THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Kowloon Development Company Limited you should at once hand this circular and the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

九 龍 建 業 有 限 公 司

KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 34)

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION RELATING TO PROPOSED ACQUISITION OF NEW BEDFORD PROPERTIES LIMITED AND CONNECTED TRANSACTION RELATING TO SUBSCRIPTION FOR NEW SHARES OF POLYTEC ASSET HOLDINGS LIMITED

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

ACCESS
CAPITAL

A letter from the Board of the Directors of the Company is set out on pages 6 to 28 of this circular. A letter from the Independent Board Committee containing its recommendations in respect of the Acquisition and the Connected PAH Agreement to the Independent Shareholders is set out on pages 29 to 30 of this circular. A letter from Access Capital Limited, the independent financial adviser, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 31 to 70 of this circular.

A notice convening the Extraordinary General Meeting to be held at Crystal Ballroom, Basement 3, Holiday Inn Golden Mile Hong Kong, 50 Nathan Road, Kowloon, Hong Kong, on Monday, 12 June 2006 at 2:00 p.m. is set out on pages N1 to N3 of this circular. Whether or not you are able to attend the Extraordinary General Meeting or any adjournment thereof, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon and return it to the share registrars of the Company, Computershare Hong Kong Investor Services Limited on 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event, not less than 48 hours before the time appointed for holding the Extraordinary General Meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the Extraordinary General Meeting or any adjourned meeting should you so wish.

23 May 2006

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In this circular, the following expressions shall have the meanings set out below unless the context requires otherwise:

"Access Capital" or "Independent Financial Adviser"	Access Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the Acquisition and the Connected PAH Agreement, a licensed corporation to carry on Type 1 (dealing in securities), Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Acquisition"	the acquisition by the Purchaser of the Sale Share from the Vendor;
"Announcement"	the announcement of the Company and PAH dated 10 April 2006 relating to the Acquisition;
"associate"	has the meaning given to that term in the Listing Rules;
"Board"	the board of Directors;
"Business Day"	a day on which licensed banks are open for business in Hong Kong other than a Saturday or any day on which a tropical cyclone warning no. 8 or above or a "black" rainstorm warning is hoisted at any time between 9:00 a.m. and 5:30 p.m.;
"Cash Consideration"	the consideration for the Acquisition, being the amount of HK$8,448 million;
"Company"	Kowloon Development Company Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the main board of the Stock Exchange;
"Completion"	completion of the Acquisition pursuant to the Sale and Purchase Agreement;
"connected person"	has the meaning given to that term in the Listing Rules;
"Connected PAH Agreement" or "KDC Subscription Agreement"	the agreement dated 5 May 2006 between PAH and the Company in respect of the issue and subscription of 1,598,000,000 new shares in PAH at HK$1.98 per share;
"controlling shareholder"	has the meaning given to that term in the Listing Rules;

"Deposit"	an amount of HK$200 million;
"Director(s)"	the director(s) of the Company;
"Discounted Value"	80% of 80% of the independent valuation conducted by the independent valuer DTZ Debenham Tie Leung Limited on the First Property, the Second Property and the Third Property;
"EGM"	the extraordinary general meeting of the Company to be convened for the purpose of considering and, if thought fit, approving, among other things, the Acquisition, the Connected PAH Agreement and the transactions contemplated thereunder;
"Enlarged Group"	the Company and its subsidiaries after Completion;
"First Co-Investment Agreement"	the agreement dated 8 April 2006 between Target and the First Macau Company relating to Target's participation in the First Project and the Second Project;
"First Macau Company"	Polytex Corporation Limited, a company incorporated in Macau, being the registered owner of the First Property and the Second Property and a wholly-owned subsidiary of the Vendor;
"First Project"	the development of the First Property as described in the paragraphs headed "the First Project" in this circular;
"First Property"	a site at Lote P, Novos Aterros da Areia Preta, Macau;
"GFA"	gross floor area;
"HIBOR"	Hong Kong Interbank Offered Rate;
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China;
"Independent Board Committee"	the independent board committee of the Company comprising all independent non-executive Directors to advise the Independent Shareholders regarding the Acquisition;
"Independent Shareholders"	Shareholders, other than Mr. Or, his family members, the Or Family Trust and their respective associates, who have no material interest in the transactions to be approved at the EGM;

"Independent Third Party"	a third party independent of and not connected with any of the directors, chief executives or substantial shareholders of the Company or its subsidiaries or their respective associates;
"Intellinsight"	Intellinsight Holdings Limited, a company incorporated with limited liability in the British Virgin Islands, a controlling shareholder of the Company and is wholly and beneficially owned by the Or Family Trust;
"KDC"	Kowloon Development Company Limited, a company incorporated with limited liability in Hong Kong with limited liability whose shares are listed on the main board of the Stock Exchange;
"KDC Group"	KDC and its subsidiaries (including the PAH Group unless the context otherwise requires);
"Latest Practicable Date"	19 May 2006, being the latest practicable date for ascertaining certain information in this circular;
"Listing Committee"	has the meaning given to that term in the Listing Rules;
"Listing Rules"	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
"Long-Stop Date"	31 July 2006 (or such later date as the Purchaser and the Vendor may agree in writing);
"Macau"	the Macau Special Administrative Region of the People's Republic of China;
"Mr. Or"	Mr. Or Wai Sheun, the controlling shareholder, the chairman and a director of each of the Company and PAH;
"Or Family Trust"	the discretionary family trusts of which Mr. Or, Ms. Ng Chi Man (Mr. Or's wife and an executive director of the Company), Mr. Or Pui Kwan (son of Mr. Or and Ms. Ng Chi Man and an executive director of the Company) and their family members are beneficiaries, which is interested in 51.9% of the issued share capital of the Company as at the Latest Practicable Date including, where the context admits, predecessor family trusts of the current discretionary family trusts the beneficiaries of which were also Mr. Or and his family members;

