

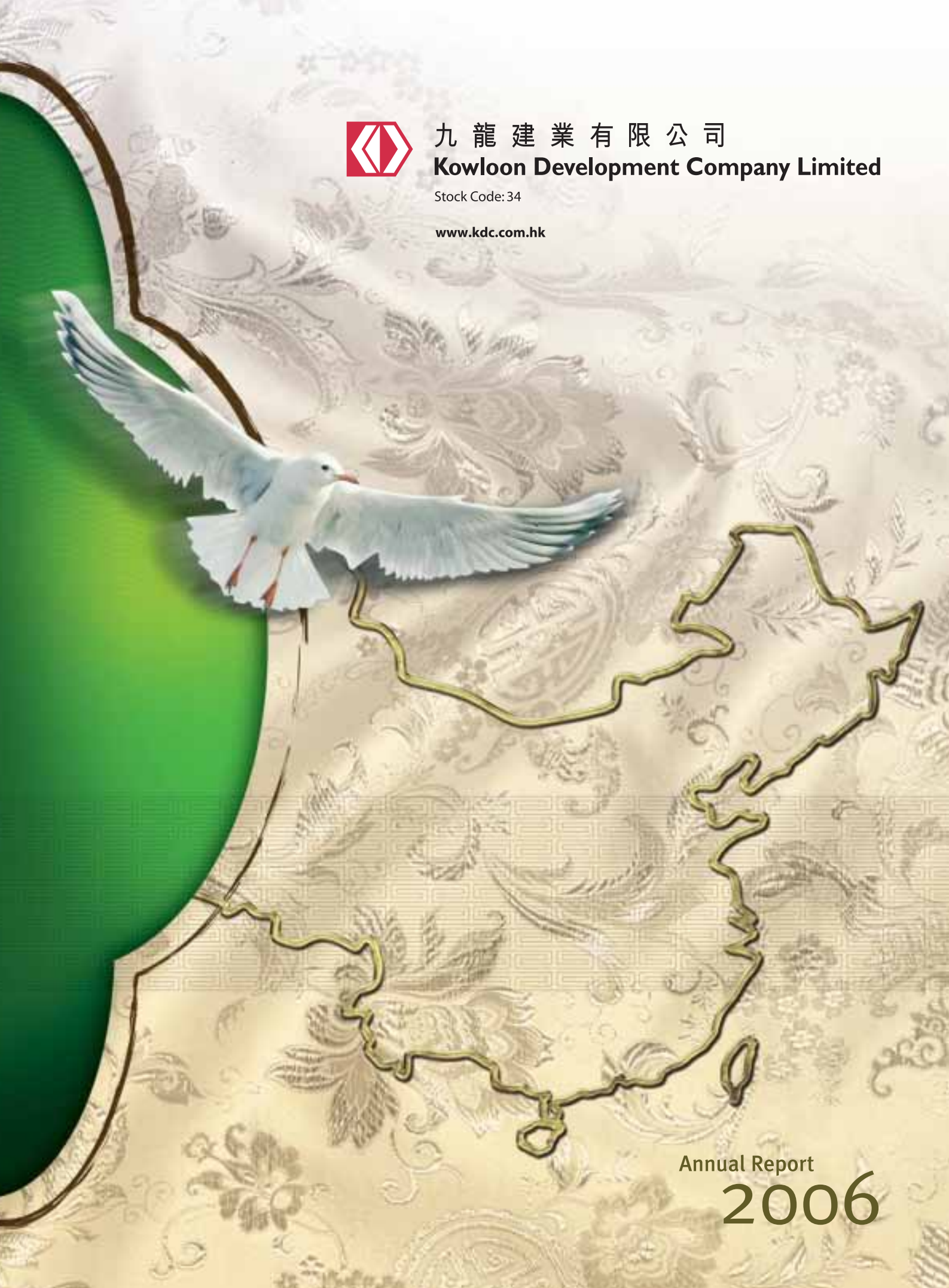


九龍建業有限公司

Kowloon Development Company Limited

Stock Code: 34

www.kdc.com.hk



Annual Report

2006



Contents

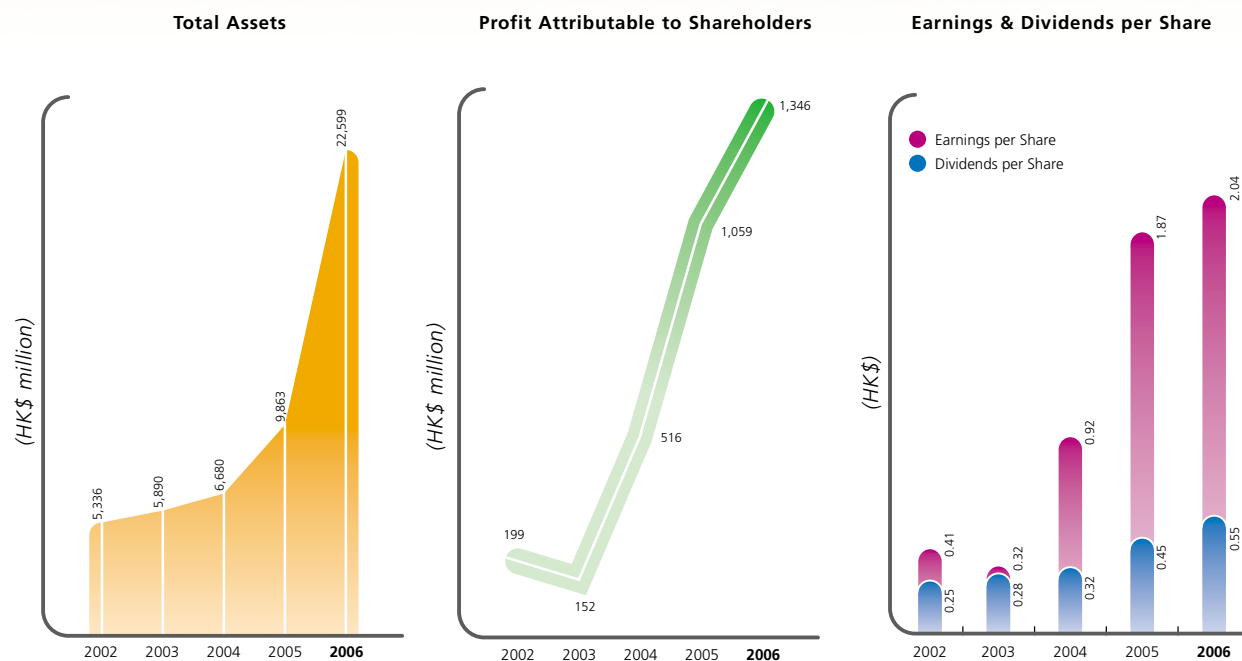
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Highlights

- The Group's turnover rose by 120% to HK\$2,908 million in 2006.
- Net profit attributable to the Company's shareholders increased by 27% to HK\$1,346 million; excluding property revaluations, underlying net profit increased by 67% to HK\$1,063 million.
- Underlying earnings per share after excluding the effect of property revaluations amounted to HK\$1.61 in 2006, an increase of 42% over 2005.
- Net asset value per share attributable to the Company's shareholders recorded an increase of 31% to HK\$11.80 as at 31 December 2006.
- Increased land bank by acquiring projects for an aggregate gross floor area of approximately 5,430,000 sq m in Mainland China and 978,000 sq m in Macau.
- The Group raised additional capital of an aggregate gross total of HK\$4,961 million for business expansion and property investment in Mainland China and Macau.

(HK\$ million)	2006	2005	Change
Turnover	2,908	1,320	+120%
Profit attributable to the Company's shareholders	1,346	1,059	+27%
Excluding property revaluations	1,063	638	+67%
Earnings per share (HK\$)	2.04	1.87	+9%
Excluding property revaluations	1.61	1.13	+42%
Net asset value per share attributable to the Company's shareholders (HK\$)	11.8	8.99	+31%
Dividend per share (HK\$)	0.55	0.45	+22%
Interim	0.13	0.10	+30%
Final	0.42	0.35	+20%

Five-Year Financial Summary



FINANCIAL HIGHLIGHTS

	2006	2005	2004	2003	2002
Net Asset Value per Share (HK\$)	11.80	8.99	6.87	6.15	6.11
Earnings per Share (HK\$)	2.04	1.87	0.92	0.32	0.41
Excluding Revaluation of Properties	1.61	1.13	0.54	0.42	0.32
Dividends per Share (HK\$)	0.55	0.45	0.32	0.28	0.25
Dividend Payout Ratio (%)					
(excluding revaluation of properties)	53.78	40.00	59.88	76.37	77.67
Return on Shareholders' Equity (%)	19.03	23.55	15.01	5.14	6.84
Gearing Ratio (bank borrowings / shareholders' equity) (%)	24.08	51.83	44.98	74.27	51.56

CONSOLIDATED BALANCE SHEET

(HK\$ million)	2006	2005	2004	2003	2002
Non-Current Assets	15,298	5,050	3,686	3,505	3,191
Current Assets	7,301	4,813	2,994	2,385	2,145
Total Assets	22,599	9,863	6,680	5,890	5,336
Current Liabilities	(2,117)	(1,542)	(1,244)	(743)	(878)
Non-Current Liabilities	(7,909)	(2,334)	(1,539)	(2,172)	(1,502)
Net Assets	12,573	5,987	3,897	2,975	2,956
Share Capital	77	57	57	48	48
Reserves	8,976	5,041	3,839	2,926	2,906
Shareholders' Equity	9,053	5,098	3,896	2,974	2,954
Minority Interests	3,520	889	1	1	2
Total Equity	12,573	5,987	3,897	2,975	2,956

CONSOLIDATED INCOME STATEMENT

(HK\$ million)	2006	2005	2004	2003	2002
Turnover	2,908	1,320	773	674	591
Profit from Operations	1,483	1,182	592	210	253
Finance Costs	(178)	(18)	(6)	(11)	(8)
Profit Attributable to Shareholders	1,346	1,059	516	152	199
Excluding Revaluation of Properties	1,063	638	303	201	156
Dividends	572	255	181	154	121

Note:

The financial information is extracted from the published accounts for the last five years, restated where appropriate to be in accordance with the current accounting policies of the Group.



Significant Events in the Year

December

- >>> Two for one rights issue at HK\$13.80 per rights share announced on 19 December 2006 and completed in February 2007 raising new equity of approximately HK\$5,293 million
- >>> The Group acquired a composite property development site in Tianjin with a site area of approximately 137,940 sq m and an aggregate gross floor area of approximately 930,000 sq m for a consideration of RMB3,500 million

September

- >>> The Group joined with a strategic partner on a 50:50 basis successfully bid for seven pieces of land in Foshan with an aggregate site area of approximately 4 million sq m and an aggregate gross floor area of approximately 1.6 million sq m for a consideration of RMB3,030 million
- >>> Placed 87 million shares at HK\$13.25 per share to raise gross proceeds of approximately HK\$1,153 million

June

- >>> The Group acquired land with a site area of approximately 1.45 million sq m and gross floor area of approximately 2.9 million sq m in Shenyang for a consideration of RMB830 million

April

- >>> The Group acquired 80% interest in three sites in the Orient Pearl District of Macau through its listed subsidiary, Polytec Asset Holdings Limited, with an aggregate site area of approximately 99,669 sq m and a gross floor area of approximately 978,000 sq m at a consideration of HK\$8,448 million

May

- >>> Placed 113,353,000 shares at HK\$12.40 per share and raised gross proceeds of approximately HK\$1,405 million

Corporate Information

Kowloon Development Company Limited

A member of the Polytec Group

Board of Directors

Executive Directors

Or Wai Sheun (*Chairman*)

Ng Chi Man

Lai Ka Fai

Or Pui Kwan

Non-executive Directors

Keith Alan Holman (*Deputy Chairman*)

Tam Hee Chung

Yeung Kwok Kwong

Independent Non-executive Directors

Li Kwok Sing, Aubrey

Lok Kung Chin, Hardy

Seto Gin Chung, John

Audit Committee

Li Kwok Sing, Aubrey (*Chairman*)

Lok Kung Chin, Hardy

Seto Gin Chung, John

Yeung Kwok Kwong

Executive Committee

Or Wai Sheun (*Chairman*)

Ng Chi Man

Lai Ka Fai

Or Pui Kwan

Yeung Kwok Kwong

Remuneration Committee

Seto Gin Chung, John (*Chairman*)

Lai Ka Fai

Li Kwok Sing, Aubrey

Lok Kung Chin, Hardy

Company Secretary

Wai Yuk Hing, Monica

Authorised Representatives

Lai Ka Fai

Wai Yuk Hing, Monica

Principal Bankers

Bank of China (Hong Kong) Limited

Hang Seng Bank Limited

The Hongkong and Shanghai Banking
Corporation Limited

Wing Lung Bank Limited

Auditors

KPMG

Share Registrars

Computershare Hong Kong Investor
Services Limited

Registered Office

23rd Floor, Pioneer Centre

750 Nathan Road, Kowloon, Hong Kong

Tel: (852) 2396 2112

Fax: (852) 2789 1370

Stock Code

The Hong Kong Stock Exchange: 34

Website

www.kdc.com.hk

Chairman's Statement

Group Results and Dividends

Despite achieving its 2008 earnings target by the end of 2005, Kowloon Development Company Limited (the "Company") continued its robust growth in 2006. The Group's profit attributable to shareholders for the year ended 31 December 2006 amounted to HK\$1,346 million (2005: HK\$1,059 million) representing a 27% increment over that of 2005. Excluding investment property revaluation gains net of deferred tax, underlying net profit rose 67% to HK\$1,063 million. Based on the weighted average number of 660,839,603 shares in issue during the year (2005: 566,767,850 shares), the underlying earnings per share rose 42% to HK\$1.61 (2005: HK\$1.13 per share).

The Board of Directors has recommended the payment of a final dividend of HK\$0.42 per share for 2006, an increase of 20% over 2005. Together with the interim dividend of HK\$0.13, the full year dividend for 2006 will amount to HK\$0.55 per share (2005: HK\$0.45 per share), an increase of 22% over 2005.

The final dividend will be payable on 27 April 2007 to shareholders registered as at 18 April 2007.

Business Review

2006 had been a year of importance with dynamic growth for the Group. Through several strategic major acquisitions during the year under review in Macau and Mainland China detailed below, the Group has attained a strong presence and successfully increased its land bank by acquiring projects for an aggregate gross floor area of 978,000 sq m in Macau and of 5,430,000 sq m in Mainland China. Benefited from strengthened capital base after a sequence of successful fund raising activities, with details below, for an aggregate proceeds of HK\$4,961 million to the Group during the year of 2006, the Group is well positioned to take advantage of quality opportunities which arise from time to time in the Greater China region, including Hong Kong, Macau and Mainland China. The Group's turnover for the year under review grew 120% to HK\$2,908 million which primarily derived from two residential development projects, Mount Davis 33 in Hong Kong and La Baie Du Noble in Macau, and investment activities.



Mount Davis 33

Major Acquisitions

In April 2006, the Group, through its listed subsidiary, Polytec Asset Holdings Limited ("Polytec Asset"), entered into an agreement with the ultimate holding company to acquire an 80% interest in three property development projects in Macau with an aggregate gross floor area of approximately 978,000 sq m at a consideration of HK\$8,448 million. Polytec Asset financed the acquisition by issuing 2,811,411,970 new shares at HK\$1.98 per share of which the Company subscribed for 1,598 million new shares, thus maintaining its shareholding percentage in Polytec Asset.

The three sites are located in the Orient Pearl District of the Macau Peninsula near the Macau-Zhuhai border and the intended landing point of the Hong Kong – Zhuhai – Macau Bridge, a 29 kilometers bridge linking Hong Kong, Zhuhai and Macau. The bridge will be a spur to Greater Pearl River Delta economic development and will play a pivotal role in facilitating economic development in the region. The Group intends to develop these sites into luxury residential buildings with retail, recreational and car parking facilities. The projects will be carried out in phases. The foundation work of Lote V, being the first phase of the development, is scheduled to be commenced in March/April 2007. Completion of Lote V is expected to be in 2009/2010.

The weight of economic activity is moving north to Mainland China, where the World Bank is forecasting a GDP growth rate of 9.6% for 2007. In response, the Group has actively expanded its portfolio of quality development properties by acquiring three further sites in prime locations in Mainland China, reflecting the Group's confidence in the economy and real estate market of China.

In June 2006, through a public bidding process, the Group acquired the development right of a plot of land with a site area of 1.45 million sq m in the west of Daba Road in the Dong Ning District of Shenyang for a consideration of RMB830 million to be paid by two installments with the final payment due in mid 2007. Shenyang is the largest city and economic hub in the north-eastern region of China with dynamic economic growth and increasing purchasing power in recent years. The project has a planned aggregate gross floor area of 2.9 million sq m which has been approved by the Shenyang municipal government for residential and commercial development. The first phase of the project has commenced and is scheduled to be completed in 2008.



Shenyang Development Site – Concept Plan



Chairman's Statement

In September 2006, the Company jointly with CITIC South China (Group) Co., Ltd., on a 50:50 basis, made a successful bid for seven pieces of land located in Heshun Meijing Shuiku Sector, Lishui Town, Nanhai District, Foshan, with an aggregate site area of approximately 4 million sq m at a consideration of RMB3,030 million. The consideration payable on a 50:50 basis will be settled by installments with the last payment due in 2008. The project has a planned aggregate gross floor area of approximately 1.60 million sq m and will be developed into a luxury residential and commercial complex to meet the increasing demand for high-end housing and office premises.

In addition to the above two acquisitions, in December the Company entered into an agreement with Tianjin Binhai Mass Transit Development Co., Ltd., to undertake a mixed use development located in the prosperous central business district of Tianjin at an aggregate consideration of RMB3,500 million, which will be settled by several installments over a five-year period. The site has a total area of approximately 137,940 sq m and will be developed into a composite residential and commercial complex comprising serviced apartments, office towers and a commercial podium with a total gross floor area of approximately 930,000 sq m. The project is excellently located next to the Beijing-Tianjin High-speed Railway System, which will commence services in 2008 with a 30-minute ride to Beijing where the 2008 Olympic Games will take place.

All new projects in Mainland China will be developed in phases. The Group is optimistic to witness a robust property market with persistent demand for quality properties in the near future and will continue to replenish its land bank actively but cautiously to optimize its earnings potential.

Issue of New Shares

The Company successfully placed 113,353,000 shares in May 2006 and 87,000,000 shares in September 2006 at respective placing prices of HK\$12.40 and HK\$13.25 per share. From these placements, aggregate new capital of HK\$2,558 million was raised for use in the expansion and development of the Group's business mainly in Mainland China.

To further strengthen the Group's capital base, the Company raised a further HK\$5,293 million of gross proceeds by issuing 383,560,425 rights shares at HK\$13.80 per rights share on the basis of one rights share for every two shares. The rights issue was successfully completed in February 2007.

To facilitate the implementation of the rights issue, shareholders approved the increase in the authorized share capital of the Company to HK\$500 million by the creation of 4,000,000,000 new shares of HK\$0.10 each on 18 January 2007.

With its strengthened capital base, the Group is well prepared for further expansion in the Greater China region in the years ahead.



Rendering of property located at No. 31 Robinson Road

Property Development

The residential project at No. 31 Robinson Road Mid-Levels in Hong Kong will be completed by the end of 2007. It offers a total of 84 luxury residential units, with modern clubhouse facilities, covering a gross floor area of approximately 11,900 sq m. The property will be released to the market shortly. With tight supply of luxury residential property and persistent demand for new luxury developments in prime areas on Hong Kong Island, we expect the project to be well received and the 2007 results to benefit accordingly.

The Group's important residential and commercial development project at 35 Clear Water Bay Road, Ngau Chi Wan, with an estimated gross floor area of approximately 196,400 sq m, had obtained an approval from the Town Planning Board on the basis of a revised master layout plan in February 2006. The Group is currently liaising with relevant government departments in connection with the land exchange conditions.

In Taipa Macau, Pacifica Garden, a 58% owned residential and commercial project of Polytec Asset is expected to be completed in 2008. Two residential towers with approximately 295 units and a number of retail spaces are planned to be built with a total gross floor area of approximately 35,900 sq m. The property was well received by the market with over 99% of the total residential units sold recorded up to the end of January 2007.

