interested in the issued share capital of every subsidiary, jointly controlled entity and associated company of the Company held through the Company under the provision of the SFO.

Save as disclosed above, as of 31 December 2012, none of the Directors 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).

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As of 31 December 2012, the interests of every person (not being a Director or chief executive of the Company) in the Shares and underlying Shares of the Company as recorded in the register required to be kept by the Company under section 336 of the SFO or as otherwise notified to the Company and the Stock Exchange were as follows:

Name of Shareholders	Number of Ordinary Shares (Long Position)	Approximate % of Issued Share Capital
HSBC International Trustee Limited	1,532,793,048	58.20
CWL Assets (PTC) Limited	1,569,584,304	59.59
Super Focus Company Limited	1,165,199,559	44.24
Star II Limited	212,762,856	8.08
Favor Right Investments Limited	152,391,028	5.79
Premium Capital Profits Limited	148,846,915	5.65

Note:

HSBC International Trustee Limited is the trustee of a discretionary trust established by Dr. Lui Che-woo as the founder which was interested in 1,532,793,048 Shares. Following the allotment of new Shares for interim scrip dividend for the six months ended 30 June 2012 on 9 November 2012, the shareholding of HSBC International Trustee Limited was increased to 1,569,584,304 Shares. Such Shares are the aggregation of (i) 152,391,028 Shares held by Favor Right Investments Limited, (ii) 39,230,861 Shares held by Best Chance Investments Limited, (iii) 1,165,199,559 Shares held by Super Focus Company Limited, (iv) 148,846,915 Shares held by Premium Capital Profits Limited, and (v) 63,915,941 Shares held by Mark Liaison Limited; all the aforesaid companies are wholly-owned by a company controlled by the trust.

There was duplication of interests of 1,569,584,304 Shares among Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu, Mr. Alexander Lui Yiu Wah, HSBC International Trustee Limited and CWL Assets (PTC) Limited. Of these Shares, 1,165,199,559 Shares were interested by Super Focus Company Limited, 39,230,861 Shares were interested by Best Chance Investments Limited, 152,391,028 Shares were interested by Favor Right Investments Limited, 148,846,915 Shares were interested between Premium

Report of the Directors

Capital Profits Limited and Star II Limited and 63,915,941 Shares were interested between Mark Liaison Limited and Star II Limited.

Save as disclosed above, as of 31 December 2012 the Company had not been notified by any persons who had interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

SHARE OPTION SCHEME

A new share option scheme of the Company ("Share Option Scheme") in replacement of the existing share option scheme was approved and adopted by the Shareholders of the Company at its annual general meeting held on 20 June 2011. A summary of the Share Option Scheme is summarized below:

(1) Purpose

- (i) to attract and retain the best quality personnel for the development of the Company's businesses;
- (ii) to provide additional incentives to employees, consultants, agents, representatives, advisers, suppliers of goods or services, customers, contractors, business allies and joint venture partners; and
- (iii) to promote the long term financial success of the Company by aligning the interests of option holders to Shareholders.

(2) Participants

- (i) any selected employees of the Company or any affiliate and any senior executive or directors (including independent non-executive directors) of the Company or any affiliate; or
- (ii) any consultants, agents, representatives or advisers of the Company or any affiliate; or
- (iii) any persons who provide goods or services to the Company or any affiliate; or
- (iv) any customers or contractors of the Company or any affiliate; or

- (v) any business allies or joint venture partners of the Company or any affiliate; or
- (vi) any trustee of any trust established for the benefit of employees; or
- (vii) in relation to any of the above qualifying grantee who is an individual, a trust solely for the benefit of the qualifying grantee or his immediate family members, and companies controlled solely by the qualifying grantee or his immediate family members.

"Affiliate" means any company which is (a) a holding company of the Company; or (b) a subsidiary of a holding company of the Company; or (c) a subsidiary of the Company; or (d) a controlling shareholder of the Company; or (e) a company controlled by a controlling shareholder of the Company; or (f) a company controlled by the Company; or (g) an associated company of a holding company of the Company; or (h) an associated company of the Company.

(3) Total number of Shares available for issue

Mandate Limit — Subject to the paragraph below, the total number of Shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other schemes of the Company must not in aggregate exceed 10% of the Shares in issue as of 20 June 2011, being 255,195,221 Shares.

Overriding Limit — The Company may by ordinary resolutions of the Shareholders refresh the Mandate Limit as referred to in the above paragraph provided that the Company shall issue a circular to the Shareholders before such approval is sought. The overriding limit on the number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other schemes of the Company must not exceed 30% of the Shares in issue from time to time.

As of the date of this annual report, the total number of Shares available for issue under the Share Option Scheme was 220,413,221 Shares, which represented approximately 8% of the issued share capital of the Company on that date.

(4) Maximum entitlement of each participant

The total number of Shares issued and to be issued upon exercise of options (whether exercised or outstanding) in any 12-month period granted to each participant must not exceed 1% of the Shares in issue. However, subject to separate approval by the Shareholders in general meeting with the relevant participant and his associates (as defined in the Listing Rules) abstaining from voting and provided that the Company shall issue a circular to Shareholders before such approval is sought, the Company may grant a participant options which would exceed the aforesaid limit.

(5) Option period

The period during which an option may be exercised as determined by the Board in its absolute discretion at the time of grant, save that such period must not exceed 10 years from the date of grant of the relevant option.

(6) Minimum period for which an option must be held before it is vested

The minimum period, if any, for which an option must be held before it is vested shall be determined by the Board in its absolute discretion. The Share Option Scheme itself does not specify any minimum holding period.

(7) Payment on acceptance of the option

HK\$1.00 is payable by the grantee to the Company on acceptance of the option offer. An offer must be accepted within 14 days from the date of offer (or such longer period as the Board may specify in writing).

(8) Basis of determining the subscription price

The subscription price shall be determined by the Board in its absolute discretion at the time of grant of the relevant option but shall not be less than the highest of:

- (i) the closing price of the Shares as stated in the Stock Exchange's daily quotation sheet on the date of grant;
- (ii) the average closing price of the Shares as stated in the Stock Exchange's daily

quotation sheet for the five (5) business days immediately preceding the date of grant; and

- (iii) the nominal value of a Share.

(9) Effects of re-organisation of capital structure

In the event of any alteration in the capital structure of the Company whilst any option remains exercisable, whether by way of a capitalization of profits or reserves (other than pursuant to a scrip dividend scheme), rights issue, consolidation or subdivision of shares or reduction of capital, such corresponding alterations (if any) shall be made to: (a) the number and/or nominal amount of Shares subject to the option so far as unexercised; (b) the subscription price; and/or (c) the maximum number of Shares subject to the Share Option Scheme, as the auditors shall certify in writing to the Board to be in their opinion fair and reasonable (except in the case of a capitalization issue where no such certification shall be required), provided that: (i) any such alterations shall be made on the basis that the aggregate subscription price payable by an option holder on the full exercise of any option shall remain as nearly as possible the same (but shall not be greater than) it was before such event; (ii) no such alterations shall be made the effect of which would be to enable a Share to be issued at less than its nominal value; and (iii) no such alterations shall be made the effect of which would be to increase the proportion of the issued share capital of the Company for which any option holder is entitled to subscribe pursuant to the options held by him.

(10) The remaining life of the Share Option Scheme

The life span of the Share Option Scheme is 10 years commencing from 20 June 2011 and will expire on 19 June 2021.

Report of the Directors

Particulars of the movement of the options held by each of the Directors, and the employees of the Company and its affiliates in aggregate under the Share Option Scheme during the year ended 31 December 2012, were as follows:

Holders	Date of grant	Number of options				Held at 31 December 2012	Exercise price per Share (HK\$)	Exercise period
		Held at 1 January 2012	Granted during the year ^(a)	Exercised during the year	Lapsed during the year			
Lui Che-woo	27 Nov 2007	1,055,000	—	—	—	1,055,000	4.636	27 Nov 2008–26 Nov 2017
	3 Mar 2009	3,517,500	—	—	—	3,517,500	0.938	3 Mar 2010–2 Mar 2014
	17 Jan 2012	—	2,358,000	—	—	2,358,000	2.120	17 Jan 2013–16 Jan 2018
Francis Lui Yiu Tung	17 Jan 2012	—	1,400,000	—	—	1,400,000	2.120	17 Jan 2013–16 Jan 2018
Paddy Tang Lui Wai Yu	27 Nov 2007	940,000	—	—	—	940,000	4.636	27 Nov 2008–26 Nov 2017
	24 Jan 2008	800,000	—	—	—	800,000	3.882	27 Nov 2008–26 Nov 2017
	3 Mar 2009	3,133,400	—	—	—	3,133,400	0.938	3 Mar 2010–2 Mar 2014
	17 Jan 2012	—	2,358,000	—	—	2,358,000	2.120	17 Jan 2013–16 Jan 2018
Alexander Lui Yiu Wah	27 Nov 2007	990,000	—	—	—	990,000	4.636	27 Nov 2008–26 Nov 2017
	24 Jan 2008	800,000	—	—	—	800,000	3.882	27 Nov 2008–26 Nov 2017
	3 Mar 2009	3,300,000	—	—	—	3,300,000	0.938	3 Mar 2010–2 Mar 2014
	17 Jan 2012	—	2,358,000	—	—	2,358,000	2.120	17 Jan 2013–16 Jan 2018
Moses Cheng Mo Chi	17 Jan 2012	—	200,000	—	—	200,000	2.120	17 Jan 2013–16 Jan 2018
Robin Chan Yau Hing	27 Nov 2007	500,000	—	—	—	500,000	4.636	27 Nov 2008–26 Nov 2017
	17 Jan 2012	—	200,000	—	—	200,000	2.120	17 Jan 2013–16 Jan 2018
William Yip Shue Lam	17 Jan 2012	—	200,000	—	—	200,000	2.120	17 Jan 2013–16 Jan 2018
Poon Chung Kwong	17 Jan 2012	—	200,000	—	—	200,000	2.120	17 Jan 2013–16 Jan 2018
Au Man Chu	17 Jan 2012	—	200,000	—	—	200,000	2.120	17 Jan 2013–16 Jan 2018
Wong Kwai Lam	17 Jan 2012	—	200,000	—	—	200,000	2.120	17 Jan 2013–16 Jan 2018
Employees (in aggregate)	27 Nov 2007	4,964,000	—	—	240,000	4,724,000	4.636	27 Nov 2008–26 Nov 2017
	24 Jan 2008	1,436,000	—	—	67,000	1,369,000	3.882	27 Nov 2008–26 Nov 2017
	3 Mar 2009	643,750	—	30,000 ^(b)	40,000	573,750	0.938	3 Mar 2010–2 Mar 2014
	17 Jan 2012	—	7,590,000	—	1,520,000	6,070,000	2.120	17 Jan 2013–16 Jan 2018
Others	27 Nov 2007	322,000	—	—	322,000	—	4.636	27 Nov 2008–26 Nov 2017
	24 Jan 2008	400,000	—	400,000 ^(c)	—	—	3.882	27 Nov 2008–26 Nov 2017
	3 Mar 2009	1,270,000	—	1,270,000 ^(c)	—	—	0.938	3 Mar 2010–2 Mar 2014

Notes:

- (a) The closing price of the Shares immediately before the date on which the options were granted during the year was HK\$2.030 per share.
- (b) The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK\$3.090 per share.
- (c) The weighted average closing price of the Shares immediately before the date on which the options were exercised during the year was HK\$3.650 per share.

On 17 January 2012, the Company granted 17,264,000 share options (all at subscription price at HK\$2.120 per share) to the Directors and selected employees of the Company and its affiliates, of which 1,520,000 share options have since lapsed.

The fair value of the share options granted during the year is set out in note 30 to the Consolidated Financial Statements.

No option was cancelled during the year.

Except for the options granted on 24 January 2008 which vested on 27 November 2008, all other options granted are subject to a one-year vesting period.

Except for the Share Option Scheme, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors or their spouses or children under 18 years of age to acquire Shares in or debentures of the Company or any other body corporate.

CONTINUING CONNECTED TRANSACTION

The guarantee dated 5 March 1997 (“Guarantee”) given by the Company in favour of the Government of the HKSAR in respect of Contract No.GE/96/10 for 17 years quarrying rights and rehabilitation of the quarry at Tai Sheung Tok Anderson Road, Kowloon to KWP Quarry Co. Limited (“KWP”) (a subsidiary of Galaxy Entertainment Group Limited) was subsisting as at year-end. Pursuant to the Second Supplementary Agreement dated 5 May 2009 and made between the Government of the HKSAR and KWP, the Guarantee was automatically extended for 2.5 years until 26 June 2016. Details of this continuing connected transaction were already disclosed in the announcement of the Company dated 10 November 2006. The Company has also referred to the Guarantee in its annual reports since 1997. No annual cap was involved. The board of directors of the Company (including the independent non-executive Directors) had noted the above continuing connected transaction.

The continuing connected transaction mentioned above has been reviewed by the independent non-executive Directors of the Company who have confirmed that:

- (1) the transaction has been entered into in the ordinary and usual course of business of the Group and on normal commercial term; and
- (2) the transaction has been entered into in accordance with the Contract No.GE/96/10 and its supplementary agreements governing the transaction that are fair and reasonable and in the interests of the Company and the Shareholders of the Company as a whole.

The Company’s auditor was engaged to report on the Group’s continuing connected transaction in accordance with Hong Kong Standard on Assurance Engagements

3000 “Assurance Engagements other than Audits or Reviews of Historical Financial Information” and with reference to Practical Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued its unqualified letter containing its findings and conclusions in respect of the continuing connected transaction disclosed above in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditor’s letter has been provided by the Company to the Stock Exchange.

PRE-EMPTIVE RIGHTS

There are no shareholders pre-emptive rights as a matter of Bermuda law, either under statute or at common law.

DIRECTORS’ COMPETING BUSINESS

Dr. Lui Che-woo, Mr. Francis Lui Yiu Tung, Ms. Paddy Tang Lui Wai Yu and Mr. Alexander Lui Yiu Wah (collectively, the “Relevant Directors”), as either directly or indirectly through a discretionary family trust and other privately-owned companies, are deemed to be interested in several independently managed companies, which are also engaging in property investment, trading, and development. The business of these companies (“Competing Business”) may compete, directly or indirectly, with the business of the Group. The Relevant Directors are also directors of certain holding companies of the Competing Business.