"PAH"	Polytec Asset Holdings Limited, a company incorporated with limited liability in the Cayman Islands, the shares of which are listed on the main board of the Stock Exchange;
"PAH Group"	PAH and its subsidiaries;
"PAH Independent Shareholders"	shareholders of PAH other than the Company, Mr. Or, his family members, the Or Family Trust and their respective associates;
"PAH Subscription"	the issue of 2,811,411,970 new shares in PAH pursuant to various subscription agreements (including the Connected PAH Agreement) signed by PAH with certain subscribers as announced in the joint announcement of the Company and PAH dated 8 May 2006;
"PRC" or "China"	the People's Republic of China (for the purposes of this circular, excludes Hong Kong, Macau and Taiwan);
"Projects"	the First Project, the Second Project and the Third Project collectively;
"Purchaser"	Profit Sphere International Limited, a company incorporated in the British Virgin Islands with limited liability, and a wholly-owned subsidiary of PAH;
"Sale and Purchase Agreement"	the agreement dated 8 April 2006 between the Purchaser and the Vendor made in respect of the Acquisition;
"Sale Share"	the entire issued share capital of Target;
"Second Co-Investment Agreement"	the agreement dated 8 April 2006 between Target and the Second Macau Company relating to Target's participation in the Third Project;
"Second Macau Company"	Fok Kiu — Properties Investment Company Limited, a company incorporated in Macau, being the registered owner of the Third Property and an indirect wholly-owned subsidiary of the Vendor;
"Second Project"	the development of the Second Property as described in the paragraphs headed "The Second Project" in this circular;

"Second Property"	a site at Lote V, Novos Aterros da Areia Preta, Macau;
"Share(s)"	ordinary share(s) of par value HK$0.10 each in the share capital of the Company;
"Shareholder(s)"	holder(s) of the Shares;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"Subscription Price"	HK$1.98 per PAH share;
"subsidiary"	has the meaning given to that term in the Listing Rules;
"Target"	New Bedford Properties Limited, a company incorporated in the British Virgin Islands with limited liability and wholly owned by the Vendor;
"Third Project"	the development of the Third Property as described in the paragraphs headed "The Third Project" in this circular;
"Third Property"	a site at Lotes T and T1, Novos Aterros da Areia Preta, Macau;
"Vendor"	Polytec Holdings International Limited, a company incorporated in the British Virgin Islands with limited liability, a controlling shareholder of the Company and is wholly and beneficially owned by the Or Family Trust;
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong;
"MOP"	Macau Pataca, the lawful currency of Macau;
"%"	per cent.; and
"sq. ft."	square feet.

九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 34)

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

Registered Office:
23rd Floor, Pioneer Centre
750 Nathan Road
Kowloon
Hong Kong

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

Independent Non-executive Directors:
Mr. Li Kwok Sing, Aubrey
Mr. Lok Kung Chin, Hardy
Mr. Seto Gin Chung, John

23 May 2006

To the Shareholders

Dear Sir/Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION RELATING TO PROPOSED ACQUISITION OF NEW BEDFORD PROPERTIES LIMITED AND CONNECTED TRANSACTION RELATING TO SUBSCRIPTION FOR NEW SHARES OF POLYTEC ASSET HOLDINGS LIMITED

INTRODUCTION

The Company announced on 10 April 2006, that Profit Sphere International Limited, a wholly-owned subsidiary of PAH, which is a subsidiary of the Company, entered into the Sale and Purchase Agreement with the Vendor for the acquisition of New Bedford Properties Limited.

Further, the Company announced on 9 May 2006 that it has entered into the Connected PAH Agreement with PAH for the subscription of up to 1,598,000,000 shares in PAH at the Subscription Price.

The Independent Board Committee has been formed to advise the Independent Shareholders in relation to the Acquisition and the Connected PAH Agreement. The Independent Financial Adviser has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether the terms and conditions of the Acquisition and the Connected PAH Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and whether the Acquisition and the Connected PAH Agreement is in the interest of the Company and the Shareholders as a whole.

The purpose of this circular is:

(a) to provide you with details on the Acquisition, the Connected PAH Agreement and the transactions contemplated thereunder;

(b) to set out the advice of the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the terms of the Acquisition and the Connected PAH Agreement;

(c) to set out the recommendation of the Independent Board Committee in respect of the terms and conditions of the Acquisition and the Connected PAH Agreement; and

(d) to give you notice of the EGM to consider and if thought fit, to approve the Acquisition and the Connected PAH Agreement.

Your attention is hereby drawn to pages N1 to N3 of this circular where you will find a notice of the Extraordinary General Meeting to be held on 12 June 2006.

THE SALE AND PURCHASE AGREEMENT

Date

8 April 2006

Parties

The purchaser — Profit Sphere International Limited, a company incorporated in the British Virgin Islands with limited liability and wholly owned by PAH, which is a 56.8% subsidiary of the Company. The principal business of the Purchaser is investment holding.

The vendor — Polytec Holdings International Limited is a company incorporated in the British Virgin Islands with limited liability and wholly owned by the Or Family Trust.