Property Sales

The market for residential property continued to develop healthily and remained active in 2006 with demand driven by both end-users and investors. Sentiment in the sales and investment market improved upon the recent pause in US interest rate hikes and intensified mortgage finance competition amongst the banks leading to a rise in the volume of transaction.

Property sales rose to HK\$1,204 million in 2006, an increase of 127% over 2005 arising mainly from the developments at Mount Davis 33 in Hong Kong and La Baie Du Noble in Macau.

Chairman's Statement

Mount Davis 33 is a joint venture residential project with the Urban Renewal Authority. It offers top-quality residential units with full clubhouse facilities and a lush landscaped environment giving every unit a panoramic seaview. It was released to the market and all the 89 residential units were successfully sold before the end of 2006 due to its prime location, user-oriented design and quality finishes. This property project has also achieved the rating of Platinum Standard from The Hong Kong Building Environmental Assessment Method (HK-BEAM) Society, which assesses new building premises for their environmental design.

Another major profit contributor was the Group's interest in the residential and commercial development in Macau, La Baie Du Noble, in which the Group has an 80% interest. This development has an aggregate gross floor area of approximately 147,700 sq m and was completed in the second half of 2006. The development, which is one of the most prestigious in Macau whose contemporary designs and superior finishes have set new quality standards for residential developments, was well received by the market with a majority of residential units being sold off plan. The retained duplex units will be released to the market in the first half of 2007.



La Baie Du Noble in Macau

In light of the enhanced affordability for homebuyers, the Group will continue to offer quality projects for sale as planned.

Property Investment

The property market in Hong Kong benefited from the strength of the economy and the buoyant stock market, leading to a robust growth of investment activities across all sectors. Business activity grew during 2006 which further accelerated the demand for office space in core and non-core districts. Capital values and rentals rose moderately over the year. The Group enjoyed a positive growth in office rental revenue for the financial year under review. The gross rental income generated by the Group's investment property portfolio in 2006 was HK\$224 million, an increase of 5.7% compared to 2005. The increase was largely due to improved rental income from both the office and the retail tenancies of the Group's flagship property, Pioneer Centre.

Securities Investment

Benefiting from outperforming China-concept stocks and the favourable sentiment in the securities market throughout 2006, the securities investment division showed an impressive performance in the financial year under review. The Group will continue to adopt a prudent and cautious approach in seeking investment opportunities to sustain growth for its investment portfolio.

Prospects

The strong performance of economy in Hong Kong, Mainland China and Macau will raise the residential and office property markets in both transaction volume and price. Rising incomes, increased investor confidence and continuous inflows of capital have led to buoyant property markets across the Greater China region. The luxury residential, high-quality office and shopping mall sectors will remain the focus of the market with persistent demand remaining ahead of supply. Austerity measures put in place for the property market should help sustain healthy long-term development in Mainland China. The Group is stepping up the pace of its Mainland China investments to capitalize on the opportunity.

The strategic major acquisitions made during the year 2006 have set a solid base for the Group's development in the property markets of Macau and Mainland China. The Group is confident that these acquisitions will contribute substantial returns to the Group in the next few years.

To prepare for further rapid growth and development of the Group, a total of about HK\$10,254 million was raised since the beginning of 2006 in order that the Group preserves a healthy capital base for further acquisitions.

Besides pursuing the current three-tier property development direction and the aggressive yet prudent approach, the Group is currently searching for projects which will provide steady recurrent income for the future.



2006 foreign investment contribution award to the Group from Government of Liaoning Province



Chairman's Statement

Appreciation

Mr Chau Cham Son, an independent non-executive director of the Company, stepped down from the Board on retirement during the year. I would like to offer my sincere gratitude to Mr Chau, on behalf of my fellow directors, for his long years of loyal service and immense contribution to the Group.

I would also like to thank the Board of Directors and all the Group's employees for their professionalism, enterprise, hard work, loyal support and dedication throughout the year. By taking this opportunity, I would also like to express my greatest appreciation to all of our shareholders for their support.

The Group will continue to develop and grow while maintaining its healthy financial position and solid business foundation to create long-term shareholder value.

Or Wai Sheun

Chairman

Hong Kong, 15 March 2007

Review of Operations

Property Development

The status of the Group's major projects under development is shown below:

Location	Usage	Group's Interest (%)	Approx. Total Gross Floor Area (sq m)	Status	Expected Date of Completion
MAINLAND CHINA					
West of Daba Road Dong Ning District Shenyang PRC	Residential and Commercial	100	2,900,000	Site clearance work in progress	2008 (first phase)
MACAU					
* <i>Villa de Mer</i> The Orient Pearl District Novos Aterros da Areia Preta Macau	Residential and Commercial	48	126,400	Foundation work to be commenced in March/April 2007	2009/2010
* <i>Pacifica Garden</i> The Taipa District Macau	Residential and Commercial	35	35,900	Foundation work completed	2008
HONG KONG					
No. 31 Robinson Road Mid-Levels Hong Kong	Residential	100	11,900	Superstructure work in progress	2007
No. 35 Clear Water Bay Road Ngau Chi Wan Kowloon Hong Kong	Residential and Commercial	100	196,400	Foundation and site formation works in progress	2009/2010
TOTAL			3,270,600		

* Owned by the Group's 59.59% owned subsidiary Polytec Asset Holdings Limited ("Polytec Asset").

Review of Operations

Details of the Group's major land held for development:

Location	Usage	Group's Interest (%)	Approx. Total Gross Floor Area (sq m)	Expected Date of Completion
MAINLAND CHINA				
Heshun Meijing Shuiku Sector Lishui Town Nanhai District Foshan PRC	Residential and Commercial	50	1,600,000	2009 (first phase)
# Lot No. Jin Dong Liu 2004-066 Intersection of Shiyijing Road and Liuwei Road Hedong District Tianjin PRC	Residential and Commercial	100	930,000	2010 (first phase)
MACAU				
* Lotes T and T1 The Orient Pearl District Novos Aterros da Areia Preta Macau	Residential and Commercial	48	164,200	2010
* Lote P The Orient Pearl District Novos Aterros da Areia Preta Macau	Residential and Commercial	48	687,700	2011 (first phase)
HONG KONG				
Belcher's Street Kennedy Town Hong Kong	Residential and Commercial	100	5,600	2009
TOTAL			3,387,500	

The project company for holding the land in Tianjin is in the process of formation and it will become a subsidiary of the Group.

* Owned by the Group's 59.59% owned subsidiary Polytec Asset.

Shenyang Dong Ning District, PRC

The site will be developed by phases and the first phase development has commenced.

31 Robinson Road, Mid-Levels, Hong Kong

The deluxe residential tower being constructed on this prime location will provide residents with comprehensive services and recreational facilities including a swimming pool and a luxury clubhouse.



*Shenyang Development Site –
Rendering of Residential and
Commercial Buildings*

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

The site will be developed into a residential and commercial complex with retail and community facilities.

Foshan Nanhai District, PRC

The seven sites will be developed in line with the government approved plan for a mixed-use scheme to include residential and commercial premises, hotels, restaurants and recreational and cultural areas. The site will be developed by phases and is undergoing site investigation and overall layout planning.

Tianjin Hedong District, PRC

The site is planned to be developed into a composite residential and commercial complex comprising serviced apartments, office towers and a commercial podium.

Belcher's Street, Hong Kong

The foundation and construction works for the Group's re-development project with site area of 564 sq m at Belcher's Street on Hong Kong Island will begin in the second half of 2007. This project is expected to be completed by 2009 and will provide a total gross floor area of approximately 5,600 sq m.

Property Investment



Pioneer Centre

Robust growth of the Hong Kong economy in 2006 with higher GDP growth, declining unemployment, abated inflationary pressures, rising personal income and continued resilient retail sales supported by buoyant tourism strengthened investor confidence. Business operators' expansion plans continued to push up the rentals of both the office and the retail sectors, though at a slower speed in the second half of year 2006. Increasing demand for prime shopping areas and large size office spaces has been seen throughout the year 2006.

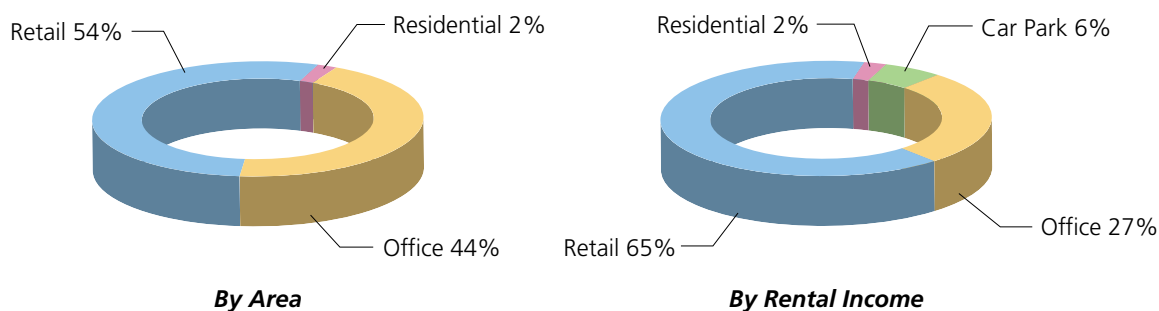
Review of Operations

The Group's investment properties, excluding that of the listed subsidiary Polytec Asset, amounted to a total attributable gross floor area of 60,317 sq m.

For the year under review, the Group's gross rental income rose 5.7% to HK\$224 million compared with the previous year. The average occupancy rate at the year end was 98%.

Total rental income from Pioneer Centre, the Group's flagship property, for the year rose to HK\$179 million from HK\$170 million in 2005. The increase was largely due to an increase in rental contribution from the retail tenancies and the higher rental rates secured upon renewal of the major tenancies in the office portion.

Distribution of Investment Properties



Property Management

At the end of 2006, the Group and its associated companies together manage properties totalling over 1.30 million sq m (2005: 790,000 sq m) which included luxury residential and serviced apartments, public housing estates and commercial premises.



Financing and Investments

The Group enjoyed a fruitful year in 2006 as the securities market boomed in 2006 in part due to the inflow of capital from mainland corporations. At the year end, the Group had financial investments totalling HK\$1,409 million, with HK\$151 million in long term investment and HK\$1,258 million in short term investment. The Group's financing and investment activities contributed an operating profit of HK\$325 million as compared with HK\$124 million in 2005. This remarkable increment of 162% in operating profit owed much to the rebounding stock market triggered by outperforming China-concept shares. Because of the expected economic growth of Mainland China and the accelerating appreciation potential of Renminbi in the year 2007, China-concept shares should remain strong. The Group will continue to adopt a prudent and cautious approach in seeking investment opportunities to sustain growth for its investment portfolio.

Shenzhen Properties & Resources Development (Group) Limited ("Shenzhen Properties")

Waiver from the obligation to make a general offer for the remaining 29.7% issued shares in Shenzhen Properties was not granted by the China Securities Regulatory Commission ("CSRC"). Accordingly in May 2006, the Group initiated the general offer process and paid HK\$120 million as a deposit. Subsequently in the same month, the Group was advised by the CSRC that the examination of the general offer documents for the remaining issued shares in Shenzhen Properties would be temporarily suspended pending verification of certain issues by the State Council State-owned Assets Supervision and Administration Commission. The verification process was completed and a report was issued in February 2007. The Group is now pending instruction from CSRC for further action.

Polytec Asset Holdings Limited

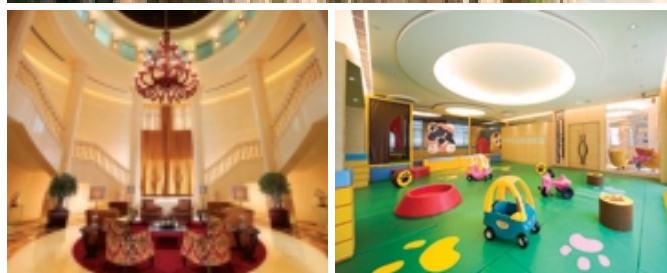
For the year ended 31 December 2006, Polytec Asset, a 59.59% owned listed subsidiary of the Company, recorded an operating profit of HK\$142 million representing a 156% growth when compared with the previous year. The profit attributable to shareholders of Polytec Asset was HK\$30 million as against HK\$477 million for 2005. The 2005 figure of HK\$477 million included a net property revaluation gain of HK\$420 million and an amount of HK\$19 million in respect of the recovery of a previously written off loan whereas a net property revaluation loss of HK\$4.6 million was included in 2006. After excluding net property revaluations and the loan recovery, the underlying profits attributable to shareholders of Polytec Asset decreased by HK\$4.3 million. Polytec Asset contributed HK\$7.7 million to the Group's profit in 2006.

Review of Operations

Property Development and Investment

Polytec Asset acquired an 80% interest, from its ultimate holding company, three development projects, namely Villa de Mer (also known as Lote V), Lote P and Lotes T and T1 in April 2006. The projects, located in the Orient Pearl District of Macau, have an aggregate gross floor area of approximately 978,000 sq m.

Villa de Mer comprises five residential towers with approximately 1,300 units erected on top of a podium with retail, recreational and car parking spaces and has a total gross floor area of approximately 126,400 sq m. The foundation work is scheduled to be commenced in March/April 2007. The development is expected to complete in 2009/2010. Presale of the project has started in November 2006 and was well received by the market. In view of the prosperous sentiment in Macau's property market, over 50% of the total residential units are sold off plan.



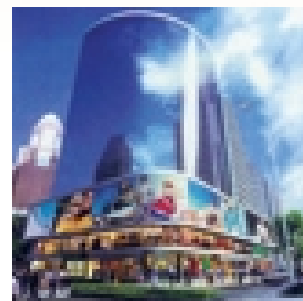
La Baie Du Noble – Club House

Lote P, Novos Aterros da Areia Preta, Macau, a prime residential area in Macau, comprises a plot with a total gross floor area of approximately 687,700 sq m. This site will be developed into various multi-storey high-end residential blocks with retail, recreational and car parking spaces by three phases. Construction of phase 1 is expected to commence in the second half of 2007 and be completed in 2011.

Lotes T and T1, Novos Aterros da Areia Preta, Macau, a prime residential area in Macau, comprises a plot with a total gross floor area of approximately 164,200 sq m. This site currently is a bare site but will be developed into various multi-storey high-end residential blocks with retail, recreational and car parking spaces. Construction works is expected to commence in the second half of 2007 and be completed in 2010.

Pacifica Garden, a 58% owned residential and commercial project in Taipa Macau has finished its foundation work and the whole development is expected to be completed in 2008. Two residential towers with approximately 295 units and a number of retail spaces are planned to be built with a total gross floor area of approximately 35,900 sq m. The property was well received by the market with over 99% of the total residential units sold recorded up to the end of January 2007.

Renovation of the retail portion of Macau Square, a 50% owned commercial property located at Avenida do Infante D. Henrique, total retail space with gross floor area of approximately 8,400 sq m, has been completed and almost entirely let out. Renovation for the office portion of approximately 28,200 sq m is now progressing smoothly and the occupancy is now at about 60%.



Macau Square

Renovation works of Va long, a commercial building situated at Praca da Amizade with an aggregate gross floor area of approximately 1,900 sq m is close to completion. With the benefit of the refurbishment, we expect to attract potential tenants for the property in the near future.

China Plaza, with 70% owned office units situated at Avenida da Praia Grande Nos. 730-804 and Avenida de D. Joao IV Nos. 2-6-B, Macau, is ready for sale. Following refurbishment an encouraging number of enquiries from potential buyers is being received.

Other Businesses

To concentrate on the Group's core business in property development and investment, the Group disposed of its entire 20% equity interest in the issued share capital of Southern Success Corporation, a company engaged in sales and distributions of apparel, shoes and accessories, for a consideration of US\$11,600,000 (equivalent to approximately HK\$90,480,000) in March 2006 with a gain of approximately HK\$47 million recognised by the Group.

By expansion of cold storage capacity and the adoption of new marketing strategies, the ice manufacturing and cold storage business of Polytec Asset improved its operating profit this year.

Human Resources and Remuneration Policy

The Group (including its listed subsidiary, but excluding all associates) employed a total of about 324 employees at the end of 2006 (2005: 250 employees). Employee remuneration amounted to approximately HK\$80 million in 2006 (2005: HK\$52 million which included only one month's post acquisition staff costs of Polytec Assets). Regular review on salary levels of the Group is conducted to maintain competitiveness. Employees are rewarded in accordance with their responsibilities and performance within the Group's salary and bonus system. A share option scheme was introduced to provide incentives and rewards to eligible persons, including Directors and employees. Other employee benefits include medical insurance, retirement schemes, in-house training courses as well as subsidies for external education and training programmes.

The basis of determining the emoluments payable to the Directors of the Company are set out in the Corporate Governance Report in this Annual Report.



Financial Review

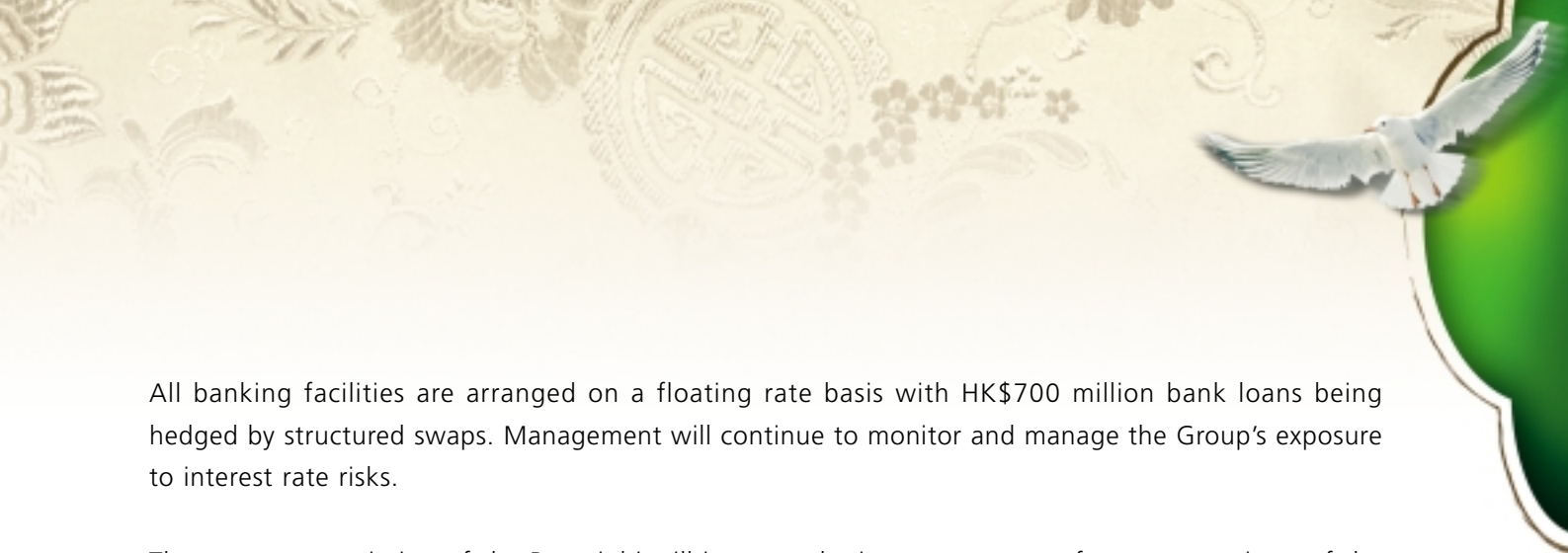
Financial Resources and Bank Borrowings

The total bank borrowings of the Group as at 31 December 2006 amounted to HK\$2,180 million, a decrease of HK\$462 million as compared with 2005 year end. The gearing ratio, calculated on the basis of bank loans to equity attributable to shareholders of the Company, was reduced from 52% as at 31 December 2005 and 40% as at 30 June 2006 to 24% as at 31 December 2006. The improvement in gearing was due to the equity fund raising activities in 2006. During the year under review, the Company raised a net total of HK\$2,512 million with the top-up placements of an aggregate of 200,353,000 shares in May and September 2006.