Notwithstanding the interests of the Relevant Directors in the Competing Business disclosed above, the Group is able to carry on its business independent of, and at arm’s length from, the Competing Business, given that the Company has a strong and independent Board with 6 out of 10 Directors being non-executive/independent non-executive Directors. These non-executive/independent non-executive Directors are professionals (audit/accounting and legal) or prominent businessmen. The Company has established corporate governance procedures, which ensure investment opportunities and business performance are independently assessed and reviewed. The Relevant Directors are fully aware of their fiduciary duty to the Company, and will abstain from voting on any matter where there is, or there may be, a conflict of interest. The Directors therefore consider that the Group’s interests are adequately safeguarded.

Report of the Directors

Save as disclosed above, there is no other competing business interest between the Directors and his/her respective associates and the Group.

SUFFICIENCY OF PUBLIC FLOAT

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

DISCLOSURE UNDER RULE 13.22 OF THE LISTING RULES

As of 31 December 2012, the Group had given financial assistance and guarantees to financial institutions for the benefit of its affiliated companies. In compliance with the requirements of Rule 13.22 of the Listing Rules, the combined balance sheet of the affiliated companies as at the balance sheet date is disclosed as follows:

	Combined Balance sheet HK\$'000	Group's Attributable interest HK\$'000
Non-current assets	599	284
Current assets	30,984,057	7,330,227
Current liabilities	(4,583,491)	(1,129,939)
	26,401,165	6,200,572
Share capital	67	25
Reserves	10,882,625	2,834,957
Amounts due to shareholders	12,658,473	2,854,690
Non-current liabilities	2,860,000	510,900
	26,401,165	6,200,572

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the 2012 Financial Statements and adjusted as appropriate, is shown on pages 2 to 3 of this annual report.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2012:

- (1) the aggregate amount of turnover attributable to the Group's five largest customers represented less than 30% of the Group's total turnover; and
- (2) the aggregate amount of purchases (not including the purchases of items which were of a capital nature) attributable to the Group's major suppliers is as follows:

The largest supplier	33%
Five largest suppliers	65%

None of the Directors, their associates or any Shareholder (which to the knowledge of the Directors owns more than 5% of the Company's issued share capital) had any interest in the five largest customers or suppliers (suppliers of items which were not of a capital nature).

MANAGEMENT CONTRACTS

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

AUDITOR

The 2012 Financial Statements have been audited by Messrs. PricewaterhouseCoopers, who will retire and, being eligible, offer itself for re-appointment at the 2013 AGM.

On behalf of the Board

Lui Che-woo
Chairman and Managing Director

Hong Kong, 27 March 2013

Report of the Independent Auditor



羅兵咸永道

To the shareholders of K. Wah International Holdings Limited

(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of K. Wah International Holdings Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 42 to 110, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated profit and loss 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 FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements 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 disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements 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 financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda 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 financial statements are free from material misstatement.

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

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 financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 27 March 2013

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PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

Consolidated Profit and Loss Statement

For the year ended 31 December 2012

	Note	2012 HK\$'000	2011 HK\$'000
Revenue	7	3,346,477	3,196,361
Cost of sales		(1,212,776)	(1,026,718)
Gross profit		2,133,701	2,169,643
Other operating income		150,021	105,466
Other net gains		539,569	175,688
Other operating expenses		(207,239)	(215,140)
Administrative expenses		(449,057)	(342,834)
Change in fair value of investment properties		187,426	21,512
Finance costs	8	(49,120)	(38,384)
Share of profits/(losses) of jointly controlled entities		2,102,516	(38,897)
Share of profits/(losses) of associated companies		697,604	(11,328)
Profit before taxation	9	5,105,421	1,825,726
Taxation charge	13	(733,130)	(543,289)
Profit for the year		4,372,291	1,282,437
Attributable to:			
Equity holders of the Company		4,300,179	1,243,514
Non-controlling interests		72,112	38,923
		4,372,291	1,282,437
Earnings per share	15	HK cents	HK cents
Basic		163.35	48.27
Diluted		162.49	48.10
Dividends	16	HK\$'000	HK\$'000
Interim paid		130,605	51,064
Proposed final		263,824	206,152
		394,429	257,216

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2012

	2012 HK\$'000	2011 HK\$'000
Profit for the year	4,372,291	1,282,437
Other comprehensive income:		
Change in fair value of non-current investments	2,612,744	883,913
Change in fair value of land and buildings transferred to investment properties	1,045	—
Exchange differences	4,402	502,299
Other comprehensive income for the year	2,618,191	1,386,212
Total comprehensive income for the year	6,990,482	2,668,649
Total comprehensive income attributable to:		
Equity holders of the Company	6,918,557	2,573,302
Non-controlling interests	71,925	95,347
	6,990,482	2,668,649

Consolidated Balance Sheet

As at 31 December 2012

	Note	2012 HK\$'000	2011 HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	616,814	605,121
Investment properties	18	4,890,916	4,555,685
Leasehold land and land use rights	19	16,608	16,479
Jointly controlled entities	21	2,210,906	2,658,402
Associated companies	22	2,065,477	1,327,832
Non-current investments	23	4,923,267	2,310,523
Deferred taxation assets	35	55,301	40,848
Other non-current assets	24	1,568	106,781
		14,780,857	11,621,671
Current assets			
Development properties	25	13,894,002	11,146,166
Inventories		4,691	9,557
Amount due from a jointly controlled entity	21	853,182	—
Amount due from an associated company	22	560,107	—
Debtors and prepayments	26	867,985	213,281
Tax recoverable		66,021	9,750
Structured bank deposits	27	1,531,632	968,299
Cash and bank deposits	28	5,707,248	3,594,592
		23,484,868	15,941,645
Total assets		38,265,725	27,563,316
EQUITY			
Share capital	29	263,379	257,690
Reserves	31	19,093,656	12,491,475
Shareholders' funds		19,357,035	12,749,165
Non-controlling interests		1,052,460	996,486
Total equity		20,409,495	13,745,651

Consolidated Balance Sheet

As at 31 December 2012

	Note	2012 HK\$'000	2011 HK\$'000
LIABILITIES			
Non-current liabilities			
Borrowings	32	6,712,105	5,448,377
Guaranteed notes	33	1,700,658	—
Derivative financial instruments	34	7,412	—
Deferred taxation liabilities	35	1,135,848	912,207
		9,556,023	6,360,584
Current liabilities			
Amounts due to jointly controlled entities	21	1,559,370	67,148
Amount due to an associated company	22	104,935	—
Creditors and accruals	36	2,987,991	3,363,680
Current portion of borrowings	32	3,061,174	3,111,313
Tax payable		586,737	914,940
		8,300,207	7,457,081
Total liabilities		17,856,230	13,817,665
Total equity and liabilities		38,265,725	27,563,316
Net current assets		15,184,661	8,484,564
Total assets less current liabilities		29,965,518	20,106,235

Lui Che-woo
Chairman and Managing Director

Paddy Tang Lui Wai Yu
Executive Director

Company Balance Sheet

As at 31 December 2012

	Note	2012 HK\$'000	2011 HK\$'000
ASSETS			
Non-current assets			
Subsidiaries	20	259,561	259,561
Jointly controlled entities	21	—	438,568
		259,561	698,129
Current assets			
Amounts due from subsidiaries	20	3,593,484	2,752,897
Cash and bank deposits	28	3,593	5,791
		3,597,077	2,758,688
Total assets		3,856,638	3,456,817
EQUITY			
Share capital	29	263,379	257,690
Reserves	31	3,590,498	3,196,546
Shareholders' funds		3,853,877	3,454,236
LIABILITY			
Current liability			
Creditors and accruals	36	2,761	2,581
Total equity and liability		3,856,638	3,456,817
Net current assets		3,594,316	2,756,107
Total assets less current liability		3,853,877	3,454,236

Lui Che-woo
Chairman and Managing Director

Paddy Tang Lui Wai Yu
Executive Director

Consolidated Cash Flow Statement

For the year ended 31 December 2012

	Note	2012 HK\$'000	2011 HK\$'000
Cash flows from operating activities			
Cash (used in)/generated from operations	37	(1,799,003)	2,252,715
Tax paid		(910,823)	(292,857)
Interest paid		(373,859)	(252,219)
Net cash (used in)/generated from operating activities		(3,083,685)	1,707,639
Cash flows from investing activities			
Purchases of property, plant and equipment		(41,374)	(117,049)
Net changes in balances with jointly controlled entities		2,473,269	(54,868)
Net changes in balances with associated companies		(495,213)	(145,364)
Increase in structured bank deposits		(561,702)	(813,169)
Decrease/(increase) in short-term bank deposits maturing after three months		493,408	(524,238)
Proceeds from disposal of a jointly controlled entity		1,043,749	—
Proceeds from disposal of property, plant and equipment		15	214
Proceeds from disposal of an investment property		—	383,036
Proceeds from realisation of investments		—	6,045
Interest received		110,878	65,901
Dividend received from a jointly controlled entity		3,975	—
Net cash generated from/(used in) investing activities		3,027,005	(1,199,492)
Cash flows from financing activities			
Issue of new shares		2,773	4,011
New long-term bank loans		6,261,153	2,851,028
Issue of guaranteed notes		1,687,569	—
Acquisition of additional interests in a subsidiary from non-controlling interests		(6,734)	—
Repayment of long-term bank loans		(5,785,429)	(2,983,806)
New short-term bank loans repayable after three months from date of advance		1,180,000	823,000
Repayment of short-term bank loans repayable after three months from date of advance		(485,000)	(1,322,456)
Capital contribution from non-controlling interests		7,500	7,117
Dividends paid to non-controlling interests		(35,082)	—
Dividends paid to shareholders		(165,771)	(36,653)
Net cash generated from/(used in) financing activities		2,660,979	(657,759)
Net increase/(decrease) in cash and bank balances		2,604,299	(149,612)
Cash and bank balances at beginning of year		3,070,354	3,079,871
Changes in exchange rates		1,765	140,095
Cash and bank balances at end of year		5,676,418	3,070,354

Consolidated Statement of Changes in Equity

For the year ended 31 December 2012

	Share capital HK\$'000	Other reserves HK\$'000	Retained earnings HK\$'000	Shareholders' funds HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
At 1 January 2012	257,690	5,204,646	7,286,829	12,749,165	996,486	13,745,651
Comprehensive income:						
Profit for the year	—	—	4,300,179	4,300,179	72,112	4,372,291
Transfer to profit and loss on disposal of a jointly controlled entity	—	(156,838)	—	(156,838)	—	(156,838)
Other comprehensive income:						
Other comprehensive income for the year	—	2,615,268	3,110	2,618,378	(187)	2,618,191
Transaction with equity holders:						
Fair value of share options	—	10,863	—	10,863	—	10,863
Issue of shares upon exercise of share options	170	2,603	—	2,773	—	2,773
Lapse of share options	—	(942)	942	—	—	—
Acquisition of additional interests in a subsidiary from non-controlling interests	—	—	(1,714)	(1,714)	(5,020)	(6,734)
Shares issued as scrip dividends	5,519	(5,519)	—	—	—	—
Reserve arising on scrip dividends	—	—	170,986	170,986	—	170,986
Capital contribution from non-controlling interests	—	—	—	—	7,500	7,500
Dividends	—	—	(336,757)	(336,757)	(18,431)	(355,188)
At 31 December 2012	263,379	7,670,081	11,423,575	19,357,035	1,052,460	20,409,495
At 1 January 2011	255,082	3,877,572	6,075,851	10,208,505	896,919	11,105,424
Comprehensive income:						
Profit for the year	—	—	1,243,514	1,243,514	38,923	1,282,437
Other comprehensive income:						
Other comprehensive income for the year	—	1,329,788	—	1,329,788	56,424	1,386,212
Transaction with equity holders:						
Issue of shares upon exercise of share options	239	3,772	—	4,011	—	4,011
Lapse of share options	—	(4,117)	4,117	—	—	—
Shares issued as scrip dividends	2,369	(2,369)	—	—	—	—
Reserve arising on scrip dividends	—	—	39,931	39,931	—	39,931
Capital contribution from non-controlling interests	—	—	—	—	7,117	7,117
Dividends	—	—	(76,584)	(76,584)	(2,897)	(79,481)
At 31 December 2011	257,690	5,204,646	7,286,829	12,749,165	996,486	13,745,651

Notes to the Consolidated Financial Statements

1 GENERAL INFORMATION

K. Wah International Holdings Limited (the “Company”) is a limited liability company incorporated in Bermuda and has its primary listing on the Main Board of The Stock Exchange of Hong Kong Limited. The address of its registered office is Canon’s Court, 22 Victoria Street, Hamilton HM 12, Bermuda and its principal place of business in Hong Kong is 29 Floor, K. Wah Centre, 191 Java Road, North Point, Hong Kong.

The principal activities of the Company and its subsidiaries (together the “Group”) are property development and investment in Hong Kong, Mainland China and Singapore.

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated and have been approved for issue by the Board of Directors on 27 March 2013.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) under the historical cost convention as modified by the revaluation of investment properties, non-current investments and derivative financial instruments, which are carried at fair values.

The preparation of consolidated financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5.

The accounting policies and methods of computation used in the preparation of the financial statements are consistent with those used in the financial statements for the year ended 31 December 2011, except as stated below.

The adoption of revised HKFRSs

In 2012, the Group adopted the revised amendment of HKFRS below, which is relevant to its operations.

HKFRS 7 (Amendment)	Financial Instruments: Disclosures — Transfer of Financial Assets
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The Group has assessed the impact of the adoption of this amendment and considered that there was no significant impact on the Group’s results and financial position nor any substantial changes in the Group’s accounting policies and presentation of the consolidated financial statements.