Subject Matter

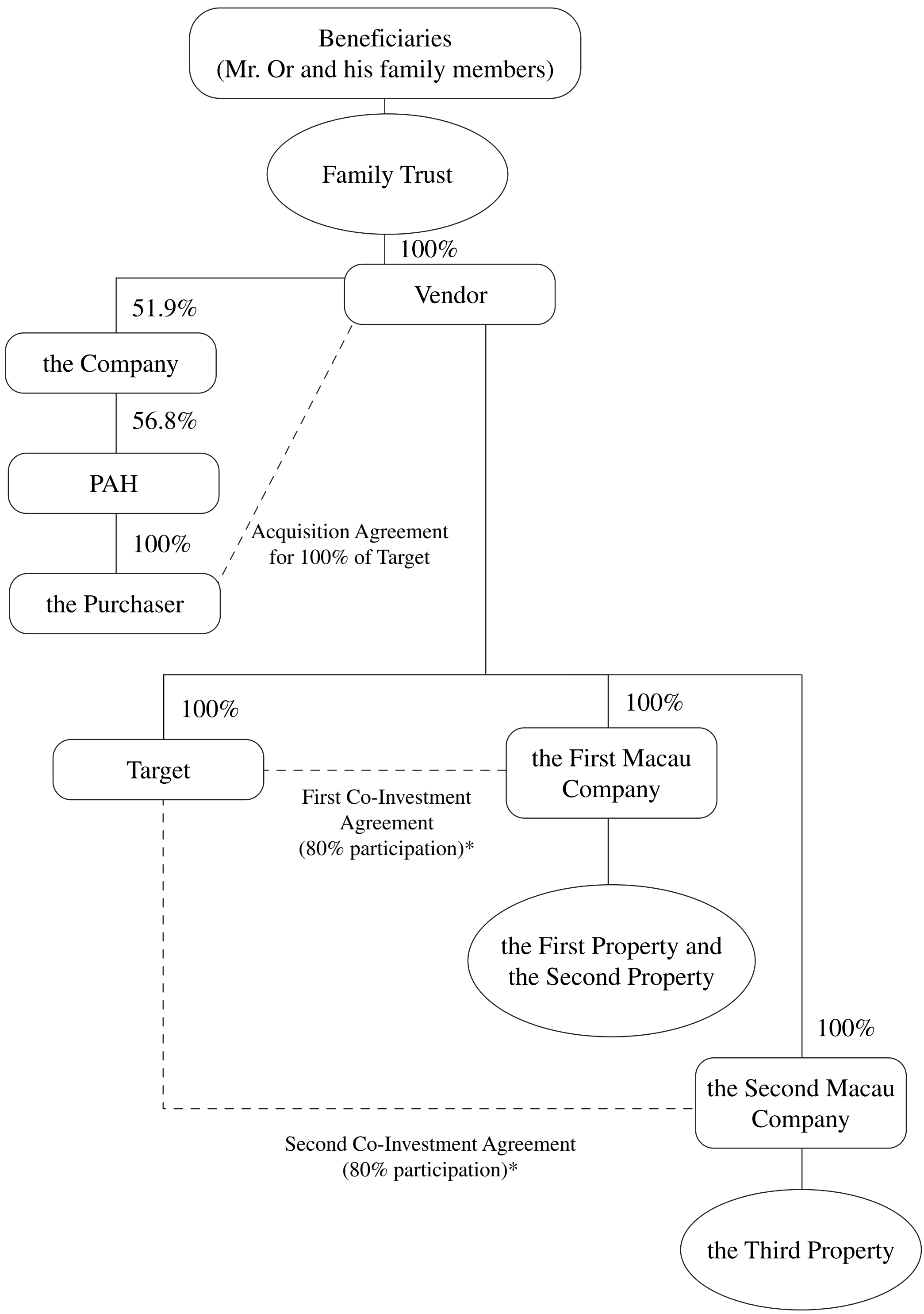
The Sale Share, representing 100% interest in Target.

Target has entered into (1) the First Co-Investment Agreement with the First Macau Company with respect to its investment in and financing of the development of the First Project and the Second Project, and (2) the Second Co-Investment Agreement with the Second Macau Company with respect to its investment in and financing of the development of the Third Project.