During the year, of the acquisition consideration of HK\$8,448 million for the Macau projects, HK\$5,490 million was settled and HK\$2,958 million was financed by a deferred settlement arrangement. Funds were raised by the issue of 2,811,411,970 new shares in Polytec Asset at HK\$1.98 per share of which 1,598,000,000 new shares were subscribed by the Company. A loan from the ultimate holding company amounting to HK\$2,194 million was obtained by the Company to finance the subscription. As at 31 December 2006, the amount due to the ultimate holding company in relation to the acquisition of interests in property developments in Macau and the loan totalled HK\$5,884 million. This amount is unsecured, interest bearing and has no fixed term of repayment. Interest is charged with reference to bank lending rates. Taking account of the financial support provided by the ultimate holding company, the gearing ratio is 89%. New equity of HK\$5,293 million was raised with the rights issue completed in February 2007. This further strengthened the financial position of the Group and reduced the gearing ratio to a low level of 19%.

During the year under review, the Group paid HK\$120 million as deposit for the general offer for the remaining 29.7% shares in relation to the proposed acquisition of Shenzhen Properties. With the expansion of its exposure in Mainland China, the Group has paid HK\$534 million for the development project in Shenyang. An amount of HK\$389 million has been contributed by the Group to the joint venture company for the land acquisition of properties in Foshan. In December 2006, the Group further increased its investment in Mainland China by acquiring a land interest in Tianjin, and RMB500 million (equivalent to approximately HK\$498 million) has been paid for the first installment of the purchase consideration.

In addition to the fund raising activities, the Group also generated substantial cash inflow from its operation. An amount of HK\$600 million was contributed by the Group's investment in La Baie Du Noble in Macau. Sale proceeds from Mount Davis 33 generated cash amounted to HK\$581 million. Presales of Pacifica Garden added a further cash inflow of HK\$253 million during the year. US\$11.6 million (approximately HK\$90 million) was obtained from the disposal of Southern Success Corporation, an associated company of the Group.



All banking facilities are arranged on a floating rate basis with HK\$700 million bank loans being hedged by structured swaps. Management will continue to monitor and manage the Group's exposure to interest rate risks.

The recent appreciation of the Renminbi will increase the investment cost of property projects of the Group in Mainland China. Nevertheless, the Group will benefit from the associated currency gain and the future revenue generated from the projects which are denominated in Renminbi. The Group's exposure to other currency risk is insignificant.

With committed undrawn financing facilities in place, recurrent cash inflow from investment properties, property sales and the proceeds from the rights issue in February 2007, the Group has sufficient financial resources to satisfy its commitments, working capital requirements and for its future business growth, especially in the market of Mainland China.

Capital Commitments

As at 31 December 2006, the Group had contracted commitments of HK\$888 million in respect of the acquisition of Shenzhen Properties and development projects in Mainland China. Commitments for construction work of investment properties amounted to HK\$95 million.

Pledge of Assets

As at 31 December 2006, properties and securities amounting to HK\$6,040 million and time deposits of HK\$66 million were pledged to financial institutions to secure credit facilities and as margin for securities investments. The Group had no contingent liabilities as at 31 December 2006.



Profile of Directors and Senior Management

Board of Directors

Executive Directors

OR Wai Sheun, aged 55, is the *Chairman* of the Board of Kowloon Development Company Limited. He was appointed director of the Company in January 2002. Mr Or is responsible for the development of corporate strategies, corporate planning and general management of the Company. He is the chairman of Polytec Asset Holdings Limited*, a listed subsidiary of the Company. In addition, he is the chairman of Polytec Holdings International Limited and Intellinsight Holdings Limited and a director of Or Family Trustee Limited Inc., all three companies being substantial shareholders of the Company. Mr Or has over 20 years' experience in property development, industrial and financial investment business in Hong Kong, Macau and the Mainland China. He is the husband of Ms Ng Chi Man and the father of Mr Or Pui Kwan, both Executive Directors of the Company.

NG Chi Man, aged 54, is *Executive Director* of Kowloon Development Company Limited. She was appointed director of the Company in January 2002. Ms Ng is responsible for the development of corporate strategies, corporate planning and general management of the Company. She is a director of Polytec Holdings International Limited and Intellinsight Holdings Limited, both companies being substantial shareholders of the Company. Ms Ng has over 20 years' experience in property development, industrial and financial investment business in Hong Kong, Macau and the Mainland China. She is the wife of Mr Or Wai Sheun, Chairman of the Company and the mother of Mr Or Pui Kwan, Executive Director of the Company.

LAI Ka Fai, aged 42, is *Executive Director* of Kowloon Development Company Limited. He was appointed director of the Company in January 2002. Mr Lai is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company. He is a director of Intellinsight Holdings Limited, a substantial shareholder of the Company, and a non-executive director of Polytec Asset Holdings Limited*, a listed subsidiary of the Company. Mr Lai has 20 years' experience in finance, accounting, financial and operational management and corporate planning. He graduated from the University of East Anglia in the United Kingdom with a Bachelor's degree in Science. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.

OR Pui Kwan, aged 28, is *Executive Director* of Kowloon Development Company Limited. Mr Or joined the Company in May 2003 and was appointed director of the Company in September 2005. He is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company. Mr Or has attained working experience since 2000 in various companies engaged in property development, securities investment, information technology, product research and development. He holds a Bachelor of Combined Science degree from University College London, United Kingdom. He is the son of Mr Or Wai Sheun and Ms Ng Chi Man, Chairman and Executive Director of the Company respectively.



Non-executive Directors

Keith Alan HOLMAN, aged 62, is the *Deputy Chairman* of the Board of Kowloon Development Company Limited. He was appointed director of the Company in January 2002. He is a director of inter alia, Or Family Trustee Limited Inc., a substantial shareholder of the Company, and a founding Partner of the Lantern Group which invests in U.K. property and shares. Mr Holman has over 35 years' experience in corporate finance and investment banking. He graduated from Oxford University in the United Kingdom and has a professional qualification as a solicitor.

TAM Hee Chung, aged 63, was appointed director of the Company in January 2002. He is the managing director of Larry H C Tam & Associates Limited, a chartered surveyors, valuers and development consultants firm. Mr Tam started his professional career in the Hong Kong Government's Crown Lands & Survey Office, where he reached the rank of acting Government land agent/valuation, in charge of the Valuation Branch of the Crown Lands & Survey Office. He left the Government in 1981 and joined a property company as the general manager, and later set up his own practice as Larry H C Tam & Associates Limited. Mr Tam has extensive experience in all aspects of the land professional work both in government and in private practice. Since 1988, he has been a member of the Town Planning Board and the Building Committee of the Housing Authority. He is a fellow member of both the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors. He is also a registered professional surveyor.

YEUNG Kwok Kwong, aged 48, was appointed director of the Company in January 2002. He is the managing director of Polytec Asset Holdings Limited*, a listed subsidiary of the Company. Mr Yeung has over 20 years' experience in finance, accounting, financial and operational management and corporate planning. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom.



Profile of Directors and Senior Management

Independent Non-executive Directors

LI Kwok Sing, Aubrey, aged 57, was appointed director of the Company in January 2002. Mr Li is a director of Management Capital Limited, a Hong Kong-based financial advisory and direct investment firm, and has over 30 years' experience in merchant banking and commercial banking. He is also a non-executive director of The Bank of East Asia, Limited* and an independent non-executive director of ABC Communications (Holdings) Limited*, Café de Coral Holdings Limited*, China Everbright International Limited*, CNPC (Hong Kong) Limited*, Pokfulam Development Company Limited* and Value Partners China Greenchip Fund Limited* and is the non-executive chairman of Atlantis Asian Recovery Fund plc. Mr Li has a Master's degree in Business Administration from Columbia University and a Bachelor of Science degree in Civil Engineering from Brown University.

LOK Kung Chin, Hardy, aged 57, was appointed director of the Company in January 2002. He is the Managing Director of The Sun Company, Limited and has over 30 years' experience in building and engineering construction work. He graduated in Civil Engineering from the University of Manchester Institute of Science & Technology and is a Member of the Institution of Civil Engineers (United Kingdom), a Member of the Hong Kong Institution of Engineers and a Fellow of the Hong Kong Institute of Construction Managers.

SETO Gin Chung, John, aged 58, was appointed director of the Company in January 2002. He is an independent non-executive director of China Everbright Limited* and Hop Hing Holdings Limited* and a director of Pacific Eagle Asset Management Limited. He was a non-executive director of Hong Kong Exchanges and Clearing Limited* and was the chief executive of HSBC Broking Services (Asia) Limited. Mr Seto was a Council Member of The Stock Exchange of Hong Kong Limited from 1994 to 2000 and was the first vice chairman from 1997 to 2000. He was the chairman and a non-executive director of Stockmartnet Holdings Limited* from 2001 to 2005. He holds a Master of Business Administration degree from New York University, US and has over 30 years of experience in the securities and futures industry.

* Companies listed on The Stock Exchange of Hong Kong Limited



Senior Management

AU YEUNG Chi Hung, Alex, aged 47, is *General Project Manager, Property Development* of the Company. Mr Au Yeung has over 20 years' experience in large scale infrastructure and property development projects in Hong Kong, Macau, the Mainland China and Singapore. Prior to joining the Company in 2002, he was General Manager in a large property development company and had worked for various international consultancy firms involved in various infrastructure work and power projects. He is a member of the Hong Kong Institution of Engineers.

YIP Kwok Fai, aged 39, is *General Project Manager, Property Development* of the Company. Dr Yip has over 15 years' experience in property development projects in Hong Kong, Macau and the Mainland China. Prior to joining the Company in 2002, he was a project manager in a large property development company and had worked for architectural consultancy firms involved in various large property development projects. Dr Yip graduated from The University of Hong Kong. He holds a degree of Doctor of Business Administration and a Master's degree in Architecture. He is a fellow member of The International Institute of Management and a member of the Royal Institute of British Architects and The Hong Kong Institute of Architects. He is also an authorized person registered under the Buildings Ordinance and a registered professional architect.

LAW Yu Wing, Steven, aged 50, is *General Manager, Marketing & Sales* of the Company. Mr Law holds a Master's degree in Business Administration and has a strong background in general management and finance, predominantly in property field. Prior to joining the Company in 2002, he had worked for the Hongkong Land Group for over 19 years and had an excellent track record in property management and project management both in Hong Kong and the Mainland China.

WAI Yuk Hing, Monica, aged 48, is *Assistant General Manager and Company Secretary* of the Company. She is responsible for the day-to-day financial management and company secretarial duties of the Company. Prior to joining the Company in 1986, she worked for an international accounting firm for 8 years serving many multinational corporations and listed companies in Hong Kong. Ms Wai holds a Bachelor of Business degree from the Monash University, Melbourne, Australia, and is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and an associate member of CPA Australia.



Report of the Directors

The Directors have pleasure in submitting their annual report together with the audited statement of accounts for the year ended 31 December 2006.

Principal Place of Business

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

Principal Activities

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

Group Profit

The profit of the Group for the year ended 31 December 2006 and the state of affairs of the Company and of the Group at that date are set out in the accounts on pages 49 to 120.

Dividends

An interim dividend of HK\$0.13 per share (2005: HK\$0.10 per share) was paid on 6 October 2006. The Directors now recommend that a final dividend of HK\$0.42 per share (2005: HK\$0.35 per share) be paid in respect of the year ended 31 December 2006.

Share Capital

Movements in share capital during the year are set out in note 24 on the accounts.

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

Save as disclosed in the section of the Share Placements, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares during the year.



Share Placements

On 4 May 2006, the Company entered into a top-up placing agreement with Intellinsight Holdings Limited (“Intellinsight”) in respect of the issue and subscription of up to 113,353,000 new ordinary shares of the Company at HK\$12.40 per share. The placees included institutional and professional investors. The net proceeds from the placed shares of approximately HK\$1,377 million was used by the Company as to HK\$970 million to fund the subscription of shares in Polytec Asset Holdings Limited, a listed subsidiary of the Company, and the remainder of approximately HK\$407 million was used for business development and expansion.

On 15 September 2006, the Company entered into a placing agreement with Intellinsight and the placing agent pursuant to which the aggregate 87,000,000 new ordinary shares were placed at HK\$13.25 per share. The placees procured by the placing agent included professional, institutional and/or individual investors. The net proceeds from the placed shares of approximately HK\$1,133 million was used by the Company for property investment and development business in Mainland China.

Reserves

Movements in reserves during the year are set out in note 24 on the accounts.

Fixed Assets

Movements in fixed assets during the year are set out in note 10 on the accounts.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and of the Group as at 31 December 2006 are set out in notes 12, 21, 22 and 23 on the accounts.

Finance Costs Capitalized

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

Donations

Charitable donations made by the Group during the year amounted to HK\$597,340 (2005: HK\$762,019).



Report of the Directors

Properties

Particulars of properties of the Group are shown on pages 121 to 126 of the annual report.

Five-Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on pages 2 to 3 of the annual report.

Directors

The Directors of the Company during the year and up to the date of this report are as follows and their brief biographical details are set out on pages 22 to 24 of the annual report:

Mr Or Wai Sheun, *Chairman*

Mr Keith Alan Holman, *Deputy Chairman*

Ms Ng Chi Man, *Executive Director*

Mr Lai Ka Fai, *Executive Director*

Mr Or Pui Kwan, *Executive Director*

Mr Tam Hee Chung, *Non-executive Director*

Mr Yeung Kwok Kwong, *Non-executive Director*

Mr Chau Cham Son, *Independent Non-executive Director (retired on 8 May 2006)*

Mr Li Kwok Sing, Aubrey, *Independent Non-executive Director*

Mr Lok Kung Chin, Hardy, *Independent Non-executive Director*

Mr Seto Gin Chung, John, *Independent Non-executive Director*

In accordance with article 105 of the Articles of Association of the Company, Mr Or Wai Sheun, Mr Li Kwok Sing, Aubrey, Mr Lok Kung Chin, Hardy and Mr Seto Gin Chung, John will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

The Company has received from each Independent Non-executive Director an annual confirmation of his independence pursuant to the independence guidelines under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Company still considers such Directors to be independent.

Particulars of the Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 4 on the accounts.

Directors' Interests and Short Positions

As at 31 December 2006, the following Directors of the Company were interested, or deemed to be interested in, the following long and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Part XV (s.352) of the SFO:

1. Long Positions in Shares, Underlying Shares and Debentures of the Company

Name of Director	Nature of interest	Number of shares	Number of underlying shares	Total interest	Percentage of total issued shares (Note 1)	Note(s)
Or Wai Sheun	Beneficiary	448,238,083	382,349,425	830,587,508	72.18%	2
	Corporate	185,000	92,500	277,500	0.02%	3,9
Ng Chi Man	Beneficiary	448,238,083	382,349,425	830,587,508	72.18%	4
Or Pui Kwan	Beneficiary	448,238,083	382,349,425	830,587,508	72.18%	5
	Personal	7,000	3,500	10,500	0.00%	5,9
Lok Kung Chin, Hardy	Under trust	950,000	475,000	1,425,000	0.12%	6,9
Tam Hee Chung	Corporate	500,000	250,000	750,000	0.07%	7,9
Keith Alan Holman	Personal	358,000	179,000	537,000	0.05%	8,9
Lai Ka Fai	Personal	312,000	156,000	468,000	0.04%	8,9
Yeung Kwok Kwong	Personal	110,000	55,000	165,000	0.01%	8,9

Notes:

- The percentage holding is calculated based on the number of shares interested or deemed to be interested over 1,150,681,275 shares of the Company, being the enlarged issued share capital of the Company after the two for one rights issue as detailed in the Company's prospectus dated 19 January 2007 and completed on 12 February 2007.



Report of the Directors

2. Mr Or Wai Sheun was deemed to be interested in 830,587,508 shares ultimately and wholly-owned by a discretionary family trust of which Mr Or is the founder and a beneficiary. Out of 830,587,508 shares, 158,230,384 shares are underwritten interest and 224,119,041 shares are undertaken interest, both arising pursuant to an underwriting agreement dated 19 December 2006 entered by Intellinsight Holdings Limited ("Intellinsight"), a controlling shareholder of the Company, ultimately and wholly-owned by the discretionary family trust. These shares were the shares disclosed under Ms Ng Chi Man and Mr Or Pui Kwan in the above table and in the Note of the section on "Interests of Substantial Shareholders and Other Persons".
3. Mr Or Wai Sheun was also deemed to be interested in 277,500 shares owned by China Dragon Limited due to his corporate interest therein.
4. Ms Ng Chi Man is the spouse of Mr Or Wai Sheun. Ms Ng was deemed to be interested in 830,587,508 shares as a beneficiary of the discretionary family trust referred in Note 2 above.
5. Mr Or Pui Kwan is the son of Mr Or Wai Sheun and Ms Ng Chi Man. Mr Or Pui Kwan was the beneficial owner of 10,500 shares and was also deemed to be interested in 830,587,508 shares as a beneficiary of the discretionary family trust referred in Note 2 above.
6. Mr Lok Kung Chin, Hardy was taken to be interested in 1,425,000 shares owned by discretionary trusts of which Mr Lok is the founder and a beneficiary respectively.
7. Mr Tam Hee Chung was deemed to be interested in 750,000 shares owned by Larry H.C. Tam & Associates Limited by virtue of his 48% interest therein.
8. Shares were held by the respective Directors in their capacity as beneficial owners.
9. Each of Mr Or Wai Sheun, Mr Or Pui Kwan, Mr Lok Kung Chin, Hardy, Mr Tam Hee Chung, Mr Keith Alan Holman, Mr Lai Ka Fai and Mr Yeung Kwok Kwong has undertaken to the Company to subscribe or procure the subscription of 92,500, 3,500, 475,000, 250,000, 179,000, 156,000 and 55,000 shares that are provisionally allotted to them under the two for one rights issue respectively.

2. Long Positions in Shares, Underlying Shares and Debentures of Associated Corporations

Polytec Asset Holdings Limited ("Polytec Asset")

Name of Director	Nature of interest	Number of shares	Number of underlying shares	Total interest	Percentage of total issued shares (Note 1)	Note(s)
Or Wai Sheun	Beneficiary	2,572,167,275	69,897,537	2,642,064,812	61.21%	2
Ng Chi Man	Beneficiary	2,572,167,275	69,897,537	2,642,064,812	61.21%	2
Or Pui Kwan	Beneficiary	2,572,167,275	69,897,537	2,642,064,812	61.21%	2
Yeung Kwok Kwong	Personal	1,700,000	160,000	1,860,000	0.04%	3
Tam Hee Chung	Corporate	1,000,000	100,000	1,100,000	0.03%	4,5
Keith Alan Holman	Personal	530,000	52,000	582,000	0.01%	6
Lai Ka Fai	Personal	400,000	30,000	430,000	0.01%	7

Notes:

1. The percentage holding is calculated based on 4,316,425,295 ordinary shares, being the total number of issued shares of Polytec Asset as at 31 December 2006.
2. Through their respective interests in the Company disclosed under the subsection on "Long Positions in Shares, Underlying Shares and Debentures of the Company", and by virtue of 100% interest in Marble King International Limited, an immediate holding company of Polytec Asset, by the Company, Mr Or Wai Sheun, Ms Ng Chi Man and Mr Or Pui Kwan were deemed to be interested in 2,572,167,275 ordinary shares and 69,897,537 units of warrants which entitle it to subscribe for 69,897,537 ordinary shares of Polytec Asset upon full exercise of the rights under the warrants.
3. Mr Yeung Kwok Kwong holds 160,000 units of warrants which entitle him to subscribe for 160,000 ordinary shares of Polytec Asset upon full exercise of the rights under the warrants.
4. By virtue of a 48% interest in Larry H.C. Tam & Associates Limited which owns such 1,000,000 ordinary shares.
5. Larry H.C. Tam & Associates Limited holds 100,000 units of warrants which entitle it to subscribe for 100,000 ordinary shares of Polytec Asset upon full exercise of the rights under the warrants. As Mr Tam Hee Chung holds a 48% interest in Larry H.C. Tam & Associates Limited, he is deemed to be interested in the warrants.




Report of the Directors

6. Mr Keith Alan Holman holds 52,000 units of warrants which entitle him to subscribe for 52,000 ordinary shares of Polytec Asset upon full exercise of the rights under the warrants.
7. Mr Lai Ka Fai holds 30,000 units of warrants which entitle him to subscribe for 30,000 ordinary shares of Polytec Asset upon full exercise of the rights under the warrants.