Notes to the Consolidated Financial Statements

2 BASIS OF PREPARATION (cont'd)

Standards and amendments to existing standards that are not yet effective

		Effective for accounting periods beginning on or after
HKAS 1 (Amendment)	Presentation of Financial Statements	1 July 2012
HKAS 19 (Amendment)	Employee Benefits	1 January 2013
HKAS 27 (2011)	Separate Financial Statements	1 January 2013
HKAS 28 (2011)	Investments in Associates and Joint Ventures	1 January 2013
HKAS 32 (Amendment)	Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities	1 January 2014
HKFRS 7 (Amendment)	Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities	1 January 2013
HKFRS 7 (Amendment)	Financial Instruments: Disclosures — Mandatory Effective Date of HKFRS 9 and Transition Disclosures	1 January 2015
HKFRS 9	Financial Instruments	1 January 2015
HKFRS 10	Consolidated Financial Statements	1 January 2013
HKFRS 11	Joint Arrangements	1 January 2013
HKFRS 12	Disclosure of Interests in Other Entities	1 January 2013
HKFRS 13	Fair Value Measurements	1 January 2013
HKICPA's annual improvements to certain HKFRSs published in June 2012		
HKAS 1 (Amendment)	Presentation of Financial Statements	1 January 2013
HKAS 16 (Amendment)	Property, Plant and Equipment	1 January 2013
HKAS 32 (Amendment)	Financial Instruments: Presentation	1 January 2013
HKAS 34 (Amendment)	Interim Financial Reporting	1 January 2013

The Group is not yet in a position to state whether the adoption of the above new standards and amendments will result in substantial changes to the Group's accounting policies and presentation of the consolidated financial statements.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements, which have been consistently applied to all the years presented, unless otherwise stated, are set out below.

3.1 Consolidation

(a) *Subsidiaries*

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profit and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(i) *Business combinations*

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Consolidation (cont'd)

(a) *Subsidiaries (cont'd)*

(ii) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions — that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(iii) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

(iv) *Separate financial statements*

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amounts in the consolidated financial statements of the investee's net assets including goodwill.

(b) *Associated companies*

Associated companies are all entities over which the Group has significant influence but not control. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associated companies includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associated companies post-acquisition profits or losses is recognised in the consolidated profit and loss statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Consolidation (cont'd)

(b) *Associated companies (cont'd)*

The Group determines at each reporting date whether there is any objective evidence that the investment in the associated company is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associated company and its carrying value and recognises the amount in the consolidated profit and loss statement.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associated companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associated companies are recognised in the consolidated profit and loss statement.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit and loss where appropriate.

(c) *Jointly controlled entities*

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established between the participating venturers and whereby the Group together with the other venturer undertake an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity.

Investments in jointly controlled entities are accounted for under the equity method of accounting and are initially recognised at cost. The investments in jointly controlled entities of the Group include goodwill identified on acquisition, net of any accumulated impairment. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies of the Group.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the consolidated profit and loss statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

The Group determines at each reporting date whether there is any objective evidence that the investment in jointly controlled entity is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the jointly controlled entity and its carrying value and recognises the amount in the consolidated profit and loss statement.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.1 Consolidation (cont'd)

(c) *Jointly controlled entities (cont'd)*

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the interest in the jointly controlled entities held by the Group. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the balance sheet of the Company, investments in jointly controlled entities are stated at cost less provision for impairment. The results of jointly controlled entities are accounted for by the Company on the basis of dividend and receivable.

3.2 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

3.3 Goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

3.4 Property, plant and equipment

Land and buildings comprise mainly offices and hotel building. Leasehold land classified as finance leases and all other property, plant and equipment are stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably.

The carrying amount of the replaced asset is derecognised. All other repairs and maintenance costs are charged to the profit and loss statement during the financial period in which they are incurred.

All direct and indirect costs relating to the construction of property, plant and equipment, including borrowing costs during the construction period are capitalised as the costs of the assets.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.4 Property, plant and equipment (cont'd)

Leasehold land classified as finance lease commences depreciation from the time when the land interest becomes available for its intended use. Buildings (including hotel building) on leasehold land are depreciated over their shorter useful life or respective lease periods using the straight-line method. No depreciation is provided on assets under construction. Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives as follows:

Plant and machinery	10 years
Other assets	3 to 10 years

The asset's residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date. An asset's carrying amount is written down immediately to its estimated recoverable amount if the asset's carrying amount of an asset is greater than its recoverable amount. Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the profit and loss statement.

3.5 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. Investment property principally comprises freehold land, land held under operating leases and buildings held under finance leases. It also includes properties that are being constructed or developed for future use as investment properties. Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating leases concerned are accounted for as if it were finance leases.

Investment property is measured initially at its cost, including related transaction costs and borrowing costs. Borrowing costs are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway and cease once the asset is substantially complete, or suspended if the development of the asset is suspended.

After initial recognition, investment property is carried at fair value, representing open market value determined at each balance sheet date by external valuers. Fair value is based on valuations carried out by professional valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active continues to be measured at fair value. Where fair value of investment property under construction is not reliably determinable, such investment property under construction is measured at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier).

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.5 Investment properties (cont'd)

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of leasehold land, if any, classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the carrying amount of the property only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss statement during the financial period in which they are incurred.

Changes in fair values of investment property are recognised in the profit and loss statement. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

When an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to completed properties held for sale at its fair value at the date of change in use.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, except that the land portion is reclassified as leasehold land and land use rights if it is operating lease in nature, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If a property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this property at the date of transfer is recognised in equity as revaluation of property, plant and equipment. However, if the fair value gives rise to a reversal of a previous impairment, this write-back is recognised in the profit and loss statement. This revaluation reserve shall remain and be transferred to retained earnings upon disposal of this property.

3.6 Impairment of non-financial assets

Assets that have an indefinite useful life or have not yet been available for use are not subject to amortisation, but are tested at least annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.7 Financial assets

The Group classifies its financial assets in the categories of financial assets at fair value through profit or loss (other investments), loans and receivables, and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) *Financial assets at fair value through profit or loss (other investments)*

Financial assets at fair value through profit or loss (other investments) are classified as current assets if they are either held for trading or are expected to be settled within twelve months of the balance sheet date. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges.

(b) *Loans and receivable*

Loans and receivable are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date and are classified as non-current assets.

(c) *Available-for-sale investments*

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in the balance sheet under non-current investments unless management intends to dispose of the investment within twelve months of the balance sheet date.

Regular way purchases and sales of financial assets are recognised on trade-date, which is the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the profit and loss statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale investments are initially recognised at fair value plus transaction cost and subsequently carried at fair value. Loans and receivable are initially recognised at fair value and are subsequently carried at amortised cost using the effective interest method.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.7 Financial assets (cont'd)

Realised and unrealised gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the profit and loss statement in the financial period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary financial assets classified as available-for-sale are recognised in other comprehensive income. When financial assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the profit and loss statement as gains or losses from the financial assets. Dividends on available-for-sale equity instruments are recognized in the profit and loss statement as part of other income when the Group's right to receive payments is established. The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted investments), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of financial assets classified as available-for-sale, a significant or prolonged decline in the fair value of the financial assets below its cost is also evidenced that the financial assets are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial assets previously recognised in the profit and loss statement is removed from equity and recognised in the profit and loss statement. Impairment losses recognised in the profit and loss statement on equity investments are not reversed through the profit and loss statement.

3.8 Development properties

Development properties comprise leasehold land and land use rights, construction costs, an appropriate proportion of overhead expenditure and borrowing costs incurred during the construction period, less provisions for impairment. Development properties are carried at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and anticipated costs to completion.

Development properties are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.9 Inventories

Inventories comprise primarily operating supplies, food and beverages, engineering spare parts and guest supplies. Operating supplies, food and beverages are stated at the lower of cost and net realisable value. Engineering spare parts and guest supplies are stated at cost and expensed then consumed. Costs are assigned to individual items on the first-in, first-out method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.10 Debtors

Debtors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment, which is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of debtors. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or other financial reorganisation and default or delinquency in payments are considered indicators that the debtor is impaired. The amount of the provision is the difference between the carrying amount of the asset and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of debtors is reduced through the use of an allowance account and the amount of the provision is recognised in the profit and loss statement within other operating expenses. When a debtor is uncollectible, it is written off against the allowance account for debtors. Subsequent recoveries of amounts previously written off are credited against other operating income in the profit and loss statement.

If the collection of debtors is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

3.11 Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances, deposits held at calls with banks, deposits with banks and financial institutions repayable within three months from the date of placement, less bank overdrafts and advances from banks and financial institutions repayable within three months from the date of advance.

3.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability including fees and commissions to agents, advisers, levies by regulatory agencies and securities exchange, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

3.14 Trade creditors

Trade creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade creditors are classified as current liabilities if payment is due within one year or less (or in normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

3.15 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit and loss statement on a straight-line basis over the period of the lease. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the profit and loss statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

3.16 Provisions

Provisions are recognised when there is a present legal or constructive obligation as a result of past events, and it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Where a provision is expected to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.16 Provisions (cont'd)

When there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3.17 Current and deferred taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss statement, except to the extent that it relates to items recognised directly in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity respectively.

The current taxation charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the subsidiaries, jointly controlled entities and associated companies operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred taxation is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred taxation is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred taxation is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred taxation asset is realised or the deferred taxation liability is settled.

Deferred taxation assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated companies, except for deferred taxation liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred taxation assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.18 Employee benefits

(a) *Employee entitlements, benefits and bonuses*

Contributions to publicly or privately administered defined contribution retirement or pension plans on a mandatory, contractual or voluntary basis are recognised as employee benefit expense in the financial period when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date. Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

Provisions for bonus plans due wholly within twelve months after balance sheet date are recognised when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(b) *Share-based compensation*

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group.

The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions;
- excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- including the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each balance sheet date, the entity revises its estimates of the number of options that are expected to vest based on the non-marketing vesting conditions. It recognises the impact of the revision to original estimates, if any, in the profit and loss account, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium when the options are exercised.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.19 Borrowing costs

General and specific borrowings costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to complete and prepare for its intended use or sale are capitalised as part of the cost of that asset until such time as the assets are substantially ready for their internal use or sales. All other borrowing costs are charged to the profit and loss statement in the financial period in which they are incurred.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualified assets is deducted from the borrowing costs eligible for capitalisation.

3.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable and is shown, net of value-added tax, business tax, returns, rebates and discounts, allowances for credit and other revenue reducing factors. The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Group and specific criteria for each of the activities of the Group have been met. Estimates are based on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

(a) *Sales of properties*

Sales of properties in the ordinary course of business are recognised when all of the following criteria are satisfied:

- the significant risks and rewards of ownership of the properties are transferred to the buyers;
- neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the cost incurred or to be incurred in respect of the transaction can be measured reliably.

Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the balance sheet as advanced proceeds on sale of properties under current liabilities.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.20 Revenue recognition (cont'd)

(b) Rental income

Rental income net of any incentives given to the lessees is recognised over the periods of the respective leases on a straight-line basis.

(c) Hotel operation income

Hotel operation income is recognised when the services are rendered.

(d) Interest income

Interest income is recognised on a time proportion basis using the effective interest method, taking into account the outstanding principal amounts and the applicable interest rates.

(e) Dividend income

Dividend income is recognised when the right to receive payment is established.

3.21 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollar, which is the Company's functional currency and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Foreign exchange gains and losses are presented in the profit and loss statement within 'Other net gains'.

Translation differences on non-monetary financial assets held at fair value through profit or loss are recognised in the profit and loss statement as part of the fair value gain or loss. Translation differences on non-monetary available-for-sale investments are included in the investment reserve in other comprehensive income.

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.21 Foreign currencies (cont'd)

(c) *Group companies*

The results and financial position of all the entities in the Group that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rates at the date of that balance sheet;
- (ii) income and expenses for each profit and loss statement are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rates at the balance sheet date. Exchange differences arising are recognised in other comprehensive income.

(d) *Disposal of foreign operation and partial disposal*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associated company that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associated companies or jointly controlled entities that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

3.22 Insurance contracts

The Group assesses at each balance sheet date the liabilities under its insurance contracts using current estimates of future cash flows. If the carrying amount of the relevant insurance liabilities less than the best estimate of the expenditure required to settle the relevant insurance liabilities at the balance sheet date, the Group recognised the entire difference in profit or loss. These estimates are recognised only when the outflow is probable and the estimates can be reliably measured.

The Group regards its financial guarantee contracts in respect of mortgage facilities provided to certain property purchasers, guarantees provided to its subsidiaries, jointly controlled entities and associates companies as insurance contracts.

Notes to the Consolidated Financial Statements

3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

3.23 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

4 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk, and price risk), credit risk and liquidity risk. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner. The property industry is sensitive to the economic environment in Hong Kong and Mainland China, which will affect the volumes of property transactions and selling prices. The Group mainly relies on sales of properties and renewal of bank borrowings to fund its operations.

Risk management is carried out by the management of the Group under the supervision of the Board of Directors. The management of the Group identifies, evaluates and manages significant financial risks in the individual operating units of the Group. The Board provides guidance for overall risk management.

4.1 Financial risk factor

4.1.1. Market risk

(i) Foreign exchange risk

The Group operates in Hong Kong, Mainland China and Singapore and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi ("RMB").

Foreign exchange risk mainly arises from future commercial transactions, recognised assets and liabilities, which are denominated in a currency that is not the functional currency of the entities in the Group.

Except for Hong Kong dollar borrowings for entities in Mainland China, all the Group's borrowings are denominated in the functional currency of the entities to minimise the foreign currency risk.

The Group would also consider entering into forward foreign exchange contracts to reduce foreign exchange risk exposure where necessary. The Group does not hedge any net investments in foreign operations.

At 31 December 2012, if Hong Kong dollar had weakened or strengthened by 3% (2011: 3%) against RMB, with all other variables held constant, profit before taxation for the year would have been higher or lower by approximately HK\$4 million (2011: HK\$1 million) mainly as a result of foreign exchange gains/losses arising from borrowings and cash at banks.

4 FINANCIAL RISK MANAGEMENT (cont'd)

4.1 Financial risk factor (cont'd)

4.1.1. Market risk (cont'd)

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and bank loans.

The interest rate risk arises from borrowings. Borrowings with variable rates expose the Group to cash flow interest rate risk. Borrowings with fixed rates expose the Group to fair value interest rate risk.

With regard to cash flow interest rate risk of borrowings, when opportunities arise, the Group considers the use of interest rate swaps to fix the interest costs for long term. In case of funding requirement, other than bank borrowings, the Group may issue fixed-rate instruments, such as bonds, to avoid fluctuation of interest costs over the period of the instruments.

The Group has followed a policy of developing long-term banking facilities to match its long-term investments in Hong Kong and Mainland China. The policy also involves close monitoring of interest rate movements and replacing and entering into new banking facilities when favourable pricing opportunities arise. At 31 December 2012, if interest rates had been increased or decreased by 1% (2011: 1%) with all other variables held constant, the profit before taxation for the year would decrease or increase by approximately HK\$27 million (2011: HK\$40 million) mainly as a result of higher or lower interest expenses.