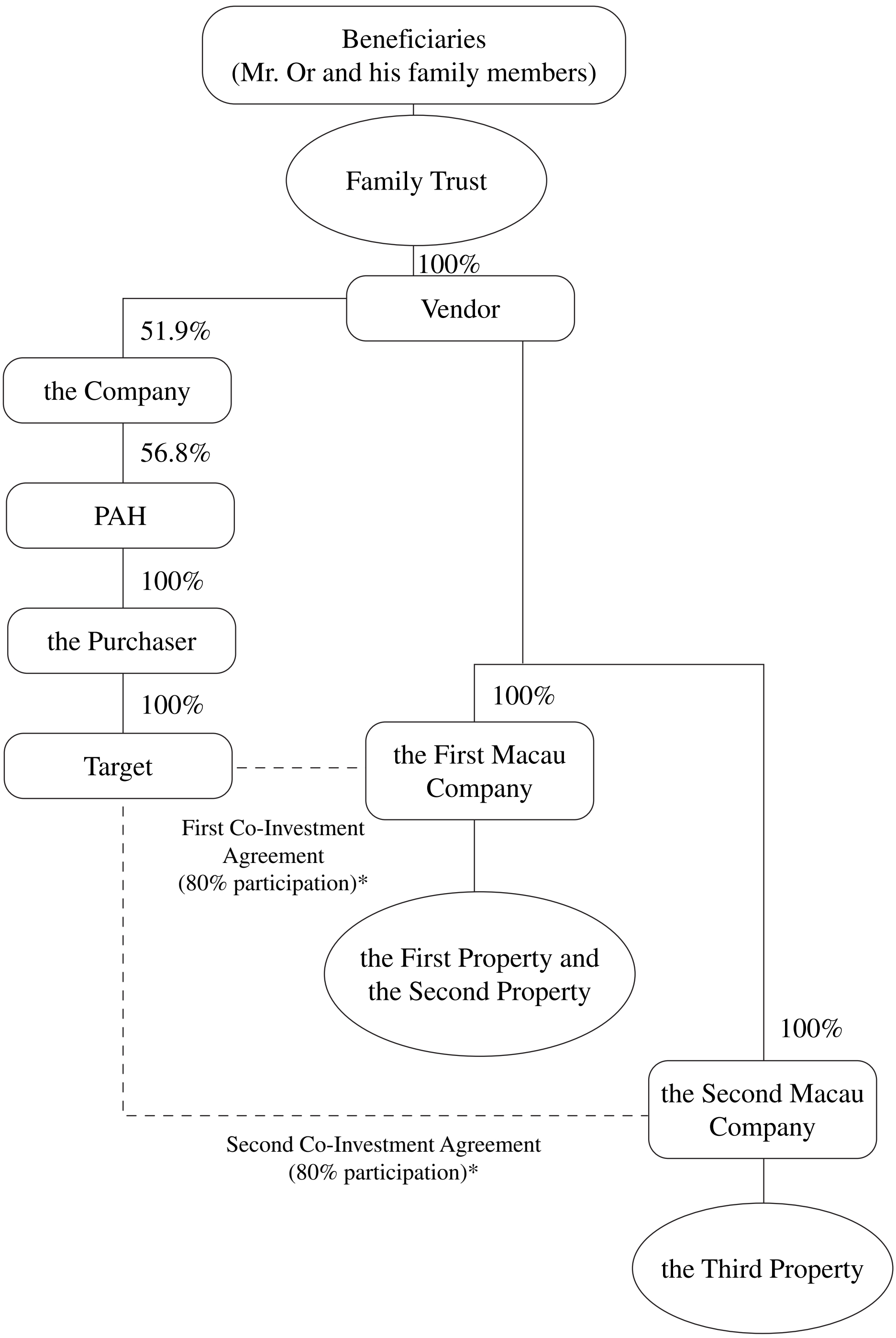
Target will be entitled to receive (1) 80% of the excess of the receipts from the sale of the units in the Projects over the development costs relating to development of the Projects (including tax expenses and interest on loans but excluding land costs) and (2) the Discounted Value. Target will also provide certain loans to the First Macau Company and the Second Macau Company, details of which are set out below under "The First Co-Investment Agreement" and "The Second Co-Investment Agreement".

The following diagrams illustrate the simplified corporate and shareholding structure of the Company and PAH before Completion and of the Company and PAH immediately after Completion:

Before Completion



After Completion



* Target's 80% participation in the development (whether in terms of financing commitment or share of profits or share of losses) pursuant to the First Co-Investment Agreement or the Second Co-Investment Agreement as the case may be is detailed below in the section headed "Information on the Property Development Projects". The remaining 20% participation is attributable to the First Macau Company or the Second Macau Company as the case may be.

Consideration

The consideration for the Acquisition is HK$8,448 million. On the date the Sale and Purchase Agreement was signed, the Purchaser paid a deposit of HK$200 million to the Vendor.

The Cash Consideration was negotiated between the parties on an arm's length basis with reference to (1) the valuation of the First Property of HK$9,000 million, the Second Property of HK$1,800 million and the Third Property of HK$2,400 million as valued by DTZ Debenham Tie Leung Limited, as at 31 March 2006 on an open market basis, (2) Target's entitlement to share the profits derived from the sale of units comprised in the Projects, and (3) the anticipated costs of funding the construction of the Projects.

Target's share of cashflow derived from the Projects will be the aggregate of (1) 80% of the gross sale proceeds less development costs, the Discounted Value (i.e. 64% of the independent valuation by DTZ Debenham Tie Leung Limited) and taxes, (2) the Discounted Value and (3) loans extended by Target with interest accrued thereon. In the event that the gross sale proceeds less development costs and the Discounted Value but before taxes is equal to zero, then Target will be paid only items (2) and (3). In the event that the gross sale proceeds less development costs and the Discounted Value but before taxes is negative, then Target will be paid items (2) and (3) less 80% of such negative figure. The final agreed amount of the Cash Consideration represents a discount of 20% to Target's 80% interest in the Projects (such 80% interest being taken as equal to 80% of the valuation figure contained in the independent valuation report of DTZ Debenham Tie Leung Limited with respect to the Projects). The discount was determined after negotiation between the parties. The Directors consider that such arrangement in share of profit and cashflow is fair and reasonable as the Cash Consideration was negotiated based on the sharing of 80% interest in the Projects.

DTZ Debenham Tie Leung Limited is an independent valuer not connected with any of the directors, chief executive and substantial shareholders of any of the Company, PAH and the Vendor and their respective subsidiaries and associates.