Other than the holdings disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director of the Company or their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. None of the Directors (including their spouses and children under the age of 18) had, as at 31 December 2006, any interest in, or had been granted any right to subscribe for the shares and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

Directors' Interests in Contracts and Connected Transactions

1. On 19 December 2006, the Company, Intellinsight Holdings Limited ("Intellinsight") and undertaking directors (including Mr Or Wai Sheun, Mr Or Pui Kwan, Mr Tam Hee Chung, Mr Lai Ka Fai, Mr Lok Kung Chin, Hardy, Mr Keith Alan Holman and Mr Yeung Kwok Kwong) entered into an underwriting agreement pursuant to which Intellinsight has undertaken to the Company to subscribe for 224,119,041 rights shares provisionally allotted to it and the undertaking directors in aggregate to subscribe for 1,211,000 rights shares provisionally allotted to them under the two for one rights issue at a price of HK\$13.80 per rights share, which particulars were detailed in the Company's prospectus dated 19 January 2007.

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2. To finance the New Bedford Acquisition as defined below, Polytec Asset Holdings Limited ("Polytec Asset") issued a total of 2,811,411,970 new shares at HK\$1.98 per share. To maintain the Company's shareholding in Polytec Asset, the Company and Polytec Asset entered into a subscription agreement on 5 May 2006 under which the Company subscribed 1,598,000,000 new shares in Polytec Asset at HK\$1.98 per share. The Company financed such subscription by way of a top-up placement of 113,353,000 new shares of the Company at a price of HK\$12.40 per share and a shareholder's loan of approximately HK\$2,194 million from its ultimate holding company. Particulars of such placements were detailed in the joint announcement of the Company and Polytec Asset dated 8 May 2006.

The Company is a substantial shareholder of Polytec Asset and hence a connected person of it. The subscription agreement constitutes a connected transaction for Polytec Asset under the Listing Rules and was approved by independent shareholders of the Company on 12 June 2006.

The provision of the loan from ultimate holding company constitute an exempt connected transaction of the Company under Rule 14A.65(4) of the Listing Rules on the ground that it is on normal commercial terms and no security over the assets of the Company will be granted in respect of such loan.

Hantec Securities Co., Limited, a company wholly owned by Mr Or Wai Sheun and so as a connected person of the Company and Polytec Asset, has acted as arranger for 17,641,000 new shares of the Company and 583,311,867 new shares of Polytec Asset and received fee in an amount of HK\$3,828,097 from the Company and HK\$20,211,756 from Polytec Asset. This arrangement constitutes an exempt connected transactions for both the Company and Polytec Asset under the Listing Rules and is subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47.



Report of the Directors


3. On 8 April, 2006, Profit Sphere International Limited ("Profit Sphere"), a wholly-owned subsidiary of Polytec Asset, entered into an agreement pursuant to which Profit Sphere agreed to acquire from Polytec Holdings International Limited ("Polytec Holdings") the entire issued share capital of New Bedford Properties Limited ("New Bedford") at an aggregate consideration of HK\$8,448 million ("New Bedford Acquisition").

The New Bedford Acquisition constitutes a very substantial acquisition and connected transaction both for the Company and for Polytec Asset under the Listing Rules. The provision of loans by New Bedford to Polytec Corporation Limited ("Polytec"), a wholly-owned subsidiary of Polytec Holdings, and to Fok Kiu – Properties Investment Limited, an indirect wholly-owned subsidiary of Polytec Holdings, relating to participation in the development of three property projects in Macau after completion of the New Bedford Acquisition constitutes connected transactions for the Company and Polytec Asset under the Listing Rules. The New Bedford Acquisition and the provision of loans by New Bedford both were approved by the independent shareholders of the Company on 12 June 2006. The New Bedford Acquisition was completed on 15 June 2006.

4. On 12 October 2005, the Company and Mr Or Wai Sheun ("Mr Or") entered into an agreement pursuant to which the Company agreed to acquire from Mr Or the entire issued share capital of and shareholder's loan due by Marble King International Limited ("Marble King") to Mr Or ("Marble King Acquisition") at an aggregate consideration of HK\$826,062,195. The principal asset of Marble King is its holding in an aggregate of 698,975,374 shares in Polytec Asset and 3,703,590,076 partly paid non-voting convertible redeemable preference shares in Polytec Asset ("CPSs"). The 698,975,374 shares and 3,703,590,076 CPSs represent an approximately 56.84% of the then existing issued shares and all the issued CPSs of Polytec Asset.

By virtue of his equity interest in the Company, Mr Or is a connected person of the Company and the Marble King Acquisition constitutes a connected transaction for the Company under the Listing Rules. The Marble King Acquisition as detailed in a circular issued by the Company on 4 November 2005 was approved by independent shareholders on 21 November 2005 and completed on 24 November 2005.

Subsequently on 15 August 2006, Marble King had contributed HK\$66,665,000 to Polytec Asset to pay up the CPSs in full and exercised the conversion right of CPSs to convert total of 275,191,901 shares in Polytec Asset.

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5. On 7 January 2004, Future Star International Limited ("Future Star"), a wholly-owned subsidiary of the Company, and Polytec Holdings entered into an agreement pursuant to which Future Star agreed to conditionally acquire from Polytec Holdings the entire issued share capital of and shareholder's loan due by Top Milestone Developments Limited ("Top Milestone"), a wholly-owned subsidiary of Polytec Holdings, to Polytec Holdings ("Future Star Acquisition") at an aggregate consideration of HK\$400 million.

Top Milestone had entered into a co-investment agreement ("Co-Investment Agreement") with Polytex, whereby Top Milestone agreed to provide financing to Polytex in the development of a property project named La Baie Du Noble in Macau.

As Polytec Holdings is the controlling shareholder of the Company, the Future Star Acquisition and the provision of loans by Top Milestone to Polytex pursuant to the Co-Investment Agreement after completion of the Future Star Acquisition constitute a connected transaction for the Company under Rule 14.26 and 14.25(2) of the then Listing Rules respectively. A loan agreement dated 24 February 2004 was entered into between the Company as borrower and Polytec Holdings as lender in relation to the provision of a loan in the sum of HK\$400 million to the Company upon normal commercial terms to assist the completion of the Future Star Acquisition. The signing of the said loan agreement is a connected transaction exempted by virtue of Rule 14.24(8) of the then Listing Rules. Polytec Holdings is ultimately wholly-owned by a family trust the beneficiary objects of which include Mr Or Wai Sheun, the Chairman of the Company, Ms Ng Chi Man and Mr Or Pui Kwan, Executive Directors, and their family members. The Future Star Acquisition as detailed in a circular issued by the Company on 30 January 2004 was approved by independent shareholders on 16 February 2004 and completed on 24 February 2004.

For the above connected transactions, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. Save as disclosed above and under the heading "Material Related Party Transactions" as set out in note 32 to the accounts, no other contracts of significance to which the Company, any of its subsidiaries, holding companies or fellow subsidiaries was a party and in which a Director had a material interest subsisted at any time during the year.

Report of the Directors

Directors' Service Contracts

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

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

Interests of Substantial Shareholders and Other Persons

As at 31 December 2006, the interests and short positions of persons, other than Directors, in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Part XV (s.336) of the SFO were as follows:

Name of Shareholders	Nature of interest	Number of shares	Number of underlying shares	Total interest	Percentage of total issued shares (Note 1)	Note(s)
HSBC International Trustee Limited	Trustee	448,771,083	382,349,425	831,120,508	72.23%	2
Or Family Trustee Limited Inc.	Trust	448,238,083	382,349,425	830,587,508	72.18%	2

Notes:

1. The percentage holding is calculated based on the number of shares interested or deemed to be interested over 1,150,681,275 shares of the Company, being the enlarged issued share capital of the Company after the two for one rights issue as detailed in the Company's prospectus dated 19 January, 2007 and completed on 12 February 2007.
2. Out of the 831,120,508 shares in which HSBC International Trustee Limited was interested as trustee of certain discretionary trusts that it manages, 830,587,508 shares were the shares held by the Or Family Trustee Limited Inc. as trustee disclosed in the above table and referred in Note of the section on "Directors' Interests and Short Positions".



Share Option Scheme

The Company operates a share option scheme (the “Share Option Scheme”) for the purpose of providing incentives and rewards to eligible persons who contribute to the success of the Group’s operations. Eligible persons include any employee, director, supplier, customer, business partner or business associate, trading agent, consultant or adviser, holder of any securities issued by any member of the Group or any entity in which the Group holds an equity interest (“Invested Entity”) of any member of the Group or any Invested Entity who, in the discretion of the Board of Directors, has contributed or will contribute to the growth and development of the Group or any Invested Entity.

The Share Option Scheme was adopted by the Company on 21 May 2003 and complies with the requirements of Chapter 17 of the Listing Rules. Unless otherwise terminated or amended, the Share Option Scheme will remain in force for a period of 10 years.

The total number of shares which may be issued pursuant to the Share Option Scheme is 48,376,785 shares, being 10% of the total number of shares of the Company in issue as at the date of approval of the Share Option Scheme. No option has been granted under the Share Option Scheme to any person since its adoption and the total number of shares available for issue remains at 48,376,785 representing 4.20% of the issued share capital of the Company at the date of this report.

Retirement Schemes

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

Arrangement to Purchase Shares and Debentures

Apart from 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 of the Company to acquire benefits by means of acquisition of shares in, or debenture of, the Company or any other body corporate.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 39 to 47.



Report of the Directors

Review of Accounts

The Audit Committee has reviewed the Group's consolidated accounts for the year ended 31 December 2006, including the accounting principles and practices adopted by the Group, in conjunction with the Company's auditors.

Public Float

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

Closure of Register of Members

The Register of Members of the Company will be closed from Thursday, 19 April 2007 to Thursday, 26 April, 2007, both dates inclusive. To qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, at 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Wednesday, 18 April 2007.

Auditors

KPMG retire and, being eligible, offer themselves for reappointment. A resolution for the reappointment of KPMG as auditors of the Company is to be proposed at the forthcoming annual general meeting.

By Order of the Board

Or Wai Sheun

Chairman

Hong Kong, 15 March 2007

Corporate Governance Report

Corporate Governance Practices

The Company recognizes the importance of and benefit from good corporate governance practices which assist the Company in effective supervision and further enhance the corporate and shareholders value, by making continuous improvement to promoting corporate governance and complying with, where appropriate, all Code Provisions set out in Appendix 14 Code on Corporate Governance Practices ("Code") of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The Company has complied with the code provisions throughout the accounting year ended 31 December 2006, save for the exceptions specified and explained below.

Code Provision A.2.1 –

This Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The position of the Chairman of the Board is currently held by Mr Or Wai Sheun, and the Company does not have any chief executive officer. Given the current corporate structure, there is no separation between the roles of chairman and chief executive officer. The Board considers that this structure is beneficial to the Company as it enables the Company to make prompt and efficient decisions. Moreover, all major decisions are made in consultation with members of the Board and appropriate board committees comprising experienced and high calibre individuals. Hence, the operations of the Board and board committees ensure the balance of power and authority. The corporate governance principles of the Company emphasize the importance of a quality Board and accountability to all shareholders.

Code Provision A.4.1 –

Code A.4.1 stipulates that non-executive directors should be appointed for a specific term, subject to re-election.

Non-executive Directors of the Company do not have a specific term of appointment. However, they are subject to retirement by rotation and re-election at the conclusion of the third annual general meeting of the Company after his election or re-election according to the Company's Articles of Association. As such, in the opinion of the Directors, the principle of Code A.4 that all directors should be subject to re-election at regular intervals has been up held.



Corporate Governance Report

Board of Directors

The Board comprises four Executive Directors, being Mr Or Wai Sheun, Chairman of the Company, Ms Ng Chi Man, Mr Lai Ka Fai and Mr Or Pui Kwan; three Non-executive Directors, being Mr Keith Alan Holman (Deputy Chairman), Mr Tam Hee Chung and Mr Yeung Kwok Kwong; and three Independent Non-executive Directors, being Mr Li Kwok Sing, Aubrey, Mr Lok Kung Chin, Hardy and Mr Seto Gin Chung, John. Biographical details which include relationships among members of the Board are provided in the “Profile of Directors and Senior Management” section of the Annual Report.

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

The proceedings of the Board follow all the relevant Code Provisions. The Board meets regularly and board meetings are held at least four times a year. All Directors have access to the advice and services of the Company Secretary with a view to ensuring that board procedures, and all applicable rules and regulations, are followed. Draft and final versions of minutes of board meetings are sent to all Directors for their comment and records respectively. Directors or any of their associates having a material interest in a matter to be considered will not be counted in the quorum of the meeting and will abstain from voting on the relevant resolution.

Nomination of Directors

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



Remuneration of Directors

The Company established a Remuneration Committee with specific written terms of reference which deal clearly with its authority and duties on 20 July 2005. The role of the Remuneration Committee is to formulate remuneration policy for approval by the Board and monitor the implementation of such policy.

The Terms of Reference of the Remuneration Committee have included the specific duties set out in Code Provision B.1.3 (a) to (f) of the Code, with appropriate modifications where necessary. They have been posted to the Company's website (www.kdc.com.hk) and are also available in writing upon request to the Company Secretary.

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

The work performed by the Remuneration Committee during the year under review included:

- reviewed the remuneration policy of the Group;
- reviewed and approved emoluments paid and payable to Executive Directors and senior management for the financial year ended 31 December 2005;
- reviewed and approved salary revision of the Group in 2006, in particular, to Executive Directors and senior management;
- considered and approved the remuneration package for a new member of the senior management;
- reviewed management's proposal on the amount of directors' fees payable to each Non-executive Director in 2006 and passed the same to the Board for approval; and
- ensured that no Director or any of his associates is involved in deciding his own remuneration.



Corporate Governance Report

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

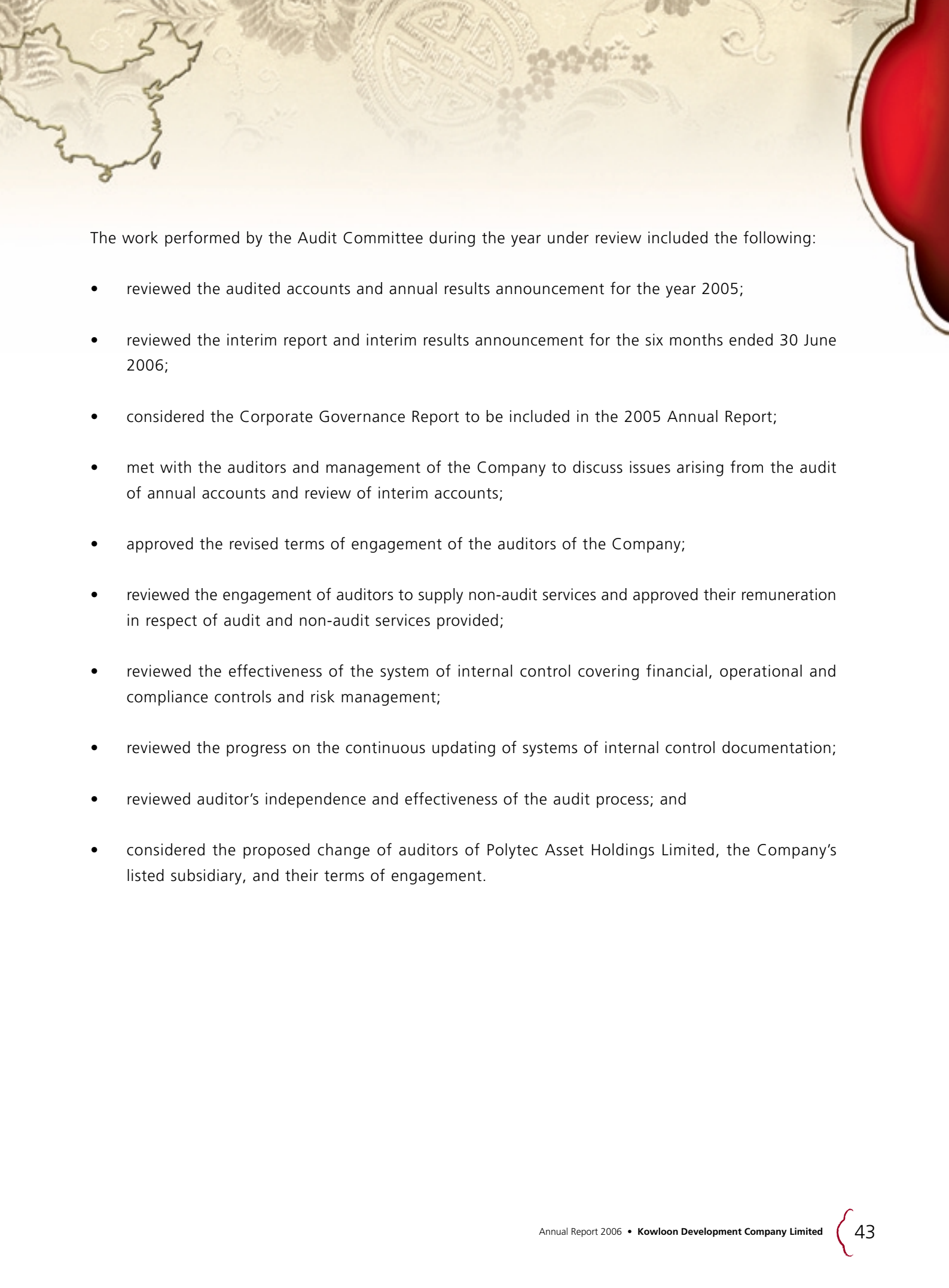
The remuneration structure of the Executive Directors and the senior management is determined by the Remuneration Committee in consultation with the Chairman of the Board after giving due consideration to market trend, responsibilities, performance as well as achievements of the individual with a view to attract, motivate and retain high performing individuals.

Audit Committee

The Audit Committee of the Company was established in 1998 and its role is to assist the Board in considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the Company's auditors.

The Audit Committee has specific written Terms of Reference which deal clearly with its authority and duties. The Terms of Reference of the Audit Committee have been posted to the Company's website (www.kdc.com.hk) and are also available in writing upon request to the Company Secretary.

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



The work performed by the Audit Committee during the year under review included the following:

- reviewed the audited accounts and annual results announcement for the year 2005;
- reviewed the interim report and interim results announcement for the six months ended 30 June 2006;
- considered the Corporate Governance Report to be included in the 2005 Annual Report;
- met with the auditors and management of the Company to discuss issues arising from the audit of annual accounts and review of interim accounts;
- approved the revised terms of engagement of the auditors of the Company;
- reviewed the engagement of auditors to supply non-audit services and approved their remuneration in respect of audit and non-audit services provided;
- reviewed the effectiveness of the system of internal control covering financial, operational and compliance controls and risk management;
- reviewed the progress on the continuous updating of systems of internal control documentation;
- reviewed auditor's independence and effectiveness of the audit process; and
- considered the proposed change of auditors of Polytec Asset Holdings Limited, the Company's listed subsidiary, and their terms of engagement.

Corporate Governance Report

Directors' Attendance Records

For meetings held during the financial year ended 31 December 2006

	Number of meetings attended/held		
	Board	Remuneration Committee	Audit Committee
Executive Directors			
Or Wai Sheun (<i>Chairman</i>)	4/4	N/A	N/A
Ng Chi Man	3/4	N/A	N/A
Lai Ka Fai	4/4	3/3	N/A
Or Pui Kwan	4/4	N/A	N/A
Non-executive Directors			
Keith Alan Holman (<i>Deputy Chairman</i>)	3/4	N/A	N/A
Tam Hee Chung	3/4	N/A	N/A
Yeung Kwok Kwong	4/4	N/A	4/4
Independent Non-executive Directors			
Chau Cham Son (<i>retired on 8 May 2006</i>)	2/4	N/A	N/A
Li Kwok Sing, Aubrey	4/4	3/3	4/4
Lok Kung Chin, Hardy	4/4	3/3	4/4
Seto Gin Chung, John	4/4	3/3	4/4
Total Number of Meetings Held in 2006	4	3	4



Financial Reporting

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

- selected and applied consistently appropriate accounting policies and standards;
- made judgements and estimates that are prudent and reasonable; and
- prepared the accounts on the going concern basis.

A statement by the auditors about their reporting responsibilities is included in the Independent Auditor's Report on page 48 of the Annual Report.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the year under review and they have all confirmed that they had fully complied with the required standard set out in the Model Code.