(iii) Price risk

The Group is exposed to equity securities price risk through investments held by the Group classified as available-for-sale investments which are publicly traded.

At 31 December 2012, if the share price of the available-for-sale investments had been increased or decreased by 10% (2011: 10%) with all other variables held constant, the equity would increase or decrease by approximately HK\$492 million (2011: HK\$231 million).

4.1.2. Credit risk

The Group's credit risk is primarily attributable to trade and other debtors, bank deposits, amounts due from jointly controlled entities and associated companies. The Company's credit risk is primarily attributable to amounts due from subsidiaries.

The Group has policies in place to ensure that sales of properties, goods and services are made to customers with an appropriate credit history. The Group reviews the recoverable amount of the debtors and loan receivable on a regular basis and an allowance for doubtful debts is made where there is an identified loss.

Notes to the Consolidated Financial Statements

4 FINANCIAL RISK MANAGEMENT (cont'd)

4.1 Financial risk factor (cont'd)

4.1.2. Credit risk (cont'd)

In respect of credit exposures to customers for sales of properties, the Group normally receives deposits or progress payments from individual customers prior to the completion of sales transactions. With regard to credit exposure to customers for rental of properties, the Group also receives rental payments in advance with sufficient initial rental deposits to cover potential default in future rental payments. The Group monitors the credibility of jointly controlled entities and associated companies, whereas the Company monitors the credibility of subsidiaries continuously.

At each balance sheet date, the Group reviews the recoverable amount of each debtor to ensure that adequate provision is made for irrecoverable amounts.

The credit risk on liquid funds is limited because around 79% (2011: 91%) of the funds are placed in banks with high credit rankings, ranging from Aa to A, and the remaining 21% (2011: 9%) in local banks in different countries with close monitoring by the management and there is no concentration in any particular bank. Management does not expect any losses from non-performance of these banks.

4.1.3. Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Group measures and monitors its liquidity through the maintenance of prudent ratios regarding the liquidity structure of the overall assets, liabilities, loans and commitments of the Group. It prepares cash flow forecasts to assess funding needs on a regular basis and, if necessary, obtains financing to meet the funding requirement.

The Group also maintains a conservative level of liquid assets to ensure the availability of sufficient cash flows to meet any unexpected and material cash requirements in the course of ordinary business. In addition, standby credit facilities are obtained from banks to provide contingent liquidity support. As at 31 December 2012, the Group's total undrawn facilities amounted to HK\$5.3 billion (2011: HK\$3.7 billion).

The Group has a number of alternative plans to mitigate the potential impacts on anticipated cash flows should there be significant adverse changes in economic environment. These include adjusting the construction progress of development properties, implementing cost control measures and accelerating sales with more flexible pricing. The Group will, base on its assessment of the relevant future costs and benefits, pursue such options as are appropriate.

The contractual maturity of the Group and the Company for its financial liabilities, drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company is required to pay and include both interest and principal, is set out below.

4 FINANCIAL RISK MANAGEMENT (cont'd)

4.1 Financial risk factor (cont'd)

4.1.3. Liquidity risk (cont'd)

Group

	Within 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Total HK\$'000
At 31 December 2012				
Bank loans	3,394,824	3,554,021	3,723,009	10,671,854
Guaranteed notes	88,053	88,053	1,922,834	2,098,940
Net settled derivative financial instrument	438	438	1,313	2,189
Gross settled derivative financial instrument				
— inflow	—	—	(1,550,340)	(1,550,340)
— outflow	—	—	1,555,700	1,555,700
Trade creditors	709,945	—	—	709,945
Other creditors and accruals	77,647	—	—	77,647
Amounts due to jointly controlled entities	1,559,370	—	—	1,559,370
Amount due to an associated company	104,935	—	—	104,935
Amounts due to non-controlling interests	123,635	—	—	123,635
Total	6,058,847	3,642,512	5,652,516	15,353,875
At 31 December 2011				
Bank loans	3,352,011	2,456,799	3,303,580	9,112,390
Trade creditors	877,402	—	—	877,402
Other creditors and accruals	106,162	—	—	106,162
Amounts due to jointly controlled entities	67,148	—	—	67,148
Amounts due to non-controlling interests	69,220	—	—	69,220
Total	4,471,943	2,456,799	3,303,580	10,232,322

Company

	Within 1 year HK\$'000	Between 1 and 2 years HK\$'000	Between 2 and 5 years HK\$'000	Total HK\$'000
At 31 December 2012				
Other creditors	2,761	—	—	2,761
At 31 December 2011				
Other creditors	2,581	—	—	2,581

Note: Interest on borrowings and guaranteed notes are calculated on balances held as at 31 December 2012 and 2011. Floating-rate interest is estimated using the current interest rate as at 31 December 2012 and 2011 respectively.

Notes to the Consolidated Financial Statements

4 FINANCIAL RISK MANAGEMENT (cont'd)

4.2 Capital risk 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 borrowings and equity.

The Directors of the Company review the capital structure periodically. As a part of this review, the Directors of the Company assess the annual budget prepared by the finance department which reviews the planned construction projects proposed by project department and prepared the annual budget taking into account the provision of funding. Based on the proposed annual budget, the Directors of the Company consider the cost of capital and the risks associated with capital. The Directors of the Company also balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio, which is calculated as net borrowings to total equity. Net borrowings is calculated as total borrowings, including current, non-current borrowings and guaranteed notes, less cash, bank deposits and structured bank deposits.

The gearing ratio is calculated as follows:

	2012	2011
	HK\$'000	HK\$'000
Total borrowings	11,473,937	8,559,690
Less: Cash, bank deposits and structured bank deposits	(7,238,880)	(4,562,891)
Net borrowings	4,235,057	3,996,799
Total equity	20,409,495	13,745,651
Gearing ratio	21%	29%

4 FINANCIAL RISK MANAGEMENT (cont'd)

4.3 Fair value estimation

The disclosure of fair value measurements of financial instruments carried at fair value by level in the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

At 31 December 2012, the Group had no Level 3 financial instruments, the only Level 1 financial instrument represents the non-current investments (note 23) and Level 2 financial instruments represent the structured bank deposits (note 27) and derivative financial instruments (note 34).

At 31 December 2011, the Group had no Level 3 financial instruments, the only Level 1 financial instrument represents the non-current investments (note 23) and the only Level 2 financial instrument represents the structured bank deposits (note 27).

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

In assessing the fair value of non-trading securities and other financial assets that are not traded in an active market, the Group uses a variety of methods and makes assumptions that are based on market conditions existing at the balance sheet date.

The fair values of long-term borrowings are estimated using the expected future contractual payments discounted at current market interest rates.

The face values less any estimated credit adjustments for financial assets and liabilities with a maturity of less than one year, debtors, bank balances, creditors and current borrowings are assumed to approximate their fair values.

There was no transfer of financial assets between Level 1 and Level 2 fair value hierarchy classifications.

Notes to the Consolidated Financial Statements

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments used in preparing the consolidated financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are addressed below:

(a) Current and deferred taxation and land appreciation tax

Significant judgment is required in determining the provision for taxation. There are many transactions and calculations for which the ultimate determination is uncertain during the ordinary course of business. Where the final taxation outcome of these matters is different from the amounts that were initially recorded, such difference will impact the provision for current and deferred taxation in the financial period in which such determination is made.

The Group is subject to land appreciation tax in Mainland China. However, the actual implementation of this tax is uncertain and varies amongst local tax authorities. Accordingly, significant judgment is required in determining the amount of the land appreciation tax and its related tax provision. The Group recognises land appreciation tax based on best estimates according to the understanding of the tax rules. The final taxation outcome could be different from the amounts that were initially recorded, and these differences will impact the provision for taxation in the financial period in which such determination is made.

Deferred taxation assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(b) Fair value of investment properties

The fair values of investment properties are determined by independent valuers on an open market for existing use basis. In making the judgment, the Group considers information from a variety of sources including:

- (i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences;
- (ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (cont'd)

(b) Fair value of investment properties (cont'd)

If information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market. The valuations are reviewed annually by external valuers.

(c) Provision for development properties

The Group assesses the carrying amounts of properties under development and completed properties for sale according to their net realisable value based on the realisability of these properties, taking into account estimated costs to completion based on past experience and estimated net sales value based on prevailing market conditions. Provision is made when events or changes in circumstances indicate that the carrying amounts may not be realised. The assessment requires the use of judgment and estimates.

(d) Impairment of non-financial assets

The Group tests at each balance sheet date whether assets that have indefinite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations. These calculations require the use of estimates, such as discount rates, future profitability and growth rates.

(e) Financial implication of regulation of idle land

Under the People's Republic of China ("PRC") laws and regulations, if a property developer fails to commence the development of land within the timeframe designated in the land grant contract, the PRC government may regard the land as idle land and issue a warning or impose a penalty on the developer or reclaim the land.

Judgment is required in assessing whether these tracts of land will be subject to the penalty of idle land and thereby resulting in any financial impact to the Group. In making this judgment, the Group evaluates the extent of development of the whole tracts of land, status of negotiation with the government authorities as to the extension of time of commencement or revision of development plans.

Notes to the Consolidated Financial Statements

5 CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (cont'd)

(f) Share-based payments

The fair value of option granted is estimated by independent professional valuers based on the various assumptions on volatility, life of options, dividend paid out rate and annual risk-free interest rate, excluding the impact of any non-market vesting conditions, which generally represent the best estimate of the fair value of the options at the date of granting the options.

(g) Recoverability of other non-current assets, debtors and prepayments

The Group assess whether there is objective evidence that other non-current assets, debtors and prepayment are impaired. It recognises impairment based on estimates of the extent and timing of future cash flows using applicable discount rates. The final outcome of the recoverability and cash flows of these non-current assets, debtors and prepayment will impact the amount of impairment required.

6 SEGMENT INFORMATION

The Group is principally engaged in property development and investment in Hong Kong, Mainland China and Singapore. In accordance with the internal financial reporting of the Group provided to the chief operating decision-maker for the purposes of allocating resources, assessing performance of the operating segments and making strategic decisions, the reportable operating segments are property development and property investment. The Group regards the Board of Directors as the chief operating decision-maker.

The results of the operating segments represent the adjusted earnings before interest, tax, depreciation, amortisation and certain items (the "Adjusted EBITDA"). Certain items include other operating income/expenses, other net gains/losses, gain on disposal of a jointly controlled entity and change in fair value of investment properties. Also the Adjusted EBITDA excludes the share of results of jointly controlled entities and associated companies. There are no sales or trading transactions between the operating segments. Others represent corporate level activities including central treasury management, hotel operation and administrative function.

Segment assets primarily consist of property, plant and equipment, leasehold land and land use rights, deferred taxation assets, other non-current assets, development and investment properties, debtors and prepayments, tax recoverable, cash and bank deposits and other assets mainly include non-current investments, hotel building, inventories and other non-operating assets held by the corporate office. Segment liabilities comprise mainly creditors and accruals, amounts due to jointly controlled entities and an associated company, borrowings, guaranteed notes, derivative financial instruments, current and deferred taxation liabilities. Other liabilities included liabilities not arising from the operation of the operating segments.

6 SEGMENT INFORMATION (cont'd)

	Property development			Property investment	Others	Total
	Hong Kong HK\$'000	Mainland China HK\$'000	Others HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2012						
Revenue	450,777	2,512,665	22,637	279,463	80,935	3,346,477
Adjusted EBITDA	243,703	1,448,346	9,995	239,844	(214,258)	1,727,630
Other income and expenses/gains, net						(10,689)
Depreciation and amortisation						(42,986)
Gain on disposal of a jointly controlled entity		493,040				493,040
Change in fair value of investment properties				187,426		187,426
Finance costs						(49,120)
Share of profits/(losses) of jointly controlled entities	2,105,459	(2,943)				2,102,516
Share of profits of associated companies	697,604					697,604
Profit before taxation						5,105,421
Taxation charge						(733,130)
Profit for the year						4,372,291
As at 31 December 2012						
Segment assets	5,255,893	16,608,805	142,700	5,027,852	—	27,035,250
Other assets	—	—	—	—	5,540,803	5,540,803
Jointly controlled entities	3,060,590	3,498	—	—	—	3,064,088
Associated companies	2,625,584	—	—	—	—	2,625,584
Total assets	10,942,067	16,612,303	142,700	5,027,852	5,540,803	38,265,725
Total liabilities	5,191,877	10,738,220	191,026	1,424,596	310,511	17,856,230

Notes to the Consolidated Financial Statements

6 SEGMENT INFORMATION (cont'd)

	Property development			Property investment	Others	Total
	Hong Kong HK\$'000	Mainland China HK\$'000	Others HK\$'000	HK\$'000	HK\$'000	HK\$'000
Year ended 31 December 2011						
Revenue	1,150,310	1,728,591	29,308	266,439	21,713	3,196,361
Adjusted EBITDA	696,849	1,098,453	15,372	231,749	(189,778)	1,852,645
Other income and expenses/gains, net						(99,022)
Depreciation and amortisation						(25,836)
Gain on disposal of an investment property				165,036		165,036
Change in fair value of investment properties				21,512		21,512
Finance costs						(38,384)
Share of losses of jointly controlled entities	(26,331)	(12,566)				(38,897)
Share of losses of associated companies	(11,328)					(11,328)
Profit before taxation						1,825,726
Taxation charge						(543,289)
Profit for the year						1,282,437
As at 31 December 2011						
Segment assets	1,295,277	14,464,310	128,253	4,772,922	—	20,660,762
Other assets	—	—	—	—	2,916,320	2,916,320
Jointly controlled entities	1,940,158	718,244	—	—	—	2,658,402
Associated companies	1,327,832	—	—	—	—	1,327,832
Total assets	4,563,267	15,182,554	128,253	4,772,922	2,916,320	27,563,316
Total liabilities	2,730,755	9,180,160	24,036	1,569,367	313,347	13,817,665

6 SEGMENT INFORMATION (cont'd)

Geographical segment information

The Group operates in three (2011: three) main geographical areas, including Hong Kong, Mainland China and Singapore.