The Directors including its independent non-executive directors consider, on the basis of the valuation by DTZ Debenham Tie Leung Limited and the 20% discount thereto, that the Sale and Purchase Agreement was entered into between the Purchaser and the Vendor on an arm's length basis and on normal commercial terms.

Deferment of payment of the Cash Consideration

The Cash Consideration will be satisfied by cash (1) at Completion or (2) after Completion on any business day before the first anniversary of the date of Completion, at the option of the Purchaser. If the Purchaser elects option (2), it will have a further right to extend the time for payment by 24 months from the first anniversary of the date of Completion by notifying the Vendor not less than 30 business days before the first anniversary of the date of Completion. If the Purchaser elects to pay the Cash Consideration after Completion, interest calculated at

HIBOR plus 0.5% per annum will be charged on the outstanding Cash Consideration due to the Vendor until payment. No security or guarantee is required to be given in respect of the outstanding Cash Consideration.

It is the current intention of the Directors to defer the settlement of the Cash Consideration after date of Completion to a date agreed by the parties to the Sale and Purchase Agreement.

Funding

The Deposit paid to the Vendor on the signing date of the Sale and Purchase Agreement was funded by a HK$200 million shareholder's loan from the Company to PAH. Interest calculated at HIBOR plus 0.5% per annum is payable on this shareholder's loan, which has no fixed term for repayment and is neither secured nor guaranteed.

Approximately HK$5,290 million of the Cash Consideration will be funded by the proceeds from the PAH Subscription. The remaining balance of the Cash Consideration (the payment of which is permitted under the terms of the Sale and Purchase Agreement to be deferred for up to 36 months at the Purchaser's election) and the loans committed to be made by Target to the First Macau Company and the Second Macau Company to fund the development of the Projects under the First Co-Investment Agreement and the Second Co-Investment Agreement made by Target (which are capped at HK$700 million) will be funded by PAH and/or the Company through internal resources and/or bank borrowings and/or shareholder's loans and/or issue of equity securities and/or debt securities and/or convertible securities. If the sale of the Projects is not up to satisfaction, Target will have to share 80% of the loss (if any).

In the event that PAH is unable, within the 36 months, to raise sufficient funds to fund the Purchaser in respect of the payment of the balance of the Cash Consideration, the Purchaser will be entitled to elect under the Sale and Purchase Agreement to further defer the payment of the balance of the Cash Consideration against the Vendor for an unlimited further period until such time the liquidity of the PAH Group permits payment of the balance of the Cash Consideration. Interest calculated at HIBOR plus 0.5% per annum will be charged on the outstanding Cash Consideration due to the Vendor until payment. There is no fixed term for repayment. No security or guarantee is required to be given in respect of the outstanding Cash Consideration.

In the event that PAH is unable at any time from time to time to raise sufficient funds to fund the Purchaser in respect of the making by Target of the loans to the First Macau Company and the Second Macau Company to finance the development of the Projects under the First Co-Investment Agreement and the Second Co-Investment Agreement, then the Purchaser shall be entitled to require the Vendor to provide the relevant loan(s) on behalf of Target to the First Macau Company and/or the Second Macau Company. Interest shall be charged on the principal amounts lent by the Vendor on Target's behalf calculated at HIBOR plus 0.5% per annum, but the indebtedness of Target to the Vendor in respect of such loan(s) will not be secured or guaranteed in favour of the Vendor. Such indebtedness will, on the basis of the interest rate of

HIBOR plus 0.5% per annum, be exempt under Rule 14A.65(4) of the Listing Rules. Should such exemption no longer apply, PAH and the Company will ensure compliance with the relevant provision on the Listing Rule.

Conditions

Completion is subject to the following conditions being either satisfied or waived (in part or in whole (except for (b) and (c)) by the Purchaser in writing:

(a) completion of the due diligence investigation on Target to the satisfaction of the Purchaser;

(b) (1) the passing of the resolution(s) by the Independent Shareholders in general meeting taken on a poll to approve the Sale and Purchase Agreement and the transactions contemplated in the Sale and Purchase Agreement, and the provision of loans to the First Macau Company and the Second Macau Company on the terms as set out in the First Co-Investment Agreement and the Second Co-Investment Agreement;

(2) the passing of the resolution(s) by the PAH Independent Shareholders in general meeting taken on a poll to approve the Sale and Purchase Agreement and the transactions contemplated in the Sale and Purchase Agreement, and the provision of loans to the First Macau Company and the Second Macau Company on the terms as set out in the First Co-Investment Agreement and the Second Co-Investment Agreement;

(c) all necessary consents and approval in respect of the Sale and Purchase Agreement and the transactions contemplated therein required by the Purchaser and/or PAH (as the case may be) being obtained;

(d) the obtaining of a certificate of good standing and certificate of incumbency issued by the registered agent of Target in form and substance satisfactory to the Purchaser dated no earlier than seven days prior to Completion;

(e) the obtaining of a legal opinion on the First Property, the Second Property and the Third Property by a firm of lawyers qualified to advise on Macau law acceptable to the Purchaser in form and substance satisfactory to the Purchaser; and

(f) the warranties set out under the Sale and Purchase Agreement being true, accurate and correct in all respects.

If the conditions specified in the Sale and Purchase Agreement have not been fulfilled or waived by the Purchaser on or before 31 July 2006 or such other date as the Purchaser and the Vendor may agree, the Sale and Purchase Agreement will terminate and the Vendor will return the Deposit with interest calculated at HIBOR plus 0.5% per annum to the Purchaser. No security or guarantee has been taken with respect to such return of the Deposit.