Corporate Governance Report

Auditors' Remuneration

In respect of the financial year 2006, the following remuneration was paid or is payable to the Company's auditors after unification of auditors of Polytec Asset, a listed subsidiary of the Company, in 2006:

	HK\$	HK\$
Fees for audit services		2,040,000
Fees for non-audit services		928,431
<i>Review of interim accounts</i>	420,170	
<i>Ad hoc project (the issuance of the circular in respect of the proposed acquisition of a subsidiary)</i>	406,300	
<i>Other services</i>	101,961	
		2,968,431

Internal Controls

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

Relevant documentation on the Group's system of internal control is subject to continuous update and be put forward to the Audit Committee for its review.



Shareholders' Rights and Investors Relation

The Company's articles of association contain the rights of shareholders to demand and the procedures for a poll voting on resolutions at shareholders' meeting. Details of such rights to demand a poll and the poll procedures are included in all circulars in relation to shareholders' meetings and will be explained during the proceedings of shareholders' meetings. In case poll voting is conducted, the poll results will be published in newspapers on the business day following the shareholders' meeting and posted on the websites of The Stock Exchange of Hong Kong Limited and the Company.

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

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

Independent Auditor's Report



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

We have audited the consolidated accounts of Kowloon Development Company Limited ("the Company") set out on pages 49 to 120, which comprise the consolidated and company balance sheets as at 31 December 2006, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the accounts

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

Auditor's responsibility

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

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

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

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

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2006 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

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

Hong Kong, 15 March 2007

Consolidated Income Statement

for the year ended 31 December 2006
(Expressed in Hong Kong dollars)

	Note	2006 \$'000	2005 \$'000
Turnover	2	2,908,171	1,320,301
Other revenue		14,125	5,475
Other net income	3(a)	115,845	20,380
Depreciation and amortization		(9,646)	(1,304)
Staff costs		(79,994)	(51,845)
Cost of inventories		(1,742,805)	(567,785)
Fair value changes on investment properties	10	346,608	505,818
Other operating expenses		(69,462)	(49,335)
Profit from operations		1,482,842	1,181,705
Finance costs	3(b)	(178,400)	(17,694)
Profit on disposal of an associated company		47,090	–
Share of profits of associated companies	3(d)	1,324	10,542
Share of profits less losses of jointly controlled entities	3(e)	3,982	7,331
Negative goodwill	3(f)	162,876	26,482
Profit before taxation	3	1,519,714	1,208,366
Income tax	5(a)	(153,708)	(144,962)
Profit for the year		1,366,006	1,063,404
Attributable to:			
Shareholders of the Company	24	1,346,261	1,059,153
Minority interests	24	19,745	4,251
Profit for the year		1,366,006	1,063,404
Earnings per share – Basic	7	\$2.04	\$1.87
Dividend per share	8(a)	\$0.55	\$0.45

The notes on pages 55 to 120 form part of these accounts.

Consolidated Balance Sheet

at 31 December 2006
(Expressed in Hong Kong dollars)

	Note	2006 \$'000	2005 \$'000
Non-current assets			
Fixed assets			
– Investment properties		4,494,630	4,147,630
– Leasehold land held for own use		259,022	265,553
– Other property, plant and equipment		40,740	39,503
	10	4,794,392	4,452,686
Goodwill	11	16,994	16,994
Interests in property development	13	9,490,063	–
Interest in jointly controlled entities	14	789,209	394,507
Interest in associated companies	15	12,040	56,568
Investments in securities	16	150,635	65,220
Loans and advances		40,430	55,320
Deferred tax assets	9(a)	3,970	9,303
		15,297,733	5,050,598
Current assets			
Interest in property development	13	122,124	575,298
Inventories	17	4,054,734	3,194,826
Trade and other receivables	18	1,045,889	320,440
Loans and advances		56,942	63,523
Amounts due from jointly controlled entities	14	258,053	247,192
Amount due from an associated company		185	207
Derivative financial instruments	19	36,074	25,811
Investments in securities	16	1,258,752	242,445
Time deposit (pledged)	29	65,994	38,205
Cash and cash equivalents		401,830	104,706
		7,300,577	4,812,653

		2006		2005	
	Note	\$'000	\$'000	\$'000	\$'000
Current liabilities					
Trade and other payables	20	1,087,207		338,804	
Amount due to ultimate holding company		4,985		–	
Amount due to a major shareholder	32(m)	–		140,791	
Amounts due to minority shareholders	21	25,082		31,924	
Derivative financial instruments	19	16,590		7,741	
Bank loans	23	888,843		978,413	
Current taxation		94,363		44,814	
		<u>2,117,070</u>		<u>1,542,487</u>	
Net current assets			<u>5,183,507</u>		<u>3,270,166</u>
Total assets less current liabilities			<u>20,481,240</u>		<u>8,320,764</u>
Non-current liabilities					
Loan from ultimate holding company	22	2,857,548		2,635	
Amount payable to ultimate holding company	32(b)	3,026,231		–	
Bank loans	23	1,290,700		1,663,600	
Deferred tax liabilities	9(a)	734,230		667,940	
			<u>7,908,709</u>		<u>2,334,175</u>
NET ASSETS			<u>12,572,531</u>		<u>5,986,589</u>
CAPITAL AND RESERVES					
Share capital			76,712		56,677
Reserves			8,976,072		5,040,735
Total equity attributable to shareholders of the Company			<u>9,052,784</u>		<u>5,097,412</u>
Minority interests			<u>3,519,747</u>		<u>889,177</u>
TOTAL EQUITY	24		<u>12,572,531</u>		<u>5,986,589</u>

Approved and authorized for issue by the board of directors on 15 March 2007.

Or Wai Sheun

Lai Ka Fai

Directors

The notes on pages 55 to 120 form part of these accounts.

Balance Sheet

at 31 December 2006
(Expressed in Hong Kong dollars)

	Note	2006 \$'000	2005 \$'000
Non-current assets			
Fixed assets			
– Investment properties		3,500,000	3,235,000
– Other property, plant and equipment		1,263	903
	10	3,501,263	3,235,903
Interest in subsidiaries	12	6,708,360	2,698,153
Interest in jointly controlled entities	14	389,045	–
		10,598,668	5,934,056
Current assets			
Trade and other receivables	18	511,178	11,201
Amount due from jointly controlled entity	14	1,437	–
Cash and cash equivalents		33,447	15,531
		546,062	26,732
Current liabilities			
Amount due to ultimate holding company		4,985	–
Amount due to a major shareholder	32(m)	–	140,791
Trade and other payables	20	86,375	84,649
Bank loans	23	215,000	217,287
Current taxation		7,580	2,847
		313,940	445,574
Net current assets/(liabilities)		232,122	(418,842)
Total assets less current liabilities		10,830,790	5,515,214
Non-current liabilities			
Loan from ultimate holding company	22	2,847,070	2,635
Bank loans	23	1,236,000	1,320,900
Deferred tax liabilities	9(a)	495,072	446,152
		4,578,142	1,769,687
NET ASSETS		6,252,648	3,745,527
CAPITAL AND RESERVES			
Share capital		76,712	56,677
Reserves		6,175,936	3,688,850
TOTAL EQUITY	24	6,252,648	3,745,527

Approved and authorized for issue by the board of directors on 15 March 2007.

Or Wai Sheun

Lai Ka Fai

Directors

The notes on pages 55 to 120 form part of these accounts.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2006
(Expressed in Hong Kong dollars)

	Note	2006		2005	
		\$'000	\$'000	\$'000	\$'000
Total equity at 1 January			5,986,589		4,070,119
Net income for the year					
recognized directly in equity					
Exchange differences on translation of accounts of overseas subsidiaries and jointly controlled entities	24	15,148		–	
Changes in fair value of equity securities available-for-sale	24	32,201		(1,310)	
Changes in fair value of interests in property development	24	1,229,135		462,456	
Transfer to income statement upon disposal of equity securities available-for-sale	24	(1,870)		(11,156)	
Transfer to income statement upon recognition of interest in property development	24	(444,144)		(282,273)	
Net income for the year					
recognized directly in equity					
Net profit for the year	24	1,366,006		167,717	1,063,404
Total net income recognized for the year			2,196,476		1,231,121
Attributable to:					
Shareholders of the Company		1,755,633		1,226,870	
Minority interests		440,843		4,251	
		2,196,476		1,231,121	
Final dividend declared and paid	8(b)		(198,369)		(141,692)
Interim dividend declared and paid	8(a)		(88,416)		(56,677)
Dividend paid to minority interests	24		(32,554)		–
Loan from a minority shareholder	24		1,665		26,625
Minority interests of subsidiaries acquired during the year	24		–		857,093
Decrease in minority interests attributable to an increase in shareholding of a subsidiary	24		(162,876)		–
Issue of shares	24		20,035		–
Net share premium on issue of shares	24		2,491,493		–
Issue of shares of a subsidiary attributable to minority interests	24		2,383,492		–
Others	24		(25,004)		–
Total equity at 31 December			12,572,531		5,986,589

The notes on pages 55 to 120 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 December 2006
(Expressed in Hong Kong dollars)

	Note	2006 \$'000	2005 \$'000
Net cash (used in)/from operating activities	26(a)	(712,770)	91,887
Investing activities			
Sale of other fixed assets		17	35
Additions to fixed assets and properties		(10,099)	(32,772)
Investment in jointly controlled entities		(389,045)	–
Proceeds on disposal of an associated company		89,954	–
Decrease in loan to an associated company		788	–
Dividend received from an associated company		2,200	–
Acquisition of subsidiaries	26(b)	(3,295,510)	(623,430)
Net cash used in investing activities		(3,601,695)	(656,167)
Financing activities			
(Decrease)/Increase in bank loans		(462,470)	800,784
Increase/(Decrease) in loan from ultimate holding company		660,873	(4,884)
Decrease in amount due to a major shareholder		(140,791)	–
Net proceeds from shares issued by the Company		2,511,528	–
Net proceeds from shares issued by a subsidiary		2,358,488	–
Dividend paid to shareholders of the Company		(286,297)	(198,036)
Dividend paid to minority shareholders		(32,554)	–
Increase in loan from a minority shareholder	24	1,665	26,625
Net cash from financing activities		4,610,442	624,489
Net increase in cash and cash equivalents		295,977	60,209
Cash and cash equivalents at 1 January		104,706	44,497
Effect of foreign exchange rate changes		1,147	–
Cash and cash equivalents at 31 December		401,830	104,706

The notes on pages 55 to 120 form part of these accounts.

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies

(a) Statement of compliance

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs has not resulted in any significant impact on the Group's operations results for the year and financial position as at 31 December 2006.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 37).

In prior years, financial guarantees issued by the Group were disclosed as contingent liabilities in accordance with HKFRS 4, *Insurance contracts*, and HKAS 37, *Provision, contingent liabilities and contingent assets*. No provisions were made in respect of these guarantees unless it was more likely than not that guarantee would be called upon.

With effect from 1 January 2006, in order to comply with the amendments to HKAS 39 in respect of financial guarantee contracts, the Group has changed its accounting policy for financial guarantees issued. Under the new policy, financial guarantees issued are accounted for as financial liabilities under HKAS 39 and measured initially at fair value, where the fair value can be reliably measured. Subsequently, they are measured at higher of the amount initially recognized, less accumulated amortization, and the amount of the provision, if any, that should be recognized in accordance with HKAS 37. Further details of the new policy are set out in note 1(s).

The adoption of these amendments does not have a significant impact on the Group's and the Company's results of operations and financial position for financial years 2005 and 2006.

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

(b) **Measurement basis**

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

The preparation of the accounts in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the accounts, are disclosed in note 34.

(c) **Basis of consolidation**

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

(d) **Goodwill**

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

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

1 Significant accounting policies *(continued)*

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

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

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

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the shareholders of the Company.

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

(f) Interest in associated companies

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

An investment in an associated company is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of associated company's net assets, unless it is classified as held for sale. The consolidated income statement reflects the Group's share of the post-acquisition, post-tax results of the associated company.

In the Company's balance sheet, an investment in an associated company is stated at cost less impairment losses. The results of associated companies are included in the Company's income statement to the extent of dividends received and receivable, providing the dividend is in respect of a period ending on or before that of the Company and the Company's right to receive the dividend is established as at the balance sheet date.

(g) Interest in joint ventures

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

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

1 Significant accounting policies *(continued)*

(g) **Interest in joint ventures** *(continued)*

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and other parties share joint control over the economic activity of the entity. Unless the interest in a jointly controlled entity is classified as held for sale, an investment in a jointly controlled entity is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of jointly controlled entity's net assets. The consolidated income statement reflects the Group's share of the post-acquisition, post-tax results of the jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in jointly controlled entities recognized for the year.

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

(h) **Properties**

(i) **Investment properties**

Interests in land and buildings held for rental purposes are recorded as investment properties. They have been valued annually by an independent firm of professional valuers on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. Investment properties are stated in the balance sheet at fair value. All changes in fair value of investment properties are recognized directly in the income statement.

(ii) **Land held for future development**

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

(h) **Properties** *(continued)*

(iii) **Interests in property development**

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

(iv) **Properties under development**

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

(v) **Properties held for sale**

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

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

Leasehold land held for own use is stated in the balance sheet at cost and amortized on a straight-line basis over the lease term.

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

1 Significant accounting policies *(continued)*

(i) **Trade and other receivables**

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

(j) **Financial assets**

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

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

Investment in securities held for trading are classified as current assets and stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognized in the income statement.

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

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

Financial assets which do not fall into any of the above categories are classified as available-for-sale financial assets and are initially recognized at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognized directly in equity, except for impairment losses. When these investments are derecognized or impaired, the cumulative gain or loss previously recognized directly in equity is recognized in the income statement.

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

(j) **Financial assets** *(continued)*

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

(k) **Trade and other payables**

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

(l) **Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(m) **Borrowings**

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

1 Significant accounting policies *(continued)*

(m) **Borrowings** *(continued)*

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

(n) **Depreciation and amortization**

(i) **Leasehold land and buildings**

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

(ii) **Other fixed assets**

Other fixed assets are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight line method to write off the assets over their estimated useful lives as follows:

- | | |
|--|---------------|
| – Air conditioning plant, plant and machinery, lifts and escalators | 5 to 10 years |
| – Furniture and fixtures, motor vehicles,
electronic data processing equipment and others | 3 to 5 years |

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

(o) **Impairment of assets**

Assets and goodwill are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, and in any case, at least annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (if any).

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement immediately unless the asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

(i) **Financial assets**

- For unquoted equity securities, impairment loss is not reversed in subsequent periods.
- For financial assets carried at amortized cost, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.
- For available-for-sale equity financial assets, an impairment loss is not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognized directly in equity.
- For available-for-sale debt financial assets, reversal of an impairment loss is recognized in the income statement.

1 Significant accounting policies *(continued)*

(o) Impairment of assets *(continued)*

(ii) Other assets

- An impairment loss on goodwill is not reversed in subsequent periods.
- A reversal of an impairment loss on other assets is credited to the income statement immediately unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase. A reversal of the impairment loss is limited to the asset's carrying value (net of accumulated amortization or depreciation) that would have been determined had no impairment loss been recognized in prior years.

(iii) Interim financial reporting and impairment

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

Impairment losses recognized in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognized had the impairment been assessed only at the end of the financial year to which the interim period relates.

(p) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognized in the income statement except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

(p) **Income tax** *(continued)*

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

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

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

(q) **Recognition of revenue**

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognized in the income statement as follows:

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

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

(ii) **Sale of properties**

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

1 Significant accounting policies *(continued)*

(q) **Recognition of revenue** *(continued)*

(iii) **Income from interests in property development**

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

(iv) **Sale of investments in securities**

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

(v) **Dividends**

- Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

(vi) **Interest income**

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

(r) **Translation of foreign currencies**

Foreign currency transactions during the year are translated into Hong Kong dollars at the exchange rates ruling at the transaction dates. Monetary assets and liabilities in foreign currencies are translated into Hong Kong dollars at the exchange rates ruling at the balance sheet date. Exchange gains and losses on foreign currency translation are dealt with in the income statement.

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

(s) Financial guarantees issued, provisions and contingent liabilities

(i) **Financial guarantees issued**

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

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

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

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

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

1 Significant accounting policies *(continued)*

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

(ii) Other provisions and contingent liabilities *(continued)*

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

(t) Related parties

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

(u) Segment reporting

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

2 Segment information

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

Turnover comprises income from property and securities investments, net proceeds from sale of properties and interest income.

(a) Business segments

	2006				
	Consolidated \$'000	Property development \$'000	Property investment \$'000	Financing and investments \$'000	Others \$'000
Turnover	2,908,171	1,204,401	224,468	1,416,365	62,937
Contribution from operations	1,189,655	643,766	200,970	325,220	19,699
Fair value changes on investment properties	346,608	–	346,608	–	–
Unallocated group expenses	(53,421)				
Profit from operations	1,482,842				
Finance costs	(178,400)				
Profit on disposal of an associated company	47,090	–	–	–	47,090
Share of profits of associated companies	1,324	–	–	–	1,324
Share of profits less losses of jointly controlled entities	3,982	(450)	4,432	–	–
Negative goodwill	162,876				
Profit before taxation	1,519,714				
Income tax	(153,708)				
Profit for the year	1,366,006				
Segment assets	20,771,007	14,313,303	4,509,353	1,626,384	321,967
Interest in jointly controlled entities	1,047,262	391,707	655,555	–	–
Interest in associated companies	12,225	–	–	–	12,225
Unallocated	767,816				
Total assets	22,598,310				
Segment liabilities	1,108,400	871,972	80,034	136,321	20,073
Unallocated	8,917,379				
Total liabilities	10,025,779				
Capital expenditure incurred during the year	4,168	488	439	–	3,241
Depreciation and amortization for the year	9,646	–	–	–	9,646

2 Segment information *(continued)*

(a) Business segments *(continued)*

	2005				
	Consolidated \$'000	Property development \$'000	Property investment \$'000	Financing and investments \$'000	Others \$'000
Turnover	1,320,301	531,249	212,083	566,717	10,252
Contribution from operations	714,163	400,749	185,525	124,112	3,777
Fair value changes on investment properties	505,818	–	505,818	–	–
Unallocated group expenses	(38,276)				
Profit from operations	1,181,705				
Finance costs	(17,694)				
Share of profits of associated companies	10,542	–	–	–	10,542
Share of profits of jointly controlled entities	7,331	–	7,331	–	–
Negative goodwill	26,482				
Profit before taxation	1,208,366				
Income tax	(144,962)				
Profit for the year	1,063,404				
Segment assets	8,777,577	3,788,598	4,161,131	502,406	325,442
Interest in jointly controlled entities	641,699	16,256	625,443	–	–
Interest in associated companies	56,568	–	–	–	56,568
Unallocated	387,407				
Total assets	9,863,251				
Segment liabilities	386,660	204,438	82,999	80,536	18,687
Unallocated	3,490,002				
Total liabilities	3,876,662				
Capital expenditure incurred during the year	585,130	–	428,234	–	156,896
Depreciation and amortization for the year	1,304	–	–	–	1,304

An asset amount of \$225,743,000 (2005: \$225,743,000) represented the deposit paid for the acquisition of approximately 70.3% of the issued shares of Shenzhen Properties & Resources Development (Group) Limited ("Shenzhen Properties") and \$120,000,000 (2005: Nil) represented the deposit paid for general offer for the remaining 29.7% of the issued shares of Shenzhen Properties were not allocated to business segments as the transaction was not yet completed.

Notes on the Accounts

(Expressed in Hong Kong dollars)

2 Segment information *(continued)*

(b) Geographical segments

	Group turnover		Group profit from operations	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Hong Kong	2,244,506	966,929	977,980	885,492
Macau	472,093	282,311	444,589	281,395
PRC	132,239	–	26,617	–
North America	52,273	66,768	27,989	12,341
Others	7,060	4,293	5,667	2,477
	2,908,171	1,320,301	1,482,842	1,181,705

	Segment assets		Capital expenditure incurred during the year	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Hong Kong	8,487,571	7,088,766	3,680	186,996
Macau	10,576,546	1,500,549	–	398,134
PRC	1,468,770	–	488	–
North America	234,218	163,478	–	–
Others	3,902	24,784	–	–
	20,771,007	8,777,577	4,168	585,130

(c) Major customers and suppliers

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

3 Profit before taxation

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

- (a) Other net income represents fair value changes on trading securities and derivative financial instruments.