The revenue for the years ended 31 December 2012 and 2011 and total non-current assets (other than non-current investments, deferred taxation assets and other non-current assets) as at 31 December 2012 and 2011 by geographical area are as follows:

Revenue

	2012 HK\$'000	2011 HK\$'000
Hong Kong	464,673	1,169,798
Mainland China	2,840,714	1,978,756
Singapore	41,090	47,807
	3,346,477	3,196,361

Non-current assets

(other than non-current investments, deferred taxation assets and other non-current assets)

	2012 HK\$'000	2011 HK\$'000
Hong Kong	4,779,368	3,729,771
Mainland China	4,807,245	5,247,389
Singapore	214,108	186,359
	9,800,721	9,163,519

7 REVENUE

	2012 HK\$'000	2011 HK\$'000
Sale of properties	2,986,079	2,908,209
Rental income	279,463	266,439
Hotel operations	80,935	21,713
	3,346,477	3,196,361

Notes to the Consolidated Financial Statements

8 FINANCE COSTS

	2012 HK\$'000	2011 HK\$'000
Interest expenses		
Bank loans, overdrafts and others, wholly repayable within five years	419,486	252,219
Capitalised as cost of properties under development	(370,366)	(213,835)
	49,120	38,384

The capitalisation rates applied to funds borrowed generally and used for the development of properties are between 1% and 7% per annum (2011: 1% to 8% per annum).

9 PROFIT BEFORE TAXATION

	2012 HK\$'000	2011 HK\$'000
Profit before taxation is stated after crediting:		
Interest income from banks	113,280	66,262
Interest income from mortgage loans	222	278
Net exchange gains	—	10,705
Gain on disposal of an investment property	—	165,036
Gain on disposal of a jointly controlled entity	493,040	—
Gain on transferred of development properties to investment properties	60,713	—
and after charging:		
Cost of properties sold	1,145,555	989,721
Cost of inventories consumed/sold	15,951	2,594
Selling and marketing expenses	159,217	180,362
Depreciation (net of amount capitalised under properties under development of HK\$438,000 (2011: HK\$392,000))	42,181	24,524
Amortisation for leasehold land and land use rights	805	1,312
Auditors' remuneration		
Audit services		
Provision for the year	4,470	3,443
Under-provision for prior years	334	—
Non-audit services	656	1,091
Losses on disposal of property, plant and equipment	48	52
Operating lease rental for land and buildings	2,856	1,389
Outgoings in respect of investment properties		
Direct operating expense of investment properties that generate rental income	5,371	6,174
Direct operating expense of investment properties that did not generate rental income	512	145
Fair value losses on derivative financial instruments	7,416	—
Net exchange losses	6,720	—

10 EMPLOYEE BENEFIT EXPENSES

	2012 HK\$'000	2011 HK\$'000
Staff costs including directors' emoluments	274,479	252,871
Pension costs — defined contribution plans	13,393	12,157
Share options granted to directors and employees	10,863	—
	298,735	265,028
Less: Amount capitalised under properties under development	(46,927)	(54,292)
	251,808	210,736

The Group operates two defined contribution schemes in Hong Kong which comply with all the respective requirements under the Occupational Retirement Schemes Ordinance (“ORSO”) and Mandatory Provident Fund (“MPF”) Schemes Ordinance. All the assets under the schemes are held separately from the Group under independently administered funds. Contributions to the MPF Scheme follow the MPF Schemes Ordinance while contributions to the ORSO Scheme are based on a percentage ranging from 5% to 10% (depending upon the length of employment) of the basic salary of the employee, minus the mandatory contributions to the MPF Scheme. The contributions to the ORSO Scheme may be reduced by contributions forfeited in respect of those employees who leave the scheme prior to the full vesting of the contributions of the Group on the employee.

Employees in Mainland China participate in various pension plans organized by the relevant municipal and provincial governments under which the Group is required to make monthly defined contributions to those plans at rates ranging from 12% to 22% of the basic salaries of the employees, depending upon the applicable local regulations. The Group has no other obligations for the payment of pension and other post-retirement benefits of employees other than the above payments.

During the year forfeitures contributions of HK\$1,498,000 (2011: HK\$1,135,000) were utilised, leaving HK\$7,000 (2011: HK\$66,000) available at the balance sheet date to reduce future contributions.

Notes to the Consolidated Financial Statements

11 DIRECTORS' REMUNERATION

Name	Directors' fee HK\$'000	Salaries, allowances and benefits in kind	Discretionary bonuses	Pension scheme contributions	Share options (a)	2012 Total HK\$'000	2011 Total HK\$'000
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Lui Che-woo	230	9,540	1,350	962	1,627	13,709	10,128
Francis Lui Yiu Tung	140	1,181	167	118	966	2,572	1,451
Paddy Tang Lui Wai Yu	140	4,836	684	460	1,627	7,747	5,494
Alexander Lui Yiu Wah	140	7,080	1,002	684	1,627	10,533	7,972
Robin Chan Yau Hing	140	—	—	—	138	278	130
William Yip Shue Lam	320	—	—	—	138	458	300
Moses Cheng Mo Chi	140	—	—	—	138	278	130
Poon Chung Kwong	232	—	—	—	138	370	130
Au Man Chu	88	—	—	—	138	226	—
Wong Kwai Lam	67	—	—	—	138	205	—
Michael Leung Man Kin ^(b)	40	—	—	—	—	40	230
Sir David Akers-Jones ^(b)	—	—	—	—	—	—	97
Robert George Nield ^(b)	218	—	—	—	—	218	280
Leo Lee Tung Hai ^(c)	—	—	—	—	—	—	57
Claudia Cheung Man Wan ^(c)	107	—	—	—	—	107	3,209
	2,002	22,637	3,203	2,224	6,675	36,741	29,608

(a) The value of the share options granted to the Directors under the share option scheme of the Company represented the fair value of those options charged to the profit and loss statement for the year in accordance with the accounting policies of the Group.

(b) Resigned/retired.

(c) Passed away.

12 FIVE HIGHEST PAY INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year include three (2011: four) Directors. The emoluments of the five individuals are as follows:

	2012 HK\$'000	2011 HK\$'000
Salaries and other emoluments	28,500	26,908
Pension cost — defined contribution plans	2,226	2,359
Discretionary bonuses	4,647	1,464
Share options granted	5,171	—
	40,544	30,731

12 FIVE HIGHEST PAY INDIVIDUALS (cont'd)

The emoluments of the individuals fell within the following bands:

	Number of employees	
	2012	2011
HK\$3,000,001–HK\$3,500,000	—	1
HK\$3,500,001–HK\$4,000,000	1	1
HK\$4,500,001–HK\$5,000,000	1	—
HK\$5,000,001–HK\$5,500,000	—	1
HK\$7,500,001–HK\$8,000,000	1	1
HK\$10,000,001–HK\$10,500,000	—	1
HK\$10,500,001–HK\$11,000,000	1	—
HK\$13,500,001–HK\$14,000,000	1	—
	5	5

13 TAXATION CHARGE

	2012 HK\$'000	2011 HK\$'000
Current		
Hong Kong profits tax	10,177	53,828
Mainland China		
— Income tax	427,435	266,090
— Land appreciation tax	228,535	361,454
Overseas	2,991	3,473
Over-provision in previous years	(146,157)	(203,639)
Deferred (note 35)	210,149	62,083
	733,130	543,289

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits for the year after setting off available tax losses brought forward.

Taxation assessable on profits generated in Mainland China and overseas has been provided at the rates of taxation prevailing in Mainland China and overseas in which the Group operates.

Land appreciation tax in Mainland China is normally provided at statutory progressive rates ranging from 30% to 60% on the appreciation of land value, being the proceeds of sales of properties less deductible expenditures including lease charges of land use rights and all property development expenditures, which is included in the profit and loss statement as taxation charge.

Notes to the Consolidated Financial Statements

13 TAXATION CHARGE (cont'd)

The over-provision of current taxation included a reversal of provision for the PRC tax of approximately HK\$148 million (2011: HK\$203 million) upon receipt of a tax clearance for a property project in Mainland China.

There is no income tax provided on other comprehensive income.

The taxation charge on the profit before taxation differs from the theoretical amount that would arise using the applicable taxation rate being the weighted average of rates prevailing in the countries in which the Group operates, as follows:

	2012	2011
	HK\$'000	HK\$'000
Profit before taxation	5,105,421	1,825,726
Share of (profits)/losses of jointly controlled entities	(2,102,516)	38,897
Share of (profits)/losses of associated companies	(697,604)	11,328
	2,305,301	1,875,951
Tax calculated at applicable tax rates	416,142	369,848
Income not subject to taxation	(21,947)	(27,757)
Expenses not deductible for taxation purposes	15,362	9,433
Utilisation of previously unrecognised tax losses	(8,900)	(28,728)
Tax losses not recognised	30,530	27,127
Over-provision in previous years	(146,157)	(203,639)
Recognition of previously unrecognised temporary differences	60	28,107
	285,090	174,391
Withholding tax	219,505	7,444
Land appreciation tax	228,535	361,454
Taxation charge	733,130	543,289

14 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of HK\$551,776,000 (2011: HK\$35,631,000).

15 EARNINGS PER SHARE

The calculation of basic and diluted earnings per share for the year is based on the following:

	2012 HK\$'000	2011 HK\$'000
Profit attributable to equity holders of the Company	4,300,179	1,243,514
	Number of shares	
	2012	2011
Weighted average number of shares for calculating basic earnings per share	2,632,529,000	2,576,093,000
Effect of dilutive potential ordinary shares		
Share options	13,822,000	9,237,000
Weighted average number of shares for calculating diluted earnings per share	2,646,351,000	2,585,330,000

16 DIVIDENDS

	2012 HK\$'000	2011 HK\$'000
Interim scrip dividend (with a cash option) of 5 HK cents (2011: Interim scrip dividend (with a cash option) of 2 HK cents) per share	130,605	51,064
Proposed final scrip dividend (with a cash option) of 10 HK cents (2011: final scrip dividend (with a cash option) of 8 HK cents) per share (a)	263,824	206,152
	394,429	257,216
The dividends have been settled by cash as follows :		
Interim	61,279	11,133
Final	—	104,492
	61,279	115,625

- (a) The Board of Directors recommended the payment of a final scrip dividend (with a cash option) in respect of 2012 of 10 HK cents (2011: final scrip dividend (with a cash option) of 8 HK cents) per share. This dividend will be accounted for as an appropriation of retained earnings in the year ending 31 December 2013.

Notes to the Consolidated Financial Statements

17 PROPERTY, PLANT AND EQUIPMENT

Group

	Hotel building HK\$'000	Land and buildings HK\$'000	Assets under construction HK\$'000	Plant and machinery HK\$'000	Other assets HK\$'000	Total HK\$'000
Cost						
At 1 January 2011	—	167,041	320,320	3,055	62,940	553,356
Exchange differences	8,661	2,654	8,660	663	1,519	22,157
Additions	—	—	65,467	23,271	28,311	117,049
Reclassification	394,447	—	(394,447)	—	—	—
Disposals	—	—	—	—	(657)	(657)
At 31 December 2011	403,108	169,695	—	26,989	92,113	691,905
Exchange differences	1	179	—	7	121	308
Additions	30,067	—	—	4,026	7,281	41,374
Change in fair value for land and buildings	—	1,045	—	—	—	1,045
Transfer to investment properties	—	(19,329)	—	—	—	(19,329)
Transfer from investment properties	—	30,474	—	—	—	30,474
Disposals	—	—	—	—	(437)	(437)
At 31 December 2012	433,176	182,064	—	31,022	99,078	745,340
Accumulated depreciation						
At 1 January 2011	—	27,577	—	1,375	32,021	60,973
Exchange differences	179	334	—	110	663	1,286
Charge for the year	8,154	2,859	—	1,936	11,967	24,916
Disposals	—	—	—	—	(391)	(391)
At 31 December 2011	8,333	30,770	—	3,421	44,260	86,784
Exchange differences	61	91	—	14	74	240
Charge for the year	18,795	3,248	—	4,563	16,013	42,619
Transfer to investment properties	—	(743)	—	—	—	(743)
Disposals	—	—	—	—	(374)	(374)
At 31 December 2012	27,189	33,366	—	7,998	59,973	128,526
Net book value						
At 31 December 2012	405,987	148,698	—	23,024	39,105	616,814
At 31 December 2011	394,775	138,925	—	23,568	47,853	605,121

Hotel building and land and buildings with carrying values of HK\$554,685,000 (2011: HK\$533,700,000) were pledged to secure the banking facilities of the Group. Other assets comprise cruiser, furniture and equipment, leasehold improvements and motor vehicles.

18 INVESTMENT PROPERTIES

Group

	2012 HK\$'000	2011 HK\$'000
At beginning of year	4,555,685	4,565,479
Exchange differences	11,461	186,694
Change in fair value	187,426	21,512
Disposal	—	(218,000)
Transfer from development properties	149,172	—
Transfer from property, plant and equipment	18,586	—
Transfer from leasehold land and land use rights	1,273	—
Transfer to property, plant and equipment	(30,474)	—
Transfer to leasehold land and land use rights	(2,213)	—
At end of year	4,890,916	4,555,685

- (a) Investment properties held under medium-term leases in Mainland China amounting to HK\$4,121,963,000 (2011: HK\$4,017,269,000) and HK\$151,190,000 (2011: nil), were valued at 31 December 2012 on an open market value basis by Savills Valuation and Professional Services Limited ("Savills") and Knight Frank Petty Limited, independent professional valuers respectively. Investment properties held under medium-term leases in Hong Kong amounting to HK\$405,600,000 (2011: HK\$354,000,000), were valued at 31 December 2012 on an open market value basis by DTZ Debenham Tie Leung Limited, an independent professional valuer. Investment properties held under long-term leases in Singapore amounting to HK\$212,163,000 (2011: HK\$184,416,000) were valued at 31 December 2012 on an open market value basis by Chesterton International Property Consultants Pte Ltd., an independent professional valuer. An investment property held under long-term leases in Hong Kong amounting to HK\$218,000,000 were valued at 31 December 2010 on an open market value basis by Savills and was disposed in 2011.
- (b) Investment properties with carrying values of HK\$4,485,316,000 (2011: HK\$4,201,685,000) were pledged to secure the banking facilities of the Group.
- (c) The Group had no unprovided contractual obligations for future repairs and maintenance of the investment properties.

Notes to the Consolidated Financial Statements

19 LEASEHOLD LAND AND LAND USE RIGHTS**Group**

	2012	2011
	HK\$'000	HK\$'000
At beginning of year	16,479	16,288
Transfer from investment properties	2,213	—
Transfer from development properties	—	1,269
Transfer to investment properties	(1,273)	—
Exchange differences	(6)	234
Amortisation	(805)	(1,312)
At end of year	16,608	16,479

The interests in leasehold land and land use rights represent prepaid operating lease payments with medium-term lease in Mainland China. Leasehold land and land use rights with carrying values of HK\$16,608,000 (2011: HK\$16,479,000) were pledged to secure the banking facilities of the Group.