Completion

Completion will take place on the third business day following the satisfaction or waiver of the conditions referred to above (other than (f)). This is expected to take place on or before 15 June 2006. In the event Completion does not take place by 15 June 2006 a further announcement will be made.

REASONS FOR AND BENEFITS OF THE ACQUISITION

The KDC Group is principally engaged in property development and investment, property management, financial services and investments in Hong Kong and Macau as well as local and overseas financial investments.

Macau has experienced strong economic development since 1999, with GDP growing at a average real growth rate of 12.1% between 2000 and 2005.* GDP per capita has risen from approximately MOP125,100 in 2002 to MOP181,900 in 2004,* a compounded increase of more than 20.5% per annum. Macau's strong economic growth in recent years can be attributed to the growth in the gaming, tourism and construction industries. This growth is reflected through the city's double-digit GDP growth rates, low unemployment rates and continued interest in real asset investments, in particular real estate.

Macau is regarded as one of the largest and fastest growing gaming markets in the world and represents the only legalized gaming destination in the People's Republic of China. Residential development sales and rental markets have remained optimistic in recent months as the construction of new casinos, hotels and entertainment complexes have spurred the arrival of tourists and new immigrants and materially increased the purchasing power of local residents. Due to the sustained economic growth in the city and the continued inflow of foreign direct investment, the demand for quality accommodation, and in particular, brand-new units in large-scale housing estates equipped with a full range of facilities, has been buoyant.* In addition, as world-class casinos are completed over the next few years, senior staff posted in Macau and visitors on extended vacation will demand premium residential units as their second home. Given the strong fundamentals of the Macau economy and its positive outlook, the Directors believe that the residential housing market provides an attractive property development opportunity for the Company through PAH.

* *Direcção de Serviços de Estatistica e Censos (DSEC)*

The Acquisition represents an attractive opportunity for the Company to consolidate its strong position and further capitalise on the growth potential of the Macau property market. The Directors believe that the Acquisition offers the Company through PAH a good opportunity to participate in the Projects and that the Acquisition will further consolidate the Company's overall market position through PAH.

The development plans for the Acquisition are intended for the construction of high-end residential units, including retail, recreational and car parking facilities. The Acquisition will allow the Company through PAH to become one of the leading property development and investment companies in Macau. After Completion, the Company through PAH will have property trading, development and investment projects in Macau comprising more than 13 million sq. ft. GFA of residential and commercial properties and approximately 6,100 car parking spaces as compared to the current 2.5 million sq. ft. GFA of residential, retail and commercial properties and approximately 1,500 car parking spaces. On the back of robust and accelerating economic and population growth, household formation rate, and the launch of new casinos and the proposed Hong Kong-Zhuhai-Macau bridge, it is expected that the Macau property market will continue to grow at a fast pace. The Directors believe that these factors provide compelling reasons to further invest in property development in Macau.

FINANCIAL EFFECTS OF THE ACQUISITION

The Company funded the HK$200 million shareholder's loan to PAH for the payment of the Deposit by drawing on its unutilized bank facilities, the available amount of which was greater than HK$200 million. The HK$200 million shareholder's loan will be repaid subsequently by PAH out of the proceeds from the PAH Subscription. There is no effect on the gearing of KDC Group. The Cash Consideration paid for the Acquisition of the Target will be taken up in the balance sheet of the Purchaser as "Interest in subsidiaries". Upon consolidation, KDC Group's interest in the First Co-Investment Agreement and the Second Co-Investment Agreement will be treated as "Interest in Property Development". In accordance with Hong Kong Accounting Standard 39 (Financial Instruments: Recognition and Measurement), the interest in property development will be classified as available-for-sale financial assets and carried at fair value. Changes in fair value of the interest in property development will be recognized in the fair value reserve. The "available-for-sale financial assets" will be recorded as non-current assets of KDC Group. The auditors of the Company have confirmed the above accounting treatment.

INFORMATION ON TARGET

Target is a company with limited liability incorporated in the British Virgin Islands on 9 March 2006 and is wholly-owned by the Vendor. It is principally engaged in the investment in and financing of the Projects in Macau. Based on the Accountants' Report on Target as set out in Appendix II, Target had a net asset value of HK$7.80 as at 31 March 2006 and recorded no profit or loss for the period since its incorporation up to 31 March 2006.

Target does not own any assets apart from its rights and interests under the First Co-Investment Agreement and the Second Co-Investment Agreement. Target has entered into (1) the First Co-Investment Agreement with the First Macau Company with respect to its investment in and financing of the development of the First Project and the Second Project, and (2) the Second Co-Investment Agreement with the Second Macau Company with respect to its investment in and financing of the development of the Third Project.

The First Macau Company acquired the First Property and the Second Property from the Macau Government under a concession agreement in December 1990 and the Second Macau Company acquired the Third Property from the Macau Government under a concession agreement in June 1996.

Information on The Property Development Projects

The Directors believe that the Projects share the following characteristics that are compelling to potential investors:

- Large land site — The Directors believe that the Projects will occupy one of the largest sites on the Macau Peninsula available for large-scale high-end residential development. Such large-scale residential development is rare in the Macau Peninsula and will accelerate the creation of a residential cluster in this area of the Macau Peninsula and is expected to generate business for nearby commercial developments. While there are a number of competing residential and commercial projects in Macau, the Directors do not believe that they provide the scale, location, amenities and convenience of the contemplated Projects.