(b) **Finance costs**

	2006 \$'000	2005 \$'000
Interest on bank loans and overdrafts	106,876	69,750
Interest on amount payable to/loan from ultimate holding company	149,178	128
Less: Amount capitalized (Note)	(76,135)	(50,207)
	179,919	19,671
Less: Interest expense included as other operating expenses	(1,519)	(1,977)
	178,400	17,694

Note: Borrowing costs were capitalized at the prevailing market interest rates.

(c) **Other items**

	2006 \$'000	2005 \$'000
Auditors' remuneration	1,918	1,430
Impairment loss for bad and doubtful debts	3,986	2,137
Rentals receivable under operating leases less outgoings	(201,024)	(187,621)
Rental income	(224,468)	(212,083)
Less: Outgoings	23,444	24,462
Interest income	(7,929)	(1,526)
Dividend income from available-for-sale securities	(500)	(2,938)
Dividend income from other listed trading securities	(16,644)	(1,655)
Income from held-to-maturity securities	(1,281)	(5,639)
Income from other unlisted securities	(44,121)	(34,850)
Income from other listed securities	(2,288)	–
Profit on disposal of trading securities	(123,719)	(36,086)
Profit on disposal of available-for-sale securities	(3,257)	(5,319)
Impairment loss for bad and doubtful debts written back	–	(3,582)

Notes on the Accounts

(Expressed in Hong Kong dollars)

3 Profit before taxation *(continued)*

- (d) The Group's share of profits for the year, after minority interests and after the declaration of dividend and taxation, retained by the associated companies was \$1,324,362 (2005: \$10,542,300).
- (e) The Group's share of profits less losses for the year, after minority interests and after the declaration of dividend and taxation, retained by the jointly controlled entities was \$2,190,824 (2005: \$4,166,726).
- (f) In 2006, negative goodwill of \$162,876,069 was recorded on the conversion of convertible preference shares of Polytec Asset Holdings Limited ("Polytec Asset"), a listed subsidiary of the Company, held by the Group into 275,191,901 ordinary shares of Polytec Asset (note 32 (k)).

In 2005, negative goodwill of \$26,482,230 was arisen from the Group's acquisition of subsidiaries (note 26(b)).

4 Directors' and management's emoluments

(a) Directors' emoluments

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

	2006				
	Directors' fees	Salaries and allowances	Performance related bonuses	Provident fund contributions	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Executive directors:</i>					
Or Wai Sheun	–	–	–	–	–
Ng Chi Man	–	–	–	–	–
Lai Ka Fai	120	1,335	1,100	123	2,678
Or Pui Kwan	–	534	200	18	752
<i>Non-executive directors:</i>					
Keith Alan Holman	200	371	–	–	571
Tam Hee Chung	200	–	–	–	200
Yeung Kwok Kwong	200	1,800	336	153	2,489
<i>Independent non-executive directors:</i>					
Chau Cham Son (Note)	70	–	–	–	70
Li Kwok Sing, Aubrey	200	–	–	–	200
Lok Kung Chin, Hardy	200	–	–	–	200
Seto Gin Chung, John	200	–	–	–	200
	1,390	4,040	1,636	294	7,360

Note: Mr Chau Cham Son retired from the office of the Company on 8 May 2006.

Notes on the Accounts

(Expressed in Hong Kong dollars)

4 Directors' and management's emoluments (continued)

(a) Directors' emoluments (continued)

	2005				
	Directors' fees	Salaries and allowances	Performance related bonuses	Provident fund contributions	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
<i>Executive directors:</i>					
Or Wai Sheun	–	–	–	–	–
Ng Chi Man	–	–	–	–	–
Lai Ka Fai	5	1,300	1,000	93	2,398
Or Pui Kwan (Note)	–	189	100	6	295
<i>Non-executive directors:</i>					
Keith Alan Holman	120	384	–	–	504
Tam Hee Chung	120	–	–	–	120
Yeung Kwok Kwong	120	150	–	11	281
<i>Independent non-executive directors:</i>					
Chau Cham Son	120	–	–	–	120
Li Kwok Sing, Aubrey	120	–	–	–	120
Lok Kung Chin, Hardy	120	–	–	–	120
Seto Gin Chung, John	120	–	–	–	120
	<u>845</u>	<u>2,023</u>	<u>1,100</u>	<u>110</u>	<u>4,078</u>

Note: Mr Or Pui Kwan was appointed as Executive Director of the Company on 9 September 2005.

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

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, two (2005: one) are directors whose emoluments are disclosed in note 4(a). The aggregate of the emoluments in respect of the remaining three (2005: four) individuals are as follows:

	2006 \$'000	2005 \$'000
Salaries and allowances	3,325	3,929
Performance related bonuses	1,262	1,688
Provident fund contributions	125	194
	4,712	5,811

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

	2006	2005
\$0 – \$1,000,000	–	–
\$1,000,001 – \$1,500,000	1	4
\$1,500,001 – \$2,000,000	2	–

Notes on the Accounts

(Expressed in Hong Kong dollars)

5 Income tax

(a) Taxation in the consolidated income statement represents:

	2006 \$'000	2005 \$'000
Current tax – Hong Kong profits tax		
Provision for the year	85,737	61,503
(Over)/Under provision in respect of prior years	(6,886)	515
	78,851	62,018
Current tax – Overseas		
Provision for the year	3,234	–
Deferred tax		
Origination and reversal of temporary differences	10,967	(5,574)
Change in fair value of investment properties	60,656	88,518
	71,623	82,944
	153,708	144,962

The provision for Hong Kong profits tax for 2006 is calculated at 17.5% (2005: 17.5%) of the estimated assessable profits for the year. Overseas tax is calculated at the applicable tax rates ruling in the respective jurisdictions.

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

	2006 \$'000	2005 \$'000
Profit before taxation	1,519,714	1,208,366
Tax at applicable tax rates	274,475	209,340
Non-deductible expenses	14,272	6,108
Non-taxable revenue	(127,365)	(62,810)
(Over)/Under provision in respect of prior years	(6,886)	515
Unrecognized tax losses	1,264	1,067
Previously unrecognized tax losses utilized	(1,620)	(1,122)
Previously unrecognized tax losses now recognized	(5,845)	(5,594)
Others	5,413	(2,542)
Actual tax expense	153,708	144,962

6 Profit attributable to shareholders

The consolidated profit attributable to shareholders of the Company includes a profit of \$282,377,166 (2005: \$434,888,796) which has been dealt with in the accounts of the Company.

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of \$1,346,261,403 (2005: \$1,059,153,190) and weighted average number of shares in issue during the year of 660,839,603 (2005: 566,767,850).

(b) Diluted earnings per share

No diluted earnings per share for 2005 and 2006 has been presented as the Company had no dilutive potential shares for both years.

(c) Number of shares

	2006	2005
Number of shares used in calculating basic earnings per share	566,767,850	566,767,850
Effect of issue of new shares	94,071,753	—
Weighted average number of shares used in calculating basic earnings per share	660,839,603	566,767,850

8 Dividends

(a) Dividends attributable to the year

	2006 \$'000	2005 \$'000
Interim dividend declared and paid of \$0.13 (2005: \$0.10) per share	88,416	56,677
Final dividend proposed after the balance sheet date of \$0.42 (2005: \$0.35) per share	483,286	198,369
	571,702	255,046

Notes on the Accounts

(Expressed in Hong Kong dollars)

8 Dividends *(continued)*

(a) Dividends attributable to the year *(continued)*

The final dividend declared after the year end has not been recognized as a liability at 31 December. In 2006, the final dividend payable was calculated on 1,150,681,275 shares in issue by the Company after the rights issue of 383,560,425 shares (note 33(b)).

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

	2006 \$'000	2005 \$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of \$0.35 (2005: \$0.25) per share	<u>198,369</u>	<u>141,692</u>

9 Deferred taxation

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

Group

	Future benefit of tax losses \$'000	Revaluation of properties \$'000	Accelerated depreciation allowances \$'000	Others \$'000	Total \$'000
At 1 January 2005	3,481	(424,236)	(21,306)	1,092	(440,969)
Through acquisition of subsidiaries	–	(131,235)	(3,489)	–	(134,724)
Credited/(Charged) to income statement	5,085	(84,863)	(2,905)	(261)	(82,944)
At 31 December 2005	<u>8,566</u>	<u>(640,334)</u>	<u>(27,700)</u>	<u>831</u>	<u>(658,637)</u>
At 1 January 2006	8,566	(640,334)	(27,700)	831	(658,637)
Credited/(Charged) to income statement	6,008	(58,012)	(3,837)	(15,782)	(71,623)
At 31 December 2006	<u>14,574</u>	<u>(698,346)</u>	<u>(31,537)</u>	<u>(14,951)</u>	<u>(730,260)</u>

9 Deferred taxation *(continued)*

Company

	Revaluation of properties \$'000	Accelerated depreciation allowances \$'000	Total \$'000
At 1 January 2005	(355,946)	(16,292)	(372,238)
Charged to income statement	(71,229)	(2,685)	(73,914)
At 31 December 2005	<u>(427,175)</u>	<u>(18,977)</u>	<u>(446,152)</u>
At 1 January 2006	(427,175)	(18,977)	(446,152)
Charged to income statement	(46,364)	(2,556)	(48,920)
At 31 December 2006	<u>(473,539)</u>	<u>(21,533)</u>	<u>(495,072)</u>

	Group		Company	
	2006 \$'000	2005 \$'000	2006 \$'000	2005 \$'000
Net deferred tax asset recognized on the balance sheet	3,970	9,303	–	–
Net deferred tax liability recognized on the balance sheet	(734,230)	(667,940)	(495,072)	(446,152)
	<u>(730,260)</u>	<u>(658,637)</u>	<u>(495,072)</u>	<u>(446,152)</u>

(b) Deferred tax assets not recognized

The Group has not recognized deferred tax assets in respect of tax losses of \$84,487,000 (2005: \$126,053,000) as the probability of generating future taxable profits in order to utilize the tax losses is uncertain at this point of time.

Notes on the Accounts

(Expressed in Hong Kong dollars)

10 Fixed assets

(a) Group

	Investment properties \$'000	Leasehold land held for own use \$'000	Other property, plant and equipment		Total \$'000
			Buildings \$'000	Others \$'000	
Cost or valuation					
At 1 January 2005	3,461,940	6,446	1,820	31,392	3,501,598
Additions					
– Through acquisition of subsidiaries	150,000	263,760	31,240	5,857	450,857
– Others	29,872	–	–	898	30,770
Disposals	–	–	–	(1,521)	(1,521)
Revaluation surplus	505,818	–	–	–	505,818
At 31 December 2005	4,147,630	270,206	33,060	36,626	4,487,522
<i>Representing</i>					
Professional valuation	4,147,630	–	–	–	4,147,630
Cost	–	270,206	33,060	36,626	339,892
	<u>4,147,630</u>	<u>270,206</u>	<u>33,060</u>	<u>36,626</u>	<u>4,487,522</u>
At 1 January 2006	4,147,630	270,206	33,060	36,626	4,487,522
Additions	392	–	–	4,356	4,748
Disposals	–	–	–	(1,519)	(1,519)
Revaluation surplus	346,608	–	–	–	346,608
At 31 December 2006	4,494,630	270,206	33,060	39,463	4,837,359
<i>Representing</i>					
Professional valuation	4,494,630	–	–	–	4,494,630
Cost	–	270,206	33,060	39,463	342,729
	<u>4,494,630</u>	<u>270,206</u>	<u>33,060</u>	<u>39,463</u>	<u>4,837,359</u>

10 Fixed assets *(continued)*

(a) **Group** *(continued)*

	Investment properties \$'000	Leasehold land held for own use \$'000	Other property, plant and equipment		Total \$'000
			Buildings \$'000	Others \$'000	
Aggregate depreciation and amortization					
At 1 January 2005	–	4,386	1,409	29,240	35,035
Charge for the year	–	267	80	957	1,304
Written back on disposals	–	–	–	(1,503)	(1,503)
At 31 December 2005	–	4,653	1,489	28,694	34,836
At 1 January 2006	–	4,653	1,489	28,694	34,836
Charge for the year	–	6,531	785	2,330	9,646
Written back on disposals	–	–	–	(1,515)	(1,515)
At 31 December 2006	–	11,184	2,274	29,509	42,967
Carrying value					
At 31 December 2006	4,494,630	259,022	30,786	9,954	4,794,392
At 31 December 2005	4,147,630	265,553	31,571	7,932	4,452,686

Notes on the Accounts

(Expressed in Hong Kong dollars)

10 Fixed assets (continued)

(b) Company

	Investment properties \$'000	Other property, plant and equipment \$'000	Total \$'000
Cost or valuation			
At 1 January 2005	2,800,000	23,751	2,823,751
Additions	27,976	605	28,581
Disposals	–	(1,482)	(1,482)
Revaluation surplus	407,024	–	407,024
At 31 December 2005	3,235,000	22,874	3,257,874
<i>Representing</i>			
Professional valuation	3,235,000	–	3,235,000
Cost	–	22,874	22,874
	<u>3,235,000</u>	<u>22,874</u>	<u>3,257,874</u>
At 1 January 2006	3,235,000	22,874	3,257,874
Additions	67	687	754
Disposals	–	(1,477)	(1,477)
Revaluation surplus	264,933	–	264,933
At 31 December 2006	3,500,000	22,084	3,522,084
<i>Representing</i>			
Professional valuation	3,500,000	–	3,500,000
Cost	–	22,084	22,084
	<u>3,500,000</u>	<u>22,084</u>	<u>3,522,084</u>

10 Fixed assets *(continued)*

(b) **Company** *(continued)*

	Investment properties \$'000	Other property, plant and equipment \$'000	Total \$'000
Aggregate depreciation and amortization			
At 1 January 2005	–	23,198	23,198
Charge for the year	–	253	253
Written back on disposals	–	(1,480)	(1,480)
At 31 December 2005	–	21,971	21,971
At 1 January 2006	–	21,971	21,971
Charge for the year	–	324	324
Written back on disposals	–	(1,474)	(1,474)
At 31 December 2006	–	20,821	20,821
Carrying value			
At 31 December 2006	3,500,000	1,263	3,501,263
At 31 December 2005	3,235,000	903	3,235,903

Notes on the Accounts

(Expressed in Hong Kong dollars)

10 Fixed assets (continued)

(c) Analysis of carrying value of properties

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Investment properties				
In Hong Kong				
– Long leases	4,308,630	3,961,630	3,500,000	3,235,000
– Medium-term leases	36,000	36,000	–	–
Outside Hong Kong				
– Medium-term leases	150,000	150,000	–	–
	4,494,630	4,147,630	3,500,000	3,235,000
Other properties				
In Hong Kong				
– Long leases	981	991	–	–
– Medium-term leases	288,827	296,133	–	–
	289,808	297,124	–	–

The investment properties of the Group and of the Company were revalued at 31 December 2006 by Vigers Appraisal and Consulting Limited and DTZ Debenham Tie Leung Ltd, independent qualified professional valuers, who have appropriate qualifications and experiences in the valuation of similar properties in the relevant locations, on an open market value basis calculated by reference to net rental income allowing for reversionary income potential.

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

The Group leases out investment properties and certain furniture and fixtures under operating leases. The leases typically run for an initial period of several months to six years. Some leases have provision of option to renew by which time all terms are renegotiated. Some leases have provision of turnover rent. Turnover rent of \$241,217 was received in 2006 (2005: \$408,818).

10 Fixed assets *(continued)*

(c) **Analysis of carrying value of properties** *(continued)*

The gross carrying amounts of investment properties of the Group held for use in operating leases were \$4,494,630,000 (2005: \$4,147,630,000). The gross carrying amounts of other fixed assets of the Group held for use in operating leases were \$7,035,206 (2005: \$7,072,596) and the related accumulated depreciation charges were \$6,966,005 (2005: \$6,929,368).

The gross carrying amounts of investment properties of the Company held for use in operating leases were \$3,500,000,000 (2005: \$3,235,000,000). The gross carrying amounts of other fixed assets of the Company held for use in operating leases were \$954,152 (2005: \$954,152) and the related accumulated depreciation charges were \$951,866 (2005: \$950,745).

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment property.

The total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Within 1 year	166,817	190,736	132,608	155,387
After 1 year but within 5 years	88,626	104,812	68,016	84,305
	255,443	295,548	200,624	239,692

Notes on the Accounts

(Expressed in Hong Kong dollars)

11 Goodwill

	Group	
	2006	2005
	\$'000	\$'000
At 1 January	16,994	–
Through acquisition of subsidiaries	–	16,994
At 31 December	16,994	16,994

As at 31 December, goodwill was tested for impairment by estimating the recoverable amount of the cash generating unit based on value in use calculation. There was no impairments of the cash generating unit attributable to the goodwill.

12 Interest in subsidiaries

	Company	
	2006	2005
	\$'000	\$'000
Unlisted shares, at cost	1,530,460	1,530,460
Loans to subsidiaries		
– interest free	4,767,864	944,573
– interest bearing	1,422,513	1,292,194
Loans from subsidiaries		
– interest free	(736,917)	(567,265)
– interest bearing	(110,864)	(297,221)
Amounts due from/(to) subsidiaries	368	(7)
Impairment losses on subsidiaries	(165,064)	(204,581)
	6,708,360	2,698,153

Loans to and from subsidiaries are unsecured and have no fixed terms of repayment. Interest is charged at bank lending rates and deposit rates.

Details of the principal subsidiaries are shown in note 30.

13 Interests in property development

Interests in property development represent the Group's interests in the development of various properties in Macau under the co-investment agreements with wholly owned subsidiaries of the ultimate holding company, Polytec Holdings International Ltd ("Polytec Holdings"). The basis and estimations for arriving at the fair value of the interests in property development are further described in note 34(d).

14 Interest in jointly controlled entities

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Unlisted shares, at cost	–	–	389,045	–
Share of net assets	789,209	394,507	–	–
Amounts due from jointly controlled entities	258,053	247,192	1,437	–
	1,047,262	641,699	390,482	–

The amounts due from jointly controlled entities are unsecured, interest free and repayable within one year.

Details of the jointly controlled entities are as follows:

Jointly controlled entity	Business structure	Place of incorporation and operation	Proportion of nominal value of ordinary shares held			Principal activities
			Group's effective interest	held by the Company	held by a subsidiary	
CITIC Polytec Property (Foshan) Company Limited	Corporate	People's Republic of China	50% (Note)	50% (Note)	–	Property development
Eastford Development Limited	Corporate	Hong Kong	28.6%	–	48%	Property development and investment
South Bay Centre Company Limited	Corporate	Macau	29.8%	–	50%	Property investment and trading

Note: Percentage represented the Group's equity interest of the jointly controlled entities.

Notes on the Accounts

(Expressed in Hong Kong dollars)

14 Interest in jointly controlled entities *(continued)*

The following are the financial information on significant jointly controlled entities – the Group's effective interest after acquisition:

	2006 \$'000	2005 \$'000
Income Statement		
Revenue	12,371	116
Expenses	(7,421)	(254)
	2006 \$'000	2005 \$'000
Balance Sheet		
Non-current assets	426,864	403,618
Current assets	1,556,951	223
Current liabilities	(702,657)	(134,264)
Non-current liabilities	(653,178)	(45,339)
Net assets	627,980	224,238

15 Interest in associated companies

	Group 2006 \$'000	2005 \$'000
Share of net assets	7,942	51,682
Loan to an associated company	4,098	4,886
	12,040	56,568

Loan to an associated company is unsecured, interest bearing at prevailing prime rate and subject to any repayment to shareholders on a pro-rata basis.

In April 2006, the Group disposed of its entire 20% interest in Southern Success Corporation for a consideration of \$90.0 million and a gain of \$47.1 million was recognized in the current year accordingly.