20 SUBSIDIARIES

	2012	2011
	HK\$'000	HK\$'000
Unlisted shares, at cost less provision	259,561	259,561

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

Details of subsidiaries which, in the opinion of the Directors, materially affect the results or net assets of the Group are given in note 42(a).

21 JOINTLY CONTROLLED ENTITIES**Group**

	2012	2011
	HK\$'000	HK\$'000
Share of net assets	2,148,885	762,152
Amounts due from jointly controlled entities	62,021	1,896,250
	2,210,906	2,658,402

21 JOINTLY CONTROLLED ENTITIES (cont'd)

Group (cont'd)

The share of the aggregate amounts of the assets, liabilities and results of the jointly controlled entities, all of which are unlisted, attributable to the Group is as follows:

	2012 HK\$'000	2011 HK\$'000
Assets	4,016,897	5,229,865
Liabilities	(1,868,012)	(4,467,713)
Net assets	2,148,885	762,152
Revenue	6,280,726	12,322
Profit/(loss) after taxation	2,102,516	(38,897)

Company

	2012 HK\$'000	2011 HK\$'000
Unlisted shares, at cost	—	438,568

Amounts due from jointly controlled entities classified as non-current assets are unsecured, non-interest bearing and will not be repayable within next 12 months.

Amounts due from/(to) jointly controlled entities classified as current assets/liabilities are unsecured, non-interest bearing and repayable on demand.

Details of jointly controlled entities of the Group are given in note 42(b). The jointly controlled entities do not have any material contingent liabilities as at 31 December 2012.

22 ASSOCIATED COMPANIES

Group

	2012 HK\$'000	2011 HK\$'000
Share of net assets/(liabilities)	686,097	(11,507)
Amounts due from associated companies	1,379,380	1,339,339
	2,065,477	1,327,832

Notes to the Consolidated Financial Statements

22 ASSOCIATED COMPANIES (cont'd)

Group (cont'd)

The share of the aggregate amounts of the assets, liabilities and results of the associated companies, all of which are unlisted, attributable to the Group is as follows:

	2012 HK\$'000	2011 HK\$'000
Assets	3,313,614	2,476,592
Liabilities	(2,627,517)	(2,488,099)
Net assets/(liabilities)	686,097	(11,507)
Revenue	2,214,955	—
Profit/(loss) after taxation	697,604	(11,328)

Amounts due from associated companies classified as non-current assets are unsecured, non-interest bearing and will not be repayable within next 12 months.

Amounts due from/(to) associated companies classified as current assets/liabilities are unsecured, non-interest bearing and repayable on demand.

Details of associated companies of the Group are given in note 42(c). The associated companies do not have any material contingent liabilities as at 31 December 2012.

23 NON-CURRENT INVESTMENTS

Group

	2012 HK\$'000	2011 HK\$'000
Listed equity securities, at fair value	4,923,267	2,310,523

The listed securities represent the Group's 3.9% (2011: 3.9%) equity interest in Galaxy Entertainment Group Limited ("GEG"), which is incorporated and listed in Hong Kong. The principal activities of GEG are gaming, provision of hospitality, sale, manufacture and distribution of construction materials.

24 OTHER NON-CURRENT ASSETS

Group

	2012 HK\$'000	2011 HK\$'000
Loan receivable	—	103,937
Mortgage loans, net of provision	1,568	2,844
	1,568	106,781

The loan receivable of 2011 was unsecured, interest free, denominated in RMB and repayable more than one year from year end. The fair value of the loan as at 31 December 2011 was HK\$103,937,000, which was based on cash flows discounted using a rate based on the borrowing rate of 5%, which was made reference to the benchmark rate announced by the PRC. The loan was fully performing. The Group does not hold any collateral as security. As of 31 December 2012, the loan was reclassified as current assets according to the payment term.

Mortgage loans are advances to purchasers of development properties of the Group and are secured by second mortgages on the related properties. The current portion of the loans amounting to HK\$102,000 (2011: HK\$159,000) is included under other debtors. The Group has provided an impairment loss of HK\$778,000 (2011: nil) for its mortgage loans and included in other operating expenses in the consolidated profit and loss statement.

25 DEVELOPMENT PROPERTIES

Group

	Completed HK\$'000	Under development HK\$'000	2012 HK\$'000	2011 HK\$'000
Leasehold land and land use rights	593,357	5,433,932	6,027,289	4,301,390
Development costs	562,322	7,304,391	7,866,713	6,844,776
	1,155,679	12,738,323	13,894,002	11,146,166

Development properties with carrying values of HK\$10,163,541,000 (2011: HK\$7,363,401,000) were pledged to secure the banking facilities of the Group.

At the year end date, development properties under development amounting to HK\$10,045,710,000 (2011: HK\$8,516,149,000) were not scheduled for completion within twelve months.

Notes to the Consolidated Financial Statements

25 DEVELOPMENT PROPERTIES (cont'd)**Group (cont'd)**

The leasehold land and land use rights represent prepaid operating lease payments and under the following terms:

	Hong Kong HK\$'000	Mainland China HK\$'000	Singapore HK\$'000	2012 HK\$'000	2011 HK\$'000
Long-term lease	414,108	4,107,002	25,587	4,546,697	3,951,787
Medium-term lease	1,480,592	—	—	1,480,592	349,603
	1,894,700	4,107,002	25,587	6,027,289	4,301,390

26 DEBTORS AND PREPAYMENTS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Trade debtors, net of provision	31,239	2,850	—	—
Other debtors, net of provision	174,863	54,836	—	—
Amounts due from non-controlling interests	14,638	7,117	—	—
Land deposits	398,152	9,706	—	—
Prepayments and other deposits	249,093	138,772	—	—
	867,985	213,281	—	—

The debtors and prepayments are denominated in the following currencies:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Hong Kong dollar	331,849	16,985	—	—
RMB	532,396	191,926	—	—
Singapore dollar	3,740	4,370	—	—
	867,985	213,281	—	—

Trade debtors mainly comprise proceeds receivables in respect of sales of properties and rental receivable. Proceeds receivables in respect of sales of properties are settled in accordance with the terms stipulated in the sales and purchase agreements. Rental from tenants is due and payable in advance.

26 DEBTORS AND PREPAYMENTS (cont'd)

The aging analysis of the trade debtors of the Group based on the date of invoices and net of provision for bad and doubtful debts is as follows:

	2012 HK\$'000	2011 HK\$'000
Within one month	27,906	2,057
Two to three months	59	748
Four to six months	—	2
Over six months	3,274	43
	31,239	2,850

The Group has made provision for impairment for its trade and other debtors of HK\$851,000 (2011: nil) during the year. As at 31 December 2012, trade and other debtors of HK\$931,000 (2011: HK\$16,123,000) were impaired and full provision has been made. Movements of the provision are as follows:

	2012 HK\$'000	2011 HK\$'000
At beginning of year	16,123	16,123
Provision for the year	851	—
Written off during the year	(16,043)	—
At end of year	931	16,123

As at 31 December 2012, other debtors included a loan receivable of HK\$123,320,000 which is unsecured, interest free, denominated in RMB and matured within a year. The loan was fully performing. The Group does not hold any collateral as security.

The carrying amounts of the debtors and prepayments approximate to their fair value based on prevailing market interest rate. There is no concentration of credit risk with respect to trade debtors as the Group has a large number of customers. The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable mentioned above.

27 STRUCTURED BANK DEPOSITS

The structured bank deposits are principal-protected deposits denominated in RMB with fixed maturity dates of not more than 3 months and their interest rates range from 2.8% to 5.1% (2011: 1.5% to 5%) per annum, with reference to certain interest rate and foreign currency exchange rates. The Group uses the deposits primarily to enhance the interest yield.

Notes to the Consolidated Financial Statements

28 CASH AND BANK DEPOSITS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Short-term bank deposits maturing after three months	30,830	524,238	—	—
Cash at bank and in hand	2,341,524	2,503,175	3,593	5,791
Short-term bank deposits	3,334,894	567,179	—	—
Cash and bank balances	5,676,418	3,070,354	3,593	5,791
	5,707,248	3,594,592	3,593	5,791

Bank balances include HK\$775,772,000 (2011: HK\$400,671,000) which have been pledged or assigned for specific purposes under certain conditions.

The effective interest rate on short-term bank deposits is 0.9% (2011: 3.25%) per annum, these deposits have an average of 30 days (2011: 206 days).

Cash and bank deposits are denominated in the following currencies:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Hong Kong dollar	3,271,643	367,469	3,593	5,791
RMB	2,355,805	2,388,055	—	—
Others	79,800	839,068	—	—
	5,707,248	3,594,592	3,593	5,791

The credit quality of cash and bank deposits by reference to Moody's credit ratings is as follows:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Credit Rating:				
Aa	3,175,310	1,099,554	3,573	5,769
A	1,314,082	2,185,059	14	15
Baa	64,281	62,378	6	—
Ba	88,748	—	—	—
Others	1,064,827	247,601	—	7
	5,707,248	3,594,592	3,593	5,791

29 SHARE CAPITAL

	2012		2011	
	Shares of HK\$0.10 each	HK\$'000	Shares of HK\$0.10 each	HK\$'000
Authorised:				
At beginning and end of year	5,000,000,000	500,000	5,000,000,000	500,000
Issued and fully paid:				
At beginning of year	2,576,902,149	257,690	2,550,821,810	255,082
Share options exercised (a)	1,700,000	170	2,387,400	239
Issued as scrip dividends	55,191,688	5,519	23,692,939	2,369
At end of year	2,633,793,837	263,379	2,576,902,149	257,690

- (a) During the year, share options to subscribe for 1,700,000 (2011: 2,387,400) shares were exercised, of which HK\$170,000 (2011: HK\$239,000) was credited to share capital and HK\$3,443,000 (2011: HK\$4,335,000) to the share premium account and HK\$840,000 (2011: HK\$563,000) was debited to share option reserve.

30 SHARE OPTION SCHEME

The Company operates a share option scheme under which options to subscribe for shares in the Company may be granted to Directors, senior executives or employees of the Company or its affiliates and other qualifying grantees. Options are exercisable at a price equal to the average closing prices of the shares for the five business days immediately preceding the date of grant. Consideration to be paid on each grant of option is HK\$1.00. Except for the options granted on 24 January 2008, all other options granted are subject to a one-year vesting period. The period within which the shares must be taken up under an option is determined by the Board from time to time, except that such period shall not expire more than ten years from the date of grant of the option.

Movements in the number of share options outstanding and their related weighted average exercise prices during the year are as follows:

	2012		2011	
	Average exercise price HK\$	Number of share options	Average exercise price HK\$	Number of share options
At beginning of year	2.7057	24,071,650	2.6802	31,954,050
Granted	2.1200	17,264,000	n/a	—
Exercised	1.6307	(1,700,000)	1.6800	(2,387,400)
Lapsed	2.7983	(2,189,000)	2.9980	(5,495,000)
At end of year	2.4790	37,446,650	2.7057	24,071,650
Vested at end of year	2.7395	21,702,650	2.7057	24,071,650

Notes to the Consolidated Financial Statements

30 SHARE OPTION SCHEME (cont'd)

The weighted average share price at the date of exercise for share options exercised during the year was HK\$3.686 (2011: HK\$2.936).

The options outstanding at 31 December 2012 have exercise prices ranging from HK\$0.938 to HK\$4.636 (2011: HK\$0.938 to HK\$4.636) with weighted average remaining contractual life of 3.9 years (2011: 4.1 years).

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

Exercise period	Exercise price	Number of share options	
	per share HK\$	2012	2011
Directors			
27 November 2008 to 26 November 2017	4.636	3,485,000	3,485,000
27 November 2008 to 26 November 2017	3.882	1,600,000	1,600,000
3 March 2010 to 2 March 2014	0.938	9,950,900	9,950,900
17 January 2013 to 16 January 2018	2.120	9,674,000	—
Employees and others			
27 November 2008 to 26 November 2017	4.636	4,724,000	5,286,000
27 November 2008 to 26 November 2017	3.882	1,369,000	1,836,000
3 March 2010 to 2 March 2014	0.938	573,750	1,913,750
17 January 2013 to 16 January 2018	2.120	6,070,000	—
		37,446,650	24,071,650

The fair value of options granted during the year, as determined by using the Black-Scholes valuation model, was HK\$0.69 per option (2011: nil). The significant inputs into the model were share price of HK\$2.12 (2011: nil) at the grant date, exercise price at the date of granting the options, expected volatility of 50% (2011: nil), expected life of options of 3.5 years (2011: nil), dividend yield of 1.73% (2011: nil) and annual risk-free interest rate of 0.49% (2011: nil). The volatility measured based on the historical share price movement of the Company in the relevant period matching expected time to exercise before the option grant date.