- Premium location — The Projects are situated along the northeastern coastline of the Macau Peninsula and benefit from a panoramic sea view, which the Directors believe is attractive to residents. The Projects are also located further away from the casino district, creating an ideal living environment for residents. Existing residential areas nearby provide additional social infrastructure and complementary support. The Directors believe that, upon completion of the Projects, this will contribute to the creation of a vibrant residential community on the Macau Peninsula.

- Proximity to public transportation hubs — The Projects are conveniently located approximately 5 minutes drive from the Macau Ferry Terminal and approximately 10 minutes drive from Macau's central business district. The Projects are also located near the Zhuhai border. Furthermore, the Directors believe that the currently intended landing point of the planned development of the Hong Kong-Zhuhai-Macau Bridge will be situated in very close proximity to the location of the Projects. The Directors believe that the transportation infrastructure will increase the attractiveness of the Projects for potential residents in the future.

The Directors also believe that the Projects will provide the Company with a number of strategic and operational benefits, including:

- Completion of earlier phases of a multi-phase development often enhances the desirability of future phases or properties in the surrounding area, as it (1) demonstrates that the developer's concept is appealing to the market and provides the developer with an opportunity to enhance the concept in the following phases, (2) creates a critical mass for various community facilities to create a mature residential area in Macau, and (3) enhances purchasers' confidence in the ability of the developer to complete the development and to maintain the quality of development. Together this will enhance the value of the Projects and reduce the Company's development risk;

- Mobilisation of construction for a subsequent phase of an existing site can also be accomplished more quickly and economically than relocating all plant, equipment, sales offices and show flats to a new site; and

- Large-scale or multi-phase development also often brings cost efficiencies and enables the developer to optimise the use of personal resources, plant and equipment and reduce marketing costs. It also enhances the developer's bargaining power with suppliers particularly in terms of procurement of materials and in negotiating construction/design contracts.

The First Project

The First Property, being the subject of the First Project, is situated at Lote P, Novos Aterros da Areia Preta, Macau, a prime residential area in Macau. It comprises a plot with a site area of approximately 731,963 sq. ft.. The First Project involves the development of various multi-storey high-end residential blocks with retail, recreational and car parking spaces. The total GFA for residential and retail use of the First Property is expected to be approximately 6,326,326 sq. ft. and 1,076,400 sq. ft., respectively, with approximately 3,300 car parking spaces.

As at the Latest Practicable Date the First Property is occupied by six blocks of single to 3-storey industrial buildings with a total GFA of 360,631 sq. ft., and these structures will be demolished before construction of phase 1 of the First Project starts. The First Project will be developed in three phases. Construction of phase 1 is expected to commence in the second half of 2007 and be completed in 2010. Construction of phases 2 and 3 is expected to commence in 2008, with phase 2 being completed in 2011 and phase 3 in 2012.

Development costs for the First Project are estimated to be approximately HK$4,442 million based on the latest development cost incurred in recently completed projects in Macau and will be funded using the loans made under the First Co-Investment Agreement, bank loans and the proceeds from sales and pre-sales of units. As at 31 March 2006, the First Property was valued at HK$9,000 million based on the valuation report prepared by DTZ Debenham Tie Leung Limited (not taking into account remaining land premium of HK$546 million which is to be funded by the Vendor). The valuation was made on the basis that all the land premium had already been paid. If the unpaid premium had been taken into account the unpaid portion would have to be deducted.

The Second Project

The Second Property, being the subject of the Second Project, is situated at Lote V, Novos Aterros da Areia Preta, Macau, a prime residential area in Macau. It comprises a plot with a site area of approximately 147,456 sq. ft.. The Second Project involves the development of various multi-storey high-end residential blocks with retail, recreational and car parking spaces. The total GFA for residential use and retail use of the Second Property is expected to be approximately 1,306,825 sq. ft. and 53,680 sq. ft., respectively with approximately 500 car parking spaces.

As at the Latest Practicable Date the Second Property is a bare site with a single storey temporary sales office. Construction of the Second Project is expected to commence in the second half of 2006 and be completed in 2009.

Development costs for the Second Project are estimated to be approximately HK$816 million based on the latest development cost incurred in recently completed projects in Macau and will be funded using the loans made under the First Co-Investment Agreement, bank loans and the proceeds from sales and pre-sales of units. As at 31 March 2006, the Second Property was valued at HK$1,800 million based on the valuation report prepared by DTZ Debenham Tie Leung Limited (not taking into account remaining land premium of HK$95 million which is to be funded by the Vendor). The valuation was made on the basis that all the land premium had already been paid. If the unpaid premium had been taken into account the unpaid portion would have to be deducted.

The Third Project

The Third Property, being the subject of the Third Project, is situated at Lotes T and T1, Novos Aterros da Areia Preta, Macau, a prime residential area in Macau. It comprises a plot with a site area of approximately 193,418 sq. ft.. The Third Project involves the development of various multi-storey high-end residential blocks with retail, recreational and car parking spaces. The total GFA for residential use and retail use of the Third Property is expected to be approximately 1,672,339 sq. ft. and 95,401 sq. ft., respectively, with approximately 800 car parking spaces.

As at the Latest Practicable Date, the Third Property is a bare site. Construction of the Third Project is expected to commence in the first half of 2007 and be completed in 2010.