15 Interest in associated companies *(continued)*

Details of the associated companies are shown as follows:

Associated company	Place of incorporation/ operation	Proportion of nominal value of ordinary shares indirectly held	Principal activities
Easy Living Property Management Limited	Hong Kong	49%	Property management and security services
Sheen Choice Limited	Hong Kong	49%	Investment holding
Jeeves (HK) Limited	Hong Kong	43.125%	Dry cleaning and laundry services
Asiasoft Hong Kong Limited	Hong Kong/Asia	25.97%	Provision of information system products and services
Modern Living Property Management Limited	Hong Kong	24.01%	Property management and security services

Summary of financial information on significant associated companies:

	Assets \$'000	Liabilities \$'000	Equity \$'000	Revenue \$'000	Profit \$'000
2006					
Aggregate on associated companies' accounts	31,331	15,124	16,207	56,362	1,930
Group's effective interest	15,353	7,411	7,942	27,617	946
2005					
Aggregate on associated companies' accounts	777,652	531,989	245,663	764,333	49,756
Group's effective interest	164,598	112,916	51,682	169,455	10,542

Notes on the Accounts

(Expressed in Hong Kong dollars)

16 Investments in securities

	Group	
	2006	2005
	\$'000	\$'000
Non-current assets		
Available-for-sale securities		
– Equity shares, listed in Hong Kong	108,080	17,430
– Investment fund, unlisted	42,555	47,790
	<u>150,635</u>	<u>65,220</u>
Current assets		
Trading securities		
– Equity shares, listed in Hong Kong	1,069,954	111,204
– Equity shares, listed outside Hong Kong	31,578	30,823
– Bonds, listed outside Hong Kong	157,220	–
Held-to-maturity securities, unlisted	–	100,418
	<u>1,258,752</u>	<u>242,445</u>
	<u>1,409,387</u>	<u>307,665</u>

	Group	
	2006	2005
	\$'000	\$'000
Market value of investments in securities		
– Listed in Hong Kong	1,178,034	128,634
– Listed outside Hong Kong	188,798	30,823

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

17 Inventories

	2006	2005
	\$'000	\$'000
Land held for future development	190,526	611,519
Properties under development	3,552,329	2,242,381
Properties held for sale	310,319	339,776
Trading goods	1,560	1,150
	4,054,734	3,194,826

Included in properties under development is an amount of \$1,510,604,461 (2005: \$1,459,138,520), which represents the accumulated costs incurred by the Group for the development of a property in Ngau Chi Wan. The Group has been granted the exclusive right for the development by The Little Sisters of the Poor ("The Little Sisters"). Pursuant to the development agreement with The Little Sisters, the Group is responsible for bearing all costs and expenses of carrying out the development and in return, the Group is entitled to all sales proceeds derived from the completed development. As at 31 December 2006, the Group had an outstanding payable to The Little Sisters under the development agreement of approximately \$88 million (2005: \$129 million).

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

	Group	
	2006	2005
	\$'000	\$'000
In Hong Kong		
– Long leases	521,363	520,917
– Medium-term leases	1,268,792	1,381,392
	1,790,155	1,902,309
Outside Hong Kong		
– Freehold/Unspecified	590,252	604,964
– Medium-term leases	940,666	–
	1,530,918	604,964
	3,321,073	2,507,273

Notes on the Accounts

(Expressed in Hong Kong dollars)

17 Inventories *(continued)*

The amount of properties held for future development and under development expected to be recovered after more than one year is \$190,525,674 and \$2,922,110,336 respectively (2005: \$611,519,074 and \$2,051,956,273). All of the other inventories are expected to be recovered within one year.

The Group leases certain of its properties held for sale under operating lease arrangements with lease terms of less than three years. As at 31 December 2006, total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	Group	
	2006	2005
	\$'000	\$'000
Within 1 year	4,299	4,038
After 1 year but within 5 years	583	3,330
	4,882	7,368

18 Trade and other receivables

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

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
0 – 90 days	113,212	54,498	1,432	1,910
91 – 180 days	1,521	1,614	30	145
Over 180 days	7,973	9,466	3	21
Trade receivables	122,706	65,578	1,465	2,076
Utility and other deposits	5,266	3,656	1,936	1,932
Other receivables and prepayments	917,917	251,206	507,777	7,193
	1,045,889	320,440	511,178	11,201

In 2006, trade receivables of the Group of an amount of \$40,246,056 represented the receivable from a subsidiary of Polytec Holdings being distribution of one of the Group's interest in property development in Macau.

Utility and other deposits of the Group and of the Company of \$3,686,915 (2005: \$3,454,165) and \$1,888,863 (2005: \$1,883,563) respectively are expected to be recovered after more than one year.

Prepayments of the Group of an amount of \$225,743,000 (2005: \$225,743,000) represents deposit paid for the acquisition of approximately 70.3% of the issued shares of Shenzhen Properties and \$120,000,000 (2005: Nil) represents deposit paid for general offer for the remaining 29.7% of the issued shares of Shenzhen Properties. The acquisition was approved by the shareholders of the Company on 20 July 2005 and the completion of the acquisition is subject to the approval by the relevant regulatory authorities in the People's Republic of China.

In 2006, prepayments of the Group and of the Company of an amount of approximately \$498,000,000 represented the initial deposit paid for the acquisition of a composite property development site located in Tianjin of the People's Republic of China.

Receivables and prepayments of the Group and of the Company of \$1,593,096 (2005: \$1,810,596) and \$1,312,500 (2005: \$1,530,000) respectively are expected to be recovered after more than one year.

Notes on the Accounts

(Expressed in Hong Kong dollars)

19 Derivative financial instruments

	Group			
	2006		2005	
	Assets	Liabilities	Assets	Liabilities
	\$'000	\$'000	\$'000	\$'000
Over-the-counter contingent forward transactions	31,407	16,590	7,619	–
Interest rate swaps				
– Hong Kong Dollars	4,667	–	18,192	–
– US Dollars	–	–	–	7,741
	36,074	16,590	25,811	7,741

(a) **Over-the-counter contingent forward transactions**

The Group has entered into several forward agreements to purchase certain listed equity securities at a fixed price over a 52-week period from the date of the agreements. According to the agreements, the purchase commitments of the Group will be terminated when the market price of the equity securities rises to a pre-determined price level. As at the balance sheet date, the aggregated maximum purchase commitments of the Group under the agreements were \$2,420,325,092 (2005:\$342,623,770) of which \$1,729,616,418 (2005:\$323,176,850) will not be crystallized. For the commitments that will not be crystallized, the market price of the underlying equity securities has reached the pre-determined price level and the agreements were terminated subsequently after the balance sheet date.

(b) **Interest rate swaps**

(i) **Hong Kong Dollar Swap**

The Group has engaged in two Hong Kong Dollar interest rate swaps with a total notional amount of \$700 million as at 31 December 2006 and 2005. According to the swap agreements, the Group will pay at a fixed rate subject to certain conditions and the Group will receive an amount determined by Hong Kong interbank interest rate. Both swap agreements will be terminated in 2007.

19 Derivative financial instruments *(continued)*

(b) Interest rate swaps *(continued)*

(ii) US Dollar Swap

As at 31 December 2005, the Group had three US Dollar interest rate swap agreements outstanding with a total notional amount of US\$65 million. The swap agreements are callable by the counterparties. According to the agreements, the Group will pay at a floating interest rate based on US LIBOR and receive at a fixed rate subject to certain conditions. During the year ended 31 December 2006, all swap agreements were called and terminated by the counterparties and the Group received net interest according to the terms stipulated in the agreements.

The above derivatives are measured at fair value at the balance sheet date. Their fair values are determined based on the market prices estimated by financial institutions for the respective instruments at the balance sheet date.

20 Trade and other payables

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

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Not yet due or on demand	561,702	46,612	587	586
0 – 90 days	4,427	20,047	1,662	879
91 – 180 days	104	137	104	–
Over 180 days	–	52	–	–
Trade payables	566,233	66,848	2,353	1,465
Rental and other deposits	50,668	51,070	36,196	38,362
Other payables and accrued expenses	193,660	198,171	47,826	44,822
Deposits received on sale of properties	276,646	22,715	–	–
	1,087,207	338,804	86,375	84,649

Rental and other deposits of the Group and of the Company of \$47,239,466 (2005: \$48,077,670) and \$35,882,056 (2005: \$38,042,459) respectively are expected to be refunded after more than one year.

Notes on the Accounts

(Expressed in Hong Kong dollars)

20 Trade and other payables *(continued)*

In 2006, trade payables of the Group of an amount of \$428,535,389 represent outstanding consideration for the acquisition of a piece of land in Shenyang of the People's Republic of China, the payment of which is not yet due and is payable within one year.

Payables and accrued expenses of the Group and of the Company of \$154,165 (2005: \$12,322,065) and \$85,655 (2005: \$85,655) respectively are expected to be settled after more than one year.

Deposits received on sale of properties of the Group of \$276,645,636 (2005: \$22,715,605) are expected to be settled after more than one year.

21 Amounts due to minority shareholders

The amounts due to minority shareholders of subsidiaries are unsecured and have no fixed terms of repayment, of which \$18,700,257 (2005: \$12,488,754) is interest bearing at prevailing market rates and \$6,381,757 (2005: \$19,434,985) is interest free.

22 Loan from ultimate holding company

Loan from ultimate holding company is unsecured, interest bearing at prevailing market rate and has no fixed terms of repayment.

23 Bank loans

At 31 December, bank loans were repayable as follows:

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Within 1 year or on demand	888,843	978,413	215,000	217,287
After 1 year but within 2 years	223,000	413,000	205,000	125,000
After 2 years but within 5 years	1,067,700	1,250,600	1,031,000	1,195,900
	1,290,700	1,663,600	1,236,000	1,320,900
	2,179,543	2,642,013	1,451,000	1,538,187

23 Bank loans *(continued)*

Bank loans were classified in the balance sheets as follows:

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Current liabilities				
Secured	638,843	686,127	165,000	125,000
Unsecured	250,000	292,286	50,000	92,287
	888,843	978,413	215,000	217,287
Non-current liability				
Secured	1,290,700	1,663,600	1,236,000	1,320,900
	2,179,543	2,642,013	1,451,000	1,538,187

Interest on bank loans is charged at prevailing market interest rates.

Notes on the Accounts

(Expressed in Hong Kong dollars)

24 Total equity

(a) Group

Note	Attributable to shareholders of the Company							Minority interests	Total equity
	Share capital	Share premium	Capital reserve	Fair value reserves	Exchange reserves	Retained profits	Total		
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2006	56,677	557,916	2,154	337,041	-	4,143,624	5,097,412	889,177	5,986,589
Issue of shares	20,035	-	-	-	-	-	20,035	-	20,035
Premium on issue of shares	-	2,549,602	-	-	-	-	2,549,602	-	2,549,602
Expenses on issue of shares	-	(58,109)	-	-	-	-	(58,109)	-	(58,109)
Issue of shares of a subsidiary attributable to minority interests	-	-	-	-	-	-	-	2,383,492	2,383,492
Exchange differences on translation of accounts of overseas subsidiaries and jointly controlled entities	-	-	-	-	15,148	-	15,148	-	15,148
Changes in fair value of equity securities available-for-sale	-	-	-	32,201	-	-	32,201	-	32,201
Changes in fair value of interests in property development	-	-	-	808,037	-	-	808,037	421,098	1,229,135
Transfer to income statement upon disposal of equity securities available-for-sale	-	-	-	(1,870)	-	-	(1,870)	-	(1,870)
Transfer to income statement upon recognition from interest in property development	-	-	-	(444,144)	-	-	(444,144)	-	(444,144)
Final dividend declared and paid	8(b)	-	-	-	-	(198,369)	(198,369)	-	(198,369)
Interim dividend declared and paid	8(a)	-	-	-	-	(88,416)	(88,416)	-	(88,416)
Dividend paid to minority interests	-	-	-	-	-	-	-	(32,554)	(32,554)
Loan from a minority shareholder	-	-	-	-	-	-	-	1,665	1,665
Decrease in minority interests attributable to an increase in shareholding of a subsidiary	-	-	-	-	-	-	-	(162,876)	(162,876)
Profit for the year	-	-	-	-	-	1,346,261	1,346,261	19,745	1,366,006
Others	-	-	-	-	-	(25,004)	(25,004)	-	(25,004)
At 31 December 2006	76,712	3,049,409	2,154	731,265	15,148	5,178,096	9,052,784	3,519,747	12,572,531

24 Total equity *(continued)*

(a) **Group** *(continued)*

	Note	Attributable to shareholders of the Company					Minority interests	Total equity
		Share capital	Share premium	Capital reserve	Fair value reserves	Retained profits		
		\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2005		56,677	557,916	2,154	169,324	3,282,840	1,208	4,070,119
Changes in fair value of equity securities available-for-sale		-	-	-	(1,310)	-	-	(1,310)
Changes in fair value of interests in property development		-	-	-	462,456	-	-	462,456
Transfer to income statement upon disposal of equity securities available-for-sale		-	-	-	(11,156)	-	-	(11,156)
Transfer to income statement upon recognition of interest in property development		-	-	-	(282,273)	-	-	(282,273)
Final dividend declared and paid	8(b)	-	-	-	-	(141,692)	-	(141,692)
Interim dividend declared and paid	8(a)	-	-	-	-	(56,677)	-	(56,677)
Loan from a minority shareholder		-	-	-	-	-	26,625	26,625
Minority interests of subsidiaries acquired during the year	26(b)	-	-	-	-	-	857,093	857,093
Profit for the year		-	-	-	-	1,059,153	4,251	1,063,404
At 31 December 2005		<u>56,677</u>	<u>557,916</u>	<u>2,154</u>	<u>337,041</u>	<u>4,143,624</u>	<u>889,177</u>	<u>5,986,589</u>

Loan from a minority shareholder is classified as equity being the capital contribution on a subsidiary by the minority shareholder.

Notes on the Accounts

(Expressed in Hong Kong dollars)

24 Total equity (continued)

(b) Company

	Note	Share capital \$'000	Share premium \$'000	Retained profits \$'000	Total \$'000
At 1 January 2006		56,677	557,916	3,130,934	3,745,527
Issue of shares		20,035	–	–	20,035
Premium on issue of shares		–	2,549,602	–	2,549,602
Expenses on issue of shares		–	(58,109)	–	(58,109)
Final dividend declared and paid	8(b)	–	–	(198,369)	(198,369)
Interim dividend declared and paid	8(a)	–	–	(88,416)	(88,416)
Profit for the year		–	–	282,378	282,378
At 31 December 2006		<u>76,712</u>	<u>3,049,409</u>	<u>3,126,527</u>	<u>6,252,648</u>
At 1 January 2005		56,677	557,916	2,894,414	3,509,007
Final dividend declared and paid	8(b)	–	–	(141,692)	(141,692)
Interim dividend declared and paid	8(a)	–	–	(56,677)	(56,677)
Profit for the year		–	–	434,889	434,889
At 31 December 2005		<u>56,677</u>	<u>557,916</u>	<u>3,130,934</u>	<u>3,745,527</u>

The Group's share of profits retained in the accounts of the associated companies at 31 December 2006 after minority interests were \$54,772 (2005: \$19,896,912).

The Group's share of profits retained in the accounts of the jointly controlled entities at 31 December 2006 after minority interests were \$6,357,550 (2005: \$4,166,726).

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

24 Total equity *(continued)*

(b) **Company** *(continued)*

Reserves of the Company available for distribution to shareholders at 31 December 2006 amounted to \$894,132,007 (2005: \$1,117,108,614).

(c) **Share capital**

	2006		2005	
	Number of shares of \$0.1 each	Amount \$'000	Number of shares of \$0.1 each	Amount \$'000
Authorized				
At 1 January and 31 December	1,000,000,000	100,000	1,000,000,000	100,000
Issued and fully paid				
At 1 January	566,767,850	56,677	566,767,850	56,677
Issue of shares	200,353,000	20,035	–	–
At 31 December	767,120,850	76,712	566,767,850	56,677

In May 2006, the Company issued and allotted 113,353,000 new shares to its major shareholder at a price of \$12.40 per share after the placement of 113,353,000 old shares by the major shareholder at a price of \$12.40 per share to independent third parties.

In September 2006, the Company issued and allotted 87,000,000 new shares to its major shareholder at a price of \$13.25 per share after the placement of 87,000,000 old shares by the major shareholder at a price of \$13.25 per share to independent third parties.

Notes on the Accounts

(Expressed in Hong Kong dollars)

25 Warrants of a subsidiary

During the year ended 31 December 2006, one of the subsidiaries of the Group had a bonus issue of 122,981,448 units of warrants to the shareholders of the subsidiary on the basis of one unit of warrants for every ten ordinary shares then held by such shareholders. Each unit of warrants entitles the holders thereof to subscribe in cash for one new share at \$1.98 per share of the subsidiary (subject to adjustment). The warrants are exercisable at any time between 19 June 2006 and 18 June 2007, both days inclusive.

A summary of the movements in warrants issued by the subsidiary is as follows:

	Number of warrants
Issued during the year	122,981,448
Exercised during the year	(6,940)
Outstanding at the end of the year	<u>122,974,508</u>

26 Notes to consolidated cash flow statement

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

	2006 \$'000	2005 \$'000
Profit before taxation	1,519,714	1,208,366
Adjustments for:		
– Unclaimed dividend written back	(363)	(239)
– Profit on disposal of other fixed assets	(13)	(18)
– Profit on disposal of an associated company	(47,090)	–
– Share of profits of associated companies	(1,324)	(10,542)
– Share of profits less losses of jointly controlled entities	(3,982)	(7,331)
– Negative goodwill	(162,876)	(26,482)
– Fair value changes on investment properties	(346,608)	(505,818)
– Fair value changes on derivative financial instruments	(1,414)	(17,762)
– Interest income	(7,929)	(1,526)
– Interest expenses	178,400	17,694
– Depreciation and amortization	9,646	1,304
Operating profit before working capital changes	1,136,161	657,646
Decrease in interests in property development	196,102	177,727
Increase in investments in securities	(1,071,391)	(10,589)
Decrease in loans and advances	21,471	26,149
Increase in inventories	(771,447)	(420,305)
Increase in trade and other receivables	(725,357)	(99,734)
Increase in amounts due from jointly controlled entities	(10,861)	(5,889)
Decrease/(Increase) in amount due from an associated company	22	(124)
Increase in time deposits (pledged)	(27,789)	(38,205)
Increase/(Decrease) in trade and other payables	747,327	(79,571)
Decrease in amount due to ultimate holding company	(675)	–
(Decrease)/Increase in amounts due to minority shareholders	(6,842)	49
Cash (used in)/generated from operations	(513,279)	207,154
Interest received	7,950	1,352
Interest paid	(174,905)	(66,902)
Profits tax paid	(33,848)	(49,765)
Profits tax refunded	1,312	48
Net cash (used in)/from operating activities	(712,770)	91,887

Notes on the Accounts

(Expressed in Hong Kong dollars)

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

(b) Acquisition of subsidiaries

On 8 April 2006, a subsidiary of the Company, Profit Sphere International Limited, acquired from Polytec Holdings, the entire issued share capital of New Bedford Properties Limited, one of Polytec Holdings' wholly owned subsidiary. The acquired company had entered into co-investment agreements with other wholly owned subsidiaries of Polytec Holdings in property projects in Macau. The consideration of the acquisition was \$8,448,000,000. As at 31 December 2006, balance of the consideration of \$2,958,450,000 has been deferred as elected in accordance with the sale and purchase agreement. The balance is unsecured and interest bearing with interest charged with reference to bank lending rates. The deferred payment and the accrued interest thereon are not expected to be settled within one year.

	2006 \$'000
<i>Fair value of assets of the subsidiary acquired:</i>	
Interests in property development	8,448,000
<i>Satisfied by:</i>	
Loan from ultimate holding company	2,194,040
Amount payable to ultimate holding company	2,958,450
Cash	3,295,510
	8,448,000

The subsidiary acquired during the year did not have any contribution to the turnover and profit of the Group for the year. If the acquisition had occurred on 1 January 2006, the subsidiary's turnover and profit contributed to the Group would not be significantly different to that reported above.

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

(b) **Acquisition of subsidiaries** *(continued)*

On 24 November 2005, the Group acquired from the major shareholder the entire issued share capital together with shareholder's loan of Marble King International Limited ("Marble King") for an aggregate consideration of \$826,062,195. The principal asset of Marble King is the aggregate of its interest of approximately 56.84% in the existing issued share capital of Polytec Asset and its interest in all the outstanding partly paid non-voting convertible redeemable preference shares of Polytec Asset.