31 RESERVES

(a) Group

	Share premium HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Revaluation reserve HK\$'000	Investment reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2012	1,688,696	20,618	99,089	13	859	3,110	2,138,290	1,253,971	7,286,829	12,491,475
Comprehensive income										
Profit for the year	—	—	—	—	—	—	—	—	4,300,179	4,300,179
Transfer of translation differences to profit and loss on disposal of a jointly controlled entity	—	—	—	—	—	—	—	(156,838)	—	(156,838)
Other comprehensive income										
Translation differences	—	—	—	—	—	(2)	—	4,927	—	4,925
Translation differences for jointly controlled entities	—	—	—	—	—	—	—	(18)	—	(18)
Transfer of land and properties to investment properties	—	—	—	—	—	727	—	—	—	727
Release of revaluation reserve	—	—	—	—	—	(3,110)	—	—	3,110	—
Change in fair value of non-current investments	—	—	—	—	—	—	2,612,744	—	—	2,612,744
Transactions with equity holders										
Fair value of share options	—	10,863	—	—	—	—	—	—	—	10,863
Exercise of share options	3,443	(840)	—	—	—	—	—	—	—	2,603
Lapse of share options	—	(942)	—	—	—	—	—	—	942	—
Shares issued as scrip dividends	(5,519)	—	—	—	—	—	—	—	—	(5,519)
Reserve arising on scrip dividends	—	—	—	—	—	—	—	—	170,986	170,986
Acquisition of additional interests in a subsidiary from non-controlling interests	—	—	—	—	—	—	—	—	(1,714)	(1,714)
2011 final dividend	—	—	—	—	—	—	—	—	(206,152)	(206,152)
2012 interim dividend	—	—	—	—	—	—	—	—	(130,605)	(130,605)
At 31 December 2012	1,686,620	29,699	99,089	13	859	725	4,751,034	1,102,042	11,423,575	19,093,656
Retained by:										
Company and subsidiaries	1,686,620	29,699	99,089	13	859	725	4,751,034	1,101,286	8,629,245	16,298,570
Jointly controlled entities	—	—	—	—	—	—	—	756	2,108,235	2,108,991
Associated companies	—	—	—	—	—	—	—	—	686,095	686,095
	1,686,620	29,699	99,089	13	859	725	4,751,034	1,102,042	11,423,575	19,093,656

Notes to the Consolidated Financial Statements

31 RESERVES (cont'd)

(a) Group (cont'd)

	Share premium HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Capital reserve HK\$'000	Revaluation reserve HK\$'000	Investment reserve HK\$'000	Exchange reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2011	1,686,730	25,298	99,089	13	859	2,963	1,254,377	808,243	6,075,851	9,953,423
Comprehensive income										
Profit for the year	—	—	—	—	—	—	—	—	1,243,514	1,243,514
Other comprehensive income										
Translation differences	—	—	—	—	—	147	—	411,381	—	411,528
Translation differences for jointly controlled entities	—	—	—	—	—	—	—	34,347	—	34,347
Change in fair value of non-current investments	—	—	—	—	—	—	883,913	—	—	883,913
Transactions with equity holders										
Exercise of share options	4,335	(563)	—	—	—	—	—	—	—	3,772
Lapse of share options	—	(4,117)	—	—	—	—	—	—	4,117	—
Shares issued as scrip dividends	(2,369)	—	—	—	—	—	—	—	—	(2,369)
Reserve arising on scrip dividends	—	—	—	—	—	—	—	—	39,931	39,931
2010 final dividend	—	—	—	—	—	—	—	—	(25,520)	(25,520)
2011 interim dividend	—	—	—	—	—	—	—	—	(51,064)	(51,064)
At 31 December 2011	1,688,696	20,618	99,089	13	859	3,110	2,138,290	1,253,971	7,286,829	12,491,475
Retained by:										
Company and subsidiaries	1,688,696	20,618	99,089	13	859	3,110	2,138,290	1,091,474	7,197,133	12,239,282
Jointly controlled entities	—	—	—	—	—	—	—	162,497	101,205	263,702
Associated companies	—	—	—	—	—	—	—	—	(11,509)	(11,509)
	1,688,696	20,618	99,089	13	859	3,110	2,138,290	1,253,971	7,286,829	12,491,475

31 RESERVES (cont'd)

(b) Company

	Share premium HK\$'000	Share option reserve HK\$'000	Contributed surplus HK\$'000	Capital redemption reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2012	1,688,696	20,618	213,560	13	1,273,659	3,196,546
Comprehensive income						
Profit for the year	—	—	—	—	551,776	551,776
Transactions with equity holders						
Fair value of share options	—	10,863	—	—	—	10,863
Exercise of share options	3,443	(840)	—	—	—	2,603
Lapse of share options	—	(942)	—	—	942	—
Shares issued as scrip dividends	(5,519)	—	—	—	—	(5,519)
Reserve arising on scrip dividends	—	—	—	—	170,986	170,986
2011 final dividend	—	—	—	—	(206,152)	(206,152)
2012 interim dividend	—	—	—	—	(130,605)	(130,605)
At 31 December 2012	1,686,620	29,699	213,560	13	1,660,606	3,590,498
At 1 January 2011	1,686,730	25,298	213,560	13	1,270,564	3,196,165
Comprehensive income						
Profit for the year	—	—	—	—	35,631	35,631
Transactions with equity holders						
Exercise of share options	4,335	(563)	—	—	—	3,772
Lapse of share options	—	(4,117)	—	—	4,117	—
Shares issued as scrip dividends	(2,369)	—	—	—	—	(2,369)
Reserve arising on scrip dividends	—	—	—	—	39,931	39,931
2010 final dividend	—	—	—	—	(25,520)	(25,520)
2011 interim dividend	—	—	—	—	(51,064)	(51,064)
At 31 December 2011	1,688,696	20,618	213,560	13	1,273,659	3,196,546

Notes to the Consolidated Financial Statements

32 BORROWINGS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Long-term bank loans (a)				
Secured	4,241,210	3,124,187	—	—
Unsecured	4,463,152	5,163,369	—	—
	8,704,362	8,287,556	—	—
Short-term bank loans (a)				
Unsecured	1,068,917	272,134	—	—
	9,773,279	8,559,690	—	—
Current portion included in current liabilities	(3,061,174)	(3,111,313)	—	—
	6,712,105	5,448,377	—	—

The long-term bank loans are repayable within the following periods:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Within one year	1,992,257	2,839,179	—	—
Between one to two years	3,304,600	2,308,762	—	—
Between two to five years	3,407,505	3,139,615	—	—
	8,704,362	8,287,556	—	—

- (a) The carrying amounts of the long-term and short-term bank loans approximate to their fair value based on prevailing market interest rate. The effective interest rate is approximately 3.8% (2011: 3.1%).

32 BORROWINGS (cont'd)

(b) The borrowings are denominated in the following currencies:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Hong Kong dollar	6,367,208	5,900,317	—	—
RMB	3,224,028	2,478,642	—	—
Others	182,043	180,731	—	—
	9,773,279	8,559,690	—	—

33 GUARANTEED NOTES

On 7 May 2012, K. Wah International Financial Services Limited ("KWIFS"), a wholly-owned subsidiary of the Company, issued guaranteed notes in the aggregate principal amount of US\$200 million at 100% of face value. The notes are guaranteed by the Company and carry a coupon rate of 5.375% per annum and have a maturity of 5 years. The notes are listed on The Stock Exchange of Hong Kong Limited. The market value of the notes as at 31 December 2012 was HK\$1,613 million.

On 5 December 2012, KWIFS issued additional guaranteed notes of HK\$150 million at 100% of face value through private placement. The notes are guaranteed by the Company and carry a coupon rate of 3-month HIBOR+2.75% per annum and have a maturity of 5 years.

34 DERIVATIVE FINANCIAL INSTRUMENTS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Forward foreign exchange contract	7,294	—	—	—
Interest rate swap	118	—	—	—
	7,412	—	—	—

The notional principal amount of the outstanding forward foreign exchange contract at 31 December 2012 was US\$200 million (2011: nil).

The notional principal amount of the outstanding interest rate swap contract at 31 December 2012 was HK\$150 million (2011: nil).

Notes to the Consolidated Financial Statements

35 DEFERRED TAXATION

Group

	2012 HK\$'000	2011 HK\$'000
Deferred taxation assets	55,301	40,848
Deferred taxation liabilities	(1,135,848)	(912,207)
	(1,080,547)	(871,359)

Deferred taxation assets and liabilities are offset when there is a legally enforceable right to offset taxation assets against taxation liabilities and when the deferred taxes relate to the same fiscal authority. The above assets/(liabilities) are determined after appropriate offsetting of the relevant amounts.

	Accelerated depreciation allowance HK\$'000	Fair value gains HK\$'000	Undistributed profits of subsidiaries & a jointly controlled entity HK\$'000	Other temporary differences HK\$'000	Total HK\$'000
At 1 January 2011	(90,771)	(600,251)	(99,686)	17,651	(773,057)
Exchange differences	(4,848)	(29,824)	(3,389)	1,842	(36,219)
Charged to profit and loss statement	(16,876)	(32,714)	(2,726)	(9,767)	(62,083)
At 31 December 2011	(112,495)	(662,789)	(105,801)	9,726	(871,359)
Exchange differences	(28)	(368)	(155)	1,512	961
(Charged)/credited to profit and loss statement	(16,117)	(46,869)	(161,700)	14,537	(210,149)
At 31 December 2012	(128,640)	(710,026)	(267,656)	25,775	(1,080,547)

Except the tax losses, all the other deferred taxation assets and liabilities are expected to be recovered or settled after twelve months.

Deferred taxation assets of HK\$94,598,000 (2011: HK\$103,408,000) arising from unused tax losses and other temporary differences totalling of HK\$486,638,000 (2011: HK\$524,552,000) have not been recognised in the financial statements. Unused tax losses of HK\$318,363,000 (2011: HK\$326,276,000) have no expiry date and the balance will expire at various dates up to and including 2017.

36 CREDITORS AND ACCRUALS

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Trade creditors	709,945	877,402	—	—
Other creditors	25,324	60,080	2,761	2,581
Amounts due to non-controlling interests	123,635	69,220	—	—
Accrued operating expenses	52,323	46,082	—	—
Advanced proceeds on sale of properties	1,986,077	2,220,919	—	—
Rental and other deposits received	90,687	89,977	—	—
	2,987,991	3,363,680	2,761	2,581

Amounts due to non-controlling interests are unsecured, non-interest bearing and have no fixed terms of repayments.

The creditors and accruals are denominated in the following currencies:

	Group		Company	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
Hong Kong dollar	175,005	127,073	2,761	2,581
RMB	2,807,044	3,231,291	—	—
Singapore dollar	5,942	5,316	—	—
	2,987,991	3,363,680	2,761	2,581

The carrying amounts of the creditors and accruals approximate to their fair value based on prevailing market interest rate.

The aging analysis of the trade creditors of the Group based on the date of the invoices is as follows:

	2012 HK\$'000	2011 HK\$'000
Within one month	708,273	807,293
Two to three months	—	3,032
Over six months	1,672	67,077
	709,945	877,402

Notes to the Consolidated Financial Statements

37 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT**Reconciliation of profit before taxation to cash (used in)/generated from operations**

	2012	2011
	HK\$'000	HK\$'000
Profit before taxation	5,105,421	1,825,726
Share of (profits)/losses of jointly controlled entities	(2,102,516)	38,897
Share of (profits)/losses of associated companies	(697,604)	11,328
Finance costs	49,120	38,384
Fair value gain on first recognition of an investment property	(60,713)	—
Change in fair value of investment properties	(187,426)	(21,512)
Depreciation of property, plant and equipment	42,619	24,916
Amortisation of leasehold land and land use rights	805	1,312
Interest income	(113,502)	(66,540)
Gain on disposal of a jointly controlled entity	(493,040)	—
Loss on disposal of property, plant and equipment	48	52
Gain on disposal of an investment property	—	(165,036)
Write off of mortgage loans receivable	778	—
Write-back of provision for construction costs	—	(2,400)
Gain on realisation of investments	—	(6,045)
Fair value of share options granted	10,863	—
Fair value losses on derivative financial instruments	7,416	—
Operating profit before working capital changes	1,562,269	1,679,082
Increase in development properties	(2,465,594)	(1,092,649)
Increase in debtors and prepayments	(547,977)	(81,933)
Decrease/(increase) in inventories	4,866	(9,557)
Decrease in mortgage loans receivable	556	814
(Decrease)/increase in creditors and accruals	(353,123)	1,756,958
Cash (used in)/generated from operations	(1,799,003)	2,252,715

38 COMMITMENTS

Group

(a) Contracted but not provided for

	2012 HK\$'000	2011 HK\$'000
Commitments in respect of property developments of the Group and its jointly controlled entities	3,694,946	2,800,599

(b) Operating lease commitments

The future aggregate minimum lease rental expense in respect of land and buildings under non-cancellable operating leases is payable in the following periods:

	2012 HK\$'000	2011 HK\$'000
Within one year	1,197	479
Two to five years	361	—
	1,558	479

(c) Operating lease rental receivables

The future aggregate minimum lease rental income in respect of land and buildings under non-cancellable operating leases is receivable in the following periods:

	2012 HK\$'000	2011 HK\$'000
Within one year	279,340	289,487
Two to five years	374,649	368,372
After five years	114,966	102,741
	768,955	760,600

Notes to the Consolidated Financial Statements

39 GUARANTEES

As of 31 December 2012, the Group and the Company have executed the following guarantees in favour of the following parties:

Group

	2012		2011	
	Outstanding HK\$000	Utilised HK\$000	Outstanding HK\$000	Utilised HK\$000
Banks and financial institutions in respect of loan facilities granted to:				
— jointly controlled entities	117,000	117,000	2,521,250	1,859,650
— associated companies	641,250	393,900	1,650,000	1,053,900
— properties buyers	154,201	154,201	26,150	26,150
	912,451	665,101	4,197,400	2,939,700

Company

	2012		2011	
	Outstanding HK\$000	Utilised HK\$000	Outstanding HK\$000	Utilised HK\$000
Banks and financial institutions in respect of loan facilities granted to:				
— subsidiaries	9,825,443	6,285,443	8,304,181	6,134,181
— jointly controlled entities	117,000	117,000	2,521,250	1,859,650
— associated companies	641,250	393,900	1,650,000	1,053,900
	10,583,693	6,796,343	12,475,431	9,047,731

The Company has executed a guarantee in favour of the HKSAR Government in respect of the performance obligation of an investee company under a contract with the HKSAR Government.

The Group provided guarantees in respect of mortgage facilities granted by certain banks relating to the mortgage loans arranged for certain purchasers of the Group's properties. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group is responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks and the Group is entitled to take over the legal title and possession of the related properties. Such guarantees shall terminate upon issuance of the relevant property ownership certificates.

40 RELATED PARTY TRANSACTIONS

The following is a summary of significant transactions between the Group and related parties, in addition to those disclosed elsewhere in the consolidated financial statements which in the opinion of the Directors, were carried out in the normal course of business during the year:

- (a) Key management personnel comprise Executive Directors of the Company and their emoluments are set out as follows:

	2012	2011
	HK\$000	HK\$000
Fees	650	668
Salaries and other emoluments	22,637	23,981
Discretionary bonuses	3,203	1,297
Pension costs — defined contribution plans	2,224	2,308
Share option	5,847	—
	34,561	28,254

- (b) Rental income from an investee company amounted to HK\$1,328,000 (2011: HK\$2,139,000) based on the terms of rental agreement between the parties.
- (c) As at 31 December 2012 and 2011, the Company has executed a guarantee in favour of the HKSAR Government in respect of the contract for quarrying rights and rehabilitation of the quarry of Tai Sheung Tok Anderson Road of an investee company.
- (d) On 11 July 2011, Grand Spark Limited (a wholly-owned subsidiary of the Company) completed the transaction for selling three property units to executive directors of the Company with an aggregate consideration of HK\$255,990,000.