Development costs for the Third Project are estimated to be approximately HK$1,061 million based on the latest development cost incurred in recently completed projects in Macau and will be funded using the loans made under the Second Co-Investment Agreement, bank loans and the proceeds from sales and pre-sales of units. As at 31 March 2006, the Third Property was valued at HK$2,400 million based on the valuation report prepared by DTZ Debenham Tie Leung Limited. All land premium for the Third Property has already been paid.

The First Co-Investment Agreement

It is intended that all the units of the First Project and the Second Project will be sold on the market. It is expected that pre-sales of units will begin upon commencement of construction of foundation works. Construction of foundation works for phase 1 of the First Project is expected to commence in the second half of 2007. Construction of foundation works for the Second Project is expected to commence in the second half of 2006.

Under the terms of the First Co-Investment Agreement:

(a) Target will be given access to:

  (1) the accounts prepared with respect to the receipts and expenses relating to the First Project and the Second Project; and

  (2) the First Property and the Second Property to inspect and view the state and progress of the First Project and the Second Project;

(b) Target and the First Macau Company will provide funding in the ratio of 80% and 20% to cover any shortfall in the funding for the First Project and the Second Project to the extent that the receipts derived from the First Project and the Second Project do not cover the expenses of the First Project and the Second Project (excluding land costs which will be borne by the First Macau Company exclusively);

(c) The 80% funding provided by Target will take the form of loans extended to the First Macau Company from time to time up to a maximum amount of HK$500 million calculated at HIBOR plus 0.5% per annum payable monthly to be applied to the payment of the expenditure incurred by the First Macau Company in connection with the First Project and the Second Project in the manner as set out in (b) above. Such loans will have no fixed term for repayment and will not be secured or guaranteed and are expected to provide principal funding for the First Project and the Second Project in their initial stages before pre-sale proceeds are significant;

(d) Once the maximum principal amount of HK$500 million has been drawn, any additional funding required for the First Project and the Second Project will be funded by the First Macau Company itself;

(e) In addition to the repayment of the loans with interest by the First Macau Company, Target will be entitled to receive (i) 80% of the excess of the gross sale proceeds from the sale of the units in the First Project and the Second Project over the development expenses of the First Project and the Second Project (including tax expenses and interest on loans but excluding land costs) and (ii) the Discounted Value in respect of the First Property and the Second Property; and

(f) In the event that the receipts fall short of the development expenses and the Discounted Value (but before taxes), Target will bear 80% of the shortfall.

The ratio of 80% and 20% was determined with reference to (1) the respective roles of the First Macau Company as the developer in the First Property and the Second Property, and registered owner of the First Property and the Second Property and Target as the investor to provide financing to the First Macau Company in the development the First Property and the Second Property; (2) the associated risk of Target as an unsecured creditor of the First Macau Company under the First Co-Investment Agreement; (3) the respective monetary commitments of Target and the First Macau Company for the development of the First Property and the Second Property; and (4) the associated potential benefits from the First Project and the Second Project.

The KDC Group (including the PAH Group) will not be involved in quality control, marketing or sales, and will not be involved in cost control except indirectly through approval of the design and business plan as per the provisions of the First Co-Investment Agreement. However, the KDC Group (including the PAH Group) will exercise financial control over the First Project and the Second Project through joint control of the bank account into which all sale proceeds are required to be deposited and approval of the sale price of the units. The KDC Group (including the PAH Group) will also monitor progress of the development and protect its interest in the development by (1) inspecting documentary evidence of all receipts and expenditures which the First Macau Company has undertaken to collate on a monthly basis; (2) reviewing the monthly work progress report which the First Macau Company has agreed to provide containing (among other things) a breakdown of the costs and expenses incurred by the First Macau Company in connection with works to date; (3) reviewing the monthly sales status reports to be provided by the First Macau Company; (4) reviewing the quarterly accounts with respect to receipts and expenditures which the First Macau Company has undertaken to prepare and furnish on an ongoing basis; (5) requesting information on a regular basis from the First Macau Company in accordance with its undertaking to keep Target informed on a timely and regular basis of the progress of the development and sales; (6) attending project or site meetings where appropriate; (7) reviewing the monthly management, the half-year and the full year audited accounts of the First Macau Company which the First Macau Company has agreed to provide; (8) through review of such financials ensuring compliance by the First Macau Company of its financial covenants under the First Co-Investment Agreement including incurrence of non-development indebtedness, extension of loans or giving of guarantees; and (9) reviewing the final audited accounts with respect to receipts and expenditures to be produced after completion of the development.

The Vendor is party to the First Co-Investment Agreement as guarantor for the First Macau Company and in the event that the First Macau Company fails to perform its obligations under the First Co-Investment Agreement, the Vendor will be required to perform them instead, and to indemnity the Purchaser in respect of any loss suffered. The principal obligation of the First Macau Company is to complete the development on the First Property and the Second

Property in accordance with all plans, consents, laws and regulations, and applicable restrictions, covenants and encumbrances and in particular with the minimum GFA stated above, and as soon as practicable to commence pre-sales of units. Apart from the covenants relating to information and accounts mentioned above, the First Macau Company also has obligations to ensure that it does not incur non-development related indebtedness, extend loans or guarantees to third parties, declare dividends, make any acquisitions or change its business. The maximum liability of Target with respect to the 80% financing of the First Project and the Second Project is HK$500 million as stated above, and the corresponding 20% of HK$125 million and every other necessary financial expenditure above the sum of such HK$500 million and HK$125 million that may be required for the completion of the First Project and Second Project is for the account of the First Macau