	2005 \$'000
<i>Net assets acquired:</i>	
Investment properties	150,000
Leasehold land held for own use	263,760
Other property, plant and equipment	37,097
Interest in jointly controlled entities	628,479
Goodwill	16,994
Investments in securities	70,192
Inventories	760,641
Other current assets	73,651
Bank loans	(88,800)
Amounts due to minority shareholders	(31,875)
Other current liabilities	(35,778)
Deferred taxation	(134,724)
Minority interests	(215,421)
Net assets acquired	1,494,216
Negative goodwill arising on consolidation	(26,482)
Amount of net assets attributable to minority shareholders	(641,672)
Cash consideration on acquisition of subsidiaries	826,062
Cash and bank balances acquired	(61,841)
Consideration outstanding to the major shareholder	(140,791)
Cash outflow on acquisition of the subsidiaries	623,430

Notes on the Accounts

(Expressed in Hong Kong dollars)

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

(b) Acquisition of subsidiaries *(continued)*

The acquired subsidiaries contributed \$32,550,436 to the Group's turnover and \$5,464,449 to the profit attributable to the shareholders of the Company for the period from 24 November 2005 to 31 December 2005. If the acquisition had occurred on 1 January 2005, the contributions of the acquired subsidiaries to the Group's turnover and profit attributable to the shareholders of the Company would have been \$199,080,276 and \$271,337,589 respectively.

27 Capital commitments

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

	Group		Company	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Contracted for				
– Capital injection into				
a jointly controlled entity	194,445	–	194,445	–
– Acquisition/Formation of subsidiaries	693,293	222,333	8,969	–
– Investment properties	1,241	1,410	1,241	1,410
	<u>888,979</u>	<u>223,743</u>	<u>204,655</u>	<u>1,410</u>
Authorized but not contracted for				
– Investment properties	<u>94,067</u>	<u>95,745</u>	<u>94,067</u>	<u>95,745</u>

28 Contingent liabilities

The Company has given guarantees in respect of banking facilities and other obligations of certain subsidiaries to the extent of \$1,235,206,000 (2005: \$1,636,093,000). The banking facilities and other obligations were utilized to the extent of \$951,049,000 (2005: \$1,360,115,000) at 31 December 2006.

29 Pledge of assets

At 31 December 2006, properties and securities of the Group with an aggregate carrying value of approximately \$6,039,683,000 (2005: \$4,983,376,000) and time deposits of \$65,994,000 (2005: \$38,205,000) were pledged to banks under fixed charges to secure general banking facilities granted to the Group or as margin deposits for the Group's investments in securities.

30 Subsidiaries

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

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
Atlantic Capital Limited	Hong Kong	\$10,000	100%	–	Investment holding
Country House Property Management Limited	Hong Kong	\$10,000	–	100%	Property management and security services
Elegant Florist Limited	British Virgin Islands	US\$1,000	100%	–	Investment holding
Eversound Investments Limited	Hong Kong	\$1,000,000	–	100%	Property investment
Future Star International Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Gargantuan Investment Limited	Hong Kong	\$2	100%	–	Financial investment
Good Companion Investments Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Jumbo Power Enterprises Limited	Hong Kong	\$2	–	100%	Property development
Jumbo Star Limited	British Virgin Islands	US\$1	100%	–	Investment holding

Notes on the Accounts

(Expressed in Hong Kong dollars)

30 Subsidiaries (continued)

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
King's City Holdings Limited	Hong Kong	\$2	–	100%	Property development
Kowloon Development Engineering Limited	Hong Kong	\$2	100%	–	Construction
Kowloon Development Finance Limited	Hong Kong	\$2,000,000	100%	–	Financial Services
Lucky City Investments Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Manor House Holdings Limited	Hong Kong	\$264,529,125	100%	–	Investment holding
Marble King International Limited	British Virgin Islands	US\$2	100%	–	Investment holding
Pak Hop Shing Company, Limited	Hong Kong	\$1,300,000	–	100%	Property development
Polytec Property Good Companion (Shenyang) Limited	People's Republic of China	US\$60,000,000 (Note)	–	100%	Property development
Polytec Property Lucky City (Shenyang) Limited	People's Republic of China	\$118,600,000 (Note)	–	100%	Property development
Roe Investment Limited	Hong Kong	\$500,000	100%	–	Investment holding
Searson (Hong Kong) Limited	Hong Kong	\$2	100%	–	Property development

Note: Amount represented the registered and paid up capital.

30 Subsidiaries *(continued)*

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
Spark Team Limited	Hong Kong	\$2	100%	–	Retail
To Kwa Wan Properties Limited	Hong Kong	\$2	–	100%	Property investment
Top Milestone Developments Limited	British Virgin Islands/Macau	US\$100	–	100%	Project and financial investment
Town House Development Limited	Hong Kong	\$10,000	100%	–	Property investment
Triumph Glory Investments Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Tyleelord Development & Agency Company Limited	Hong Kong	\$100,000	–	100%	Property investment
Un Chau Properties Limited	Hong Kong	\$2	–	100%	Property investment
Units Properties Limited	Hong Kong	\$2	–	100%	Property investment
Union Way Management Limited	Hong Kong	\$2	–	100%	Investment holding
Wealrise Investments Limited	Hong Kong	\$2	–	100%	Property development and investment
Brilliant Idea Investments Limited	British Virgin Islands	US\$100	85%	–	Investment holding

Notes on the Accounts

(Expressed in Hong Kong dollars)

30 Subsidiaries (continued)

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
Golden Princess Amusement Company Limited	Hong Kong	\$100,000	85%	–	Film distribution
Cinema City Company Limited	Hong Kong	\$1,000,000	–	85%	Film distribution
Cinema City (Film Production) Company Limited	Hong Kong	\$5,000,000	–	85%	Film distribution
Golden Princess Film Production Limited	Hong Kong	\$10,000	–	85%	Film distribution
Polytec Asset Holdings Limited	Cayman Islands/ Hong Kong and Macau	\$431,642,530	–	59.59%	Investment holding
Genius Star Investments Limited	British Virgin Islands/Macau	US\$1	–	59.59%	Financial investment
Glentech International Company Limited	Hong Kong	\$2	–	59.59%	Provision of consultancy services
Imperial Profit Investment Limited	British Virgin Islands/Hong Kong	US\$1	–	59.59%	Financial investment
New Bedford Properties Limited	British Virgin Islands	US\$1	–	59.59%	Investment holding
Newcott Limited	British Virgin Islands	US\$10,000	–	59.59%	Investment holding
Noble Prime International Limited	British Virgin Islands	US\$1	–	59.59%	Investment holding

30 Subsidiaries *(continued)*

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
Power Charm International Limited	British Virgin Islands	US\$1	–	59.59%	Investment holding
Power Giant Limited	British Virgin Islands/Macau	US\$1	–	59.59%	Property trading and investment
Profit Sphere International Limited	British Virgin Islands	US\$1	–	59.59%	Investment holding
Sheen Concord Enterprises Limited	Hong Kong	\$2	–	59.59%	Property investment and development
Sinocharm Trading Limited	British Virgin Islands	US\$1	–	59.59%	Investment holding
Success Ever Limited	British Virgin Islands	US\$1	–	59.59%	Investment holding
The Hong Kong Ice & Cold Storage Company Limited	Hong Kong	\$500,000	–	59.59%	Ice manufacturing and provision of cold storage
Top Vision Assets Limited	British Virgin Islands	US\$1	–	59.59%	Investment holding
Century Leader Profits Limited	British Virgin Islands/People's Republic of China	US\$100	–	54.23%	Property trading and investment
Acestart Investments Limited	British Virgin Islands/Macau	US\$1	–	42.01%	Property trading and investment
Think Bright Limited	British Virgin Islands/Macau	US\$200	–	42.01%	Property trading and investment

Notes on the Accounts

(Expressed in Hong Kong dollars)

30 Subsidiaries (continued)

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
Hin Rich International Limited	British Virgin Islands/Macau	US\$1	–	34.56%	Financial investment
Kam Yuen Property Investment Limited	Macau	MOP30,000	–	34.56%	Property investment and development
New Cosmos Holdings Limited	British Virgin Islands	US\$100	–	34.56%	Investment holding

31 Staff retirement scheme

The Group operates a defined contribution staff retirement scheme. Contributions under the scheme are charged to the income statement as incurred. The amount of contributions is based on a specified percentage of the basic salary of the eligible employees. Forfeited contributions in respect of unvested benefits of staff leavers utilized to reduce the Group's ongoing contributions during the year amounted to \$44,732 (2005: \$38,354). There were no unutilized forfeited contributions at the balance sheet date of both years. The Group's annual contribution for the year was \$608,865 (2005: \$615,120).

Contributions to the Mandatory Provident Funds of \$2,015,235 (2005: \$1,051,580) as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance were charged to the income statement for the year.

32 Material related party transactions

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

- (a) Polytec Holdings has guaranteed the due performance of a subsidiary of the Group in respect of its obligations under the development agreement as stated in note 17.
- (b) Details of the acquisition of a subsidiary from Polytec Holdings during the year was set out in note 26(b). Balance payable to Polytec Holdings for the acquisition together with accrued interest was \$3,026,230,979 as at 31 December 2006. Such transaction is considered to be related party transaction and also constitutes connected transactions as defined under the Listing Rules.
- (c) Loan amounting to \$2,194,040,000 has been obtained from Polytec Holdings during the year for the subscription payments of new shares issued by Polytec Asset. The proceeds of the subscription payments were utilized by Polytec Asset to settle partially the consideration for the acquisition of the subsidiary as stated in note 26(b). Such transaction is considered to be related party transaction and also constitutes connected transactions as defined under the Listing Rules.
- (d) During the year, amounts of \$600,000,000 was received and \$40,246,056 was receivable from a subsidiary of Polytec Holdings being distribution of one of the Group's interest in property development in Macau (note 13).
- (e) During the year, interest of \$149,177,934 was paid to Polytec Holdings.
- (f) During the year, arranger's fee and commission fee of \$33,788,856 was paid to a related company for the placement and subscription of shares of the Company and Polytec Asset. Such transaction is considered to be related party transaction and also constitutes connected transactions as defined under the Listing Rules.

Notes on the Accounts

(Expressed in Hong Kong dollars)

32 Material related party transactions *(continued)*

- (g) In May 2006, the Company issued and allotted 113,353,000 new shares to its major shareholder at a price of \$12.40 per share after the placement of 113,353,000 old shares by the major shareholder at a price of \$12.40 per share to independent third parties.
- (h) In September 2006, the Company issued and allotted 87,000,000 new shares to its major shareholder at a price of \$13.25 per share after the placement of 87,000,000 old shares by the major shareholder at a price of \$13.25 per share to independent third parties.
- (i) On 5 May 2006, a subsidiary of the Company entered into a subscription agreement with Polytec Asset for the subscription of 1,598,000,000 shares of Polytec Asset at a subscription price of \$1.98 each, totalling \$3,164,040,000. Such transaction is considered to be related party transaction and also constitutes connected transactions as defined under the Listing Rules.
- (j) During the year, Polytec Asset had a bonus issue of 69,897,537 units of warrants to a subsidiary of the Company on the basis of one unit of warrants for every ten shares then held by the subsidiary (note 25). The subsidiary has not exercised the warrants as at 31 December 2006.
- (k) During the year, a subsidiary of the Company has fully paid up the convertible preference shares of Polytec Asset with amount of \$66,664,621 and converted into 275,191,901 ordinary shares that resulted in an increase of 2.75% interests in Polytec Asset and a negative goodwill of \$162,876,069 was arisen thereon.
- (l) In December 2006, Intellinsight Holdings Limited ("Intellinsight"), the parent company of the Company and certain directors of the Company, entered into an underwriting agreement pursuant to which Intellinsight and the directors have undertaken to the Company to subscribe for 224,119,041 and 1,211,000 rights shares respectively provisionally allotted to them under the two for one rights issue at a price of \$13.8 per rights share.
- (m) During the year, the Company has fully repaid the amount due to a major shareholder of \$140,791,092.

32 Material related party transactions *(continued)*

- (n) As at 31 December 2006, a director of the Company granted a guarantee to a bank to secure the liabilities of a subsidiary to the extent of \$42,718,000.
- (o) As at 31 December 2006, the Group has given guarantees to insurance companies in respect of performance bonds entered into by certain associated companies to the extent of \$11,020,000.
- (p) During the year, the remuneration for key management personnel being short term employee benefits amounted to \$12,071,342 (2005: \$9,883,894) as disclosed in notes 4(a) and 4(b). The remuneration of directors and senior management is determined by the Remuneration Committee having regard to the performance and responsibilities of individuals and market trends.

33 Post balance sheet event

- (a) On 18 January 2007, the authorized share capital of the Company was increased to \$500 million by the creation of 4,000,000,000 new shares of \$0.10 each.
- (b) On 5 February 2007, 383,560,425 fully paid rights shares were issued at a price of \$13.80 per rights share on the basis of one rights share for every two shares held on 18 January 2007.

34 Critical accounting judgements and key sources of estimation uncertainty

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

- (a) **Depreciation and amortization**

The Group's net book value of fixed assets other than properties as at 31 December 2006 was \$9,954,169 (2005: \$7,931,943). The Group depreciates fixed assets other than properties on a straight-line basis over the estimated useful lives of 3 to 10 years, and after taking into account of their estimated residual value, using the straight-line method, at the rates of 10% to 33% per annum, commencing from the date the equipment is placed into productive use. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's assets.

Notes on the Accounts

(Expressed in Hong Kong dollars)

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

(b) Allowances for bad and doubtful debts

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

(c) Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The calculation of value in use requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and discounted by a suitable discount rate in order to arrive at the present value.

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

Interests in property development are stated at its fair value at the balance sheet date. As at 31 December 2006, the aggregate carrying amount of interests in property development was HK\$9,612,186,898. In determining the fair value of interests in property development, the Group estimates the future cash flows expected to arise from the interests in property development and suitable discount rate in order to calculate the present values. Cash flow projections for the interests in property development are based on the past performance, current market conditions, management's expectations for the market development and terms provided under the co-investment agreements.

35 Financial risk management objectives and policies

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

(a) **Interest rate risk**

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank and intercompany borrowings. The interest rate and terms of repayment of bank and intercompany borrowings of the Group are disclosed in notes 21, 22 and 23. Appropriate hedging instruments are engaged to partially mitigate the Group's exposure to interest rate risk.

(b) **Credit risk**

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2006 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group maintains a defined credit policy. An ageing analysis of trade debtors is prepared on a regular basis and is closely monitored to minimize any credit risk associated with receivables. Collateral is usually obtained in respect of loans and advances to customers. The Group's exposure in credit risk associated with loans and advances is significantly reduced.

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

(c) **Liquidity risk**

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realizable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Notes on the Accounts

(Expressed in Hong Kong dollars)

35 Financial risk management objectives and policies *(continued)*

(d) **Foreign currency risk**

The Group owns assets and conducts its business mainly in Hong Kong, Macau and the People's Republic of China.

The Group's primary foreign currency exposures arise from its direct property development and investments in the People's Republic of China. Where appropriate and cost efficient, the Group seeks to finance these investments by Renminbi borrowings and future returns from these investments which are denominated in Renminbi.

(e) **Price risk**

The Group's financial assets classified under available-for-sale securities and trading securities are measured at fair value at each balance sheet date. Therefore, the Group is exposed to equity security price risk. The management manages this exposure by maintaining a portfolio of investments with different risk profiles.

36 Parent and ultimate holding company

At 31 December 2006, the directors consider the parent company and ultimate holding company to be Intellinsight Holdings Limited and Polytec Holdings International Limited, which are both incorporated in the British Virgin Islands. Neither entity produces accounts available for public use.

37 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2006

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2006 and which have not been adopted in these accounts.

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

Particulars of Properties

31 December 2006

A. Major Investment Properties

Location	Usage	Category of Lease	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Hong Kong				
Pioneer Centre No. 750 Nathan Road Mongkok Kowloon	Commercial	Long term lease	44,926 sq m and 124 Carparking Spaces	100
51 Shop Units on Basement, Ground Floor, Mezzanine Floor and 1st Floor Sino Centre Nos. 582-592 Nathan Road Mongkok Kowloon	Commercial	Long term lease	1,016	100
127 Shop Units on 1st Floor, The Whole of 2nd Floor and Signage Spaces on external wall New Mandarin Plaza No. 14 Science Museum Road Tsim Sha Tsui Kowloon	Commercial	Long term lease	9,816	100
20th Floor of Argyle Centre Phase 1 No. 688 Nathan Road and No. 65 Argyle Street Mongkok Kowloon	Commercial	Long term lease	1,465	100

Particulars of Properties

31 December 2006

A. Major Investment Properties *(continued)*

Location	Usage	Category of Lease	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
2nd to 23rd Floor and the Roof of The Elgin No. 51 Elgin Street Central Hong Kong	Residential	Long term lease	1,327	100
The Whole Shop Spaces and 10 Parking Spaces on Basement Peninsula Centre No. 67 Mody Road Tsim Sha Tsui Kowloon	Commercial	Long term lease	1,767 sq m and 10 Carparking Spaces	100
Macau				
38 Shop Units and 14 Parking Spaces of Va long at Praca da Amizade Nos. 6-52, Avenida do Infante D. Henrique Nos. 25-31 and Avenida Doutor Mario Soares Nos. 227-259 Macau	Commercial	Medium term lease	1,887 sq m and 14 Carparking Spaces	60

B. Investment Properties of Jointly Controlled Entities

Location	Usage	Category of Lease	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Macau				
208 Shop Units, 208 Office Units and 265 Parking Spaces at The Macau Square, Rua do Dr. Pedro Jose Lobo Nos. 2-16A, Avenida do Infante D. Henrique Nos. 43-53A and Avenida Doutor Mario Soares Nos. 81-113 Macau	Commercial	Medium term lease	36,553 sq m and 265 Carparking Spaces	30

C. Major Properties Held for Sale

Location	Usage	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Macau			
96 Shop Units, 29 Office Units and 176 Parking Spaces in China Plaza at Avenida da Praia Grande Nos. 730-804 and Avenida de D. Joao IV Nos. 2-6-B Macau	Commercial	11,273 sq m and 176 Carparking Spaces	42

Particulars of Properties

31 December 2006

D. Major Properties Under Development

Location	Usage	Approximate Total Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Hong Kong					
No. 31 Robinson Road Mid-Levels Hong Kong	Residential	11,900	Superstructure work in progress	2007	100
No 35 Clear Water Bay Road Ngau Chi Wan Kowloon Hong Kong	Residential and Commercial	196,400	Foundation and site formation works in progress	2009/2010	100
Macau					
Pacifica Garden The Taipa District Macau	Residential and Commercial	35,900	Foundation work completed	2008	35
* Villa de Mer The Orient Pearl District Novos Aterros da Areia Preta Macau	Residential and Commercial	126,400	Foundation work to be commenced in March/April 2007	2009/2010	48
Mainland China					
West of Daba Road Dong Ning District Shenyang PRC	Residential and Commercial	2,900,000	Site clearance work in progress	2008 (first phase)	100

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

E. Properties Under Development of Jointly Controlled Entities

Location	Usage	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)	Expected Date of Completion
Mainland China				
Heshun Meijing Shuiku Sector Lishui Town Nanhai District Foshan PRC	Residential and Commercial	1,600,000	50	2009 (first phase)

F. Major Land Held for Future Development

Location	Usage	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)	Expected Date of Completion
Hong Kong				
Belcher's Street Kennedy Town Hong Kong	Residential and Commercial	5,600	100	2009
Macau				
* Lotes T and T1 The Orient Pearl District Novos Aterros da Areia Preta Macau	Residential and Commercial	164,200	48	2010
* Lote P The Orient Pearl District Novos Aterros da Areia Preta Macau	Residential and Commercial	687,700	48	2011 (first phase)

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

Particulars of Properties

31 December 2006

F. Major Land Held for Future Development *(continued)*

Location	Usage	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)	Expected Date of Completion
Mainland China				
# Lot No. Jin Dong Liu 2004-066 intersection of Shiyijing Road and Liuwei Road Hedong District Tianjin PRC	Residential and Commercial	930,000	100	2010 (first phase)

The project company for holding the land in Tianjin is in the process of formation and it will become a subsidiary of the Group

G. Major Properties Completed During the Year

Location	Usage	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Hong Kong			
Mount Davis 33 No. 33 Ka Wai Man Road Kennedy Town Hong Kong	Residential	7,281	Joint Venture with Urban Renewal Authority
Macau			
* La Baie Du Noble The Orient Pearl District Novos Aterros da Areia Preta Macau	Commercial and Residential	148,644	80

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