41 ACQUISITION OF INTEREST IN A SUBSIDIARY FROM NON-CONTROLLING INTERESTS

In January 2012, the Group acquired an additional 5% equity interest in Shanghai Jia Gang Cheng Real Estate Development Co., Ltd (“Jia Gang Cheng”) at a total consideration of HK\$6.7 million. Upon completion of this transaction, the Group’s shareholding in Jia Gang Cheng increased from 95% to 100%. The effect of changes in the ownership interest in Jia Gang Cheng on the equity attributable to the shareholders of the Company during the period was disclosed in the consolidated statement of changes in equity.

Notes to the Consolidated Financial Statements

42 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES

(a) Subsidiaries

Name of company	Principal place of operation	Issued share capital		Effective percentage of equity held by the Group	Principal activities
		Number of ordinary shares	Par value per share		
Directly held by the Company					
Incorporated in the British Virgin Islands					
Sutimar Enterprises Limited	Hong Kong	100	US\$ 1	100	Investment holding
Indirectly held by the Company					
Incorporated in Hong Kong					
Chely Well Limited	Hong Kong	1,000	HK\$ 1	72	Investment holding
Chinapex Company Limited	Singapore	1,000	10	100	Property investment and development
Colour Day International Limited	Hong Kong	2	1	100	Investment holding
Enjoy International Limited	Hong Kong	1	1	100	Investment holding
Excelsior Mark Limited	Hong Kong	1	1	100	Investment holding
Faithfulink Limited	Hong Kong	1	1	100	Investment holding
Grand Place Limited	Hong Kong	1	1	100	Investment holding
Grand Spark Limited	Hong Kong	1	1	100	Property development and Investment
Greenwell Investments Limited	Guangzhou	2	1	100	Investment holding
Golden Arrow Limited	Hong Kong	1	1	100	Investment holding
Goldstar Power Limited	Hong Kong	1	1	100	Investment holding
Hero Plaza Limited	Hong Kong	2	1	100	Property development
Infinity Profit Limited	Hong Kong	1	1	100	Investment holding
K. Wah Financial Services Limited	Hong Kong	2	10	100	Provision of financial services
K. Wah Management Services Limited	Hong Kong	100	100	100	Provision of management services
K. Wah Project Management Service Limited	Hong Kong	2	1	100	Provision of management services
K. Wah Properties Investment Limited	Hong Kong	1,000	10	100	Investment holding
K. Wah Stones (Holdings) Limited	Hong Kong	439,463,724	0.2	100	Investment holding
King Rays Limited	Hong Kong	2	1	100	Property development
Lucky Way Investment Limited	Hong Kong	2	1	100	Property development
Max Orient Holdings Limited	Hong Kong	1,000	1	100	Investment holding
Minter Limited	Hong Kong	2	1	100	Investment holding
New Fine Limited	Hong Kong	1	1	100	Property development
New Regent Asia Limited	Hong Kong	1	1	100	Property development
Orient Profit Limited	Hong Kong	1	1	100	Property development
Oriental Control Limited	Hong Kong	1	1	100	Investment holding

42 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (cont'd)

(a) Subsidiaries (cont'd)

Name of company	Principal place of operation	Issued share capital		Effective percentage of equity held by the Group	Principal activities
		Number of ordinary shares	Par value per share		
Indirectly held by the Company (cont'd)					
Incorporated in Hong Kong (cont'd)					
			HK\$		
Perfect Development Limited	Hong Kong	2	1	100	Property development
Perfect Weal Limited	Hong Kong	1	1	100	Investment holding
Polynice Limited	Hong Kong	2	1	100	Provision of finance
Pure United Limited	Hong Kong	1	1	100	Investment holding
Raise Union Limited	Hong Kong	1	1	100	Investment holding
Sun City Limited	Hong Kong	2	1	100	Property management
Union Profits Limited	Hong Kong	2	1	100	Property investment and development
United Best Hong Kong Limited	Hong Kong	1	1	60	Property development
Victory Way Limited	Hong Kong	9,901,000	1	99.99	Investment holding
Wealthy Vision Limited	Hong Kong	1	1	100	Investment holding
Winway Global Development Limited	Hong Kong	1	1	100	Investment holding
Worldtop China Limited	Hong Kong	1	1	100	Investment holding
Incorporated in the British Virgin Islands					
			US\$		
All Smart Profits Limited	Hong Kong	10	1	100	Investment holding
Amazing Enterprises Limited	Hong Kong	10	1	100	Investment holding
Bestfull Profits Limited	Hong Kong	10	1	100	Investment holding
Choice Treasure Limited	Hong Kong	10	1	60	Investment holding
Cyber Point Assets Limited	Hong Kong	10	1	100	Investment holding
Greatest Smart Limited	Hong Kong	10	1	100	Investment holding
Grow Ever Limited	Hong Kong	1	1	100	Investment holding
K. Wah International Financial Services Limited	Hong Kong	10	1	100	Provision of finance
League Trend Limited	Hong Kong	1	1	100	Investment holding
Lehorne Properties Limited	Hong Kong	10	1	100	Investment holding
Million Link Group Limited	Hong Kong	1	1	100	Investment holding
Proper Land Limited	Hong Kong	1	1	100	Investment holding
Ragon Properties Limited	Hong Kong	10	1	100	Investment holding
Repton Developments Limited	Hong Kong	10	1	100	Investment holding
Select Vantage Profits Limited	Hong Kong	10	1	100	Investment holding
Top Ridge Management Limited	Singapore	10	1	100	Property investment
Treasure Easy Limited	Hong Kong	10	1	100	Investment holding

Notes to the Consolidated Financial Statements

42 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (cont'd)

(a) Subsidiaries (cont'd)

Name of company	Principal place of operation	Registered capital	Effective percentage of equity held by the Group	Principal activities
Indirectly held by the Company (cont'd)				
Incorporated in Mainland China				
Wholly-owned foreign enterprise				
廣州市嘉華花都置業有限公司	Guangzhou	HK\$165,000,000	100	Property development
廣州嘉揚房地產開發有限公司	Guangzhou	HK\$300,000,000	100	Property development
東莞廣裕房地產開發有限公司	Dongguan	HK\$750,000,000	100	Property development
江門市嘉豐房地產開發有限公司	Jiangmen	HK\$90,000,000	100	Property development
Tianjin Jia Run Hua Property Development Co., Ltd.	Tianjin	US\$29,880,000	100	Property development
Tianjin JiaRunHe Property Development Co., Ltd.	Tianjin	US\$29,980,000	100	Property development
K. Wah (China) Investment Co., Ltd.	Shanghai	US\$118,000,000	100	Investment holding
Shanghai Guoguang Real Estate Development Co., Ltd.	Shanghai	US\$31,000,000	100	Property development
上海嘉敏房地產開發經營有限公司	Shanghai	US\$110,230,000	100	Property development
上海嘉澤房地產開發經營有限公司	Shanghai	RMB800,000,000	100	Property development
Shanghai Jia Zhao Real Estate Development Co.,Ltd.	Shanghai	US\$119,500,000	100	Property development
Shanghai Jia Gang Cheng Real Estate Development Co., Ltd.	Shanghai	US\$13,000,000	100	Property development
Cooperative joint venture				
廣州滙城房地產開發有限公司	Guangzhou	HK\$600,000,000	99.99	Property development
廣州東鏡泰豐房地產開發有限公司	Guangzhou	US\$10,000,000	100	Property development
Equity joint venture				
Shanghai Jia Hui Da Real Estate Development Co., Ltd.	Shanghai	US\$53,000,000	69.6	Property development and investment
Shanghai Jiashen Real Estate Development Co., Ltd.	Shanghai	US\$126,000,000	99	Property development
上海凱通文安建設開發有限公司	Shanghai	RMB234,000,000	53.61	Property development

42 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (cont'd)

(b) Jointly Controlled Entities

Name of company	Principal place of operation	Number of ordinary shares	Issued share capital		Principal activities
			Par value per share	Effective percentage of equity held by the Group	
Indirectly held by the Company (cont'd)					
Incorporated in Hong Kong					
			HK\$		
Anglers' Bay Property Management Company Limited	Hong Kong	2	1	50	Property management
Prime Force Limited	Hong Kong	2	1	50	Property development
Teamer International Limited	Hong Kong	1	1	35	Property development
Ace Glory Limited	Hong Kong	1	1	25	Property development
Ample Excellent Limited	Hong Kong	2	1	50	Property development
Incorporated in the British Virgin Islands					
			US\$		
Full Raise International Limited	Hong Kong	1,000	1	25	Investment holding
Homeast Limited	Hong Kong	1,000	1	35	Investment holding

Notes to the Consolidated Financial Statements

42 PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATED COMPANIES (cont'd)

(c) Associated Companies (note)

Name of company	Principal place of operation	Issued share capital		Effective percentage of equity held by the Group	Principal activities
		Number of ordinary shares	Par value per share		
Indirectly held by the Company (cont'd)					
Incorporated in Hong Kong					
			HK\$		
Jet Union Development Limited	Hong Kong	1	1	40	Property development
King Regent Limited	Hong Kong	1	1	15	Property development
Pacific Bond Limited	Hong Kong	1	1	15	Property development
Union King (Hong Kong) Limited	Hong Kong	1	1	15	Property development
Incorporated in the British Virgin Islands					
			US\$		
Garwin Investment Limited	Hong Kong	1,000	1	15	Investment holding
Great Virtue Developments Limited	Hong Kong	10	1	40	Investment holding
Nimble Limited	Hong Kong	100	1	15	Investment holding
Vantage Plus Investments Limited	Hong Kong	100	1	15	Investment holding

Note: Despite its 15% equity interest in each of these companies, significant influence is exercised in the management and thus these companies have been accounted for associated companies of the Group through the participation in the Board.

Schedule of the Group's Significant Properties

	Type of Property	Available Gross Floor Area sq. metres	Group's Interest %	Lease Term	Stage of Completion	Estimated Completion Date
(Approximately)						
INVESTMENT AND OTHER PROPERTIES						
Singapore						
San Centre, 171 to 187 Chin Swee Road, Singapore	Office	5,747 ⁽¹⁾	100	2068	Completed	Existing
Hong Kong						
K. Wah Centre, 28th, 29th and 30th Floors 191 Java Road, North Point	Office	2,926	100	2106	Completed	Existing
Mainland China						
Shanghai K. Wah Center Lot No. 26, Street No. 6, Huaihai Zhong Road, Xuhui District, Shanghai	Office	72,000	69.6	2047	Completed	Existing
DEVELOPMENT PROPERTIES						
Hong Kong						
Chantilly No. 6 Shiu Fai Terrace, Hong Kong	Residential	6,100 ⁽²⁾	100	2070	Completed	Existing
Providence Peak Tai Po Town Lot No. 188 at Pak Shek Kok, Reclamation Phase 1, Site C, Tai Po, New Territories	Residential	25,900 ⁽²⁾	25	2057	Completed	Existing
The Coronation Kowloon Inland Lot No. 11073 at Junction of Hoi Wang Road, Yan Cheung Road and Yau Cheung Road	Residential/ Commercial	10,000 ⁽²⁾	15	2057	Completed	Existing
Providence Bay Tai Po Town Lot No. 186 at Pak Shek Kok Development Area, Phase I, Site B, Tai Po, New Territories	Residential	38,600 ⁽²⁾	15	2057	Completed	Existing
Marinella Aberdeen Inland Lot No. 451 at Welfare Road, Aberdeen, Hong Kong	Residential	6,800 ⁽²⁾	35	2057	Completed	Existing
2 Grampian Road, Kowloon	Residential	3,200	100	2047	Foundation	2014
No. 30 Po Shan Road, Mid-levels, Hong Kong	Residential	3,700	50	2090	Planning	2014 and beyond
Tai Po Town Lot No. 201, Tai Po	Residential	67,000	15	2059	Construction	2014
Tseung Kwan O Town Lot No. 115, Area 66D1, Tseung Kwan O	Residential/ Commercial	28,000	100	2062	Planning	2016
Tseung Kwan O Town Lot No. 117, Area 66C2, Tseung Kwan O	Residential/ Commercial	45,000	40	2062	Planning	2017
Long Ping Station (North), Yuen Long Town Lot No. 513	Residential	49,000	60	2063	Planning	2018

Note (1): Floor area of 1,964 sq. metres of San Centre is held for sale.

(2): For certain properties, Gross Floor Area includes covered area of all salesable units and their respective share of common area as referred to or to be referred to in sales brochures.

Schedule of the Group's Significant Properties

	Type of Property	Available Gross Floor Area sq. metres	Group's Interest %	Lease Term	Stage of Completion	Estimated Completion Date
(Approximately)						
DEVELOPMENT PROPERTIES (cont'd)						
Mainland China						
Le Palais						
No. 217, Jianshe Road (North), Huadu District, Guangzhou City	Residential	27,202	100	2077	Completed	Existing
Xinhua Zhen, Huadu City, Guangdong	Mix Use	828,000	99.99	2034 to 2068	Construction	2014 and beyond
廣州市花都區新華街迎賓大道北地塊	Residential/ Commercial/ Hotel/Office	269,000	100	2039 to 2069	Partly completed & construction	2015 and beyond
The Legend						
Lot No. 701 Guangzhong Road, Zhabei District, Shanghai	Residential	64,000	100	2073	Completed	Existing
The Palace						
Lot A&B, No. 68 Jianguo Xi Road, Xuhui District, Shanghai	Mix Use	140,000	100	2065	Construction	2013 and beyond
Grand Summit						
Plot Phase III of Yanjiazhai Jingan District, Shanghai	Residential	100,000	99	2072	Construction	2013 and beyond
Upstream Park						
上海市閔行區吳涇鎮385街坊	Residential/ Commercial	172,000	100	2048 to 2078	Construction	2013
Plot B3, B4 Zhujiajiao Qingpu District, Shanghai						
上海市閔北區北站街道43號街坊10丘	Residential/ Commercial	69,000	100	2050 to 2080	Construction	2014
上海市閔北區北站街道43號街坊10丘						
Commercial		20,000	53.61	2056	Planning	2014 and beyond
Lot 19-04, Puxing Pudong District						
Residential		31,000	100	2083	Planning	2015 and beyond
Shilong Town Lot 11 Xihu District Shilong Town, Dongguan						
Residential		202,000	99	2082	Planning	2015 and beyond

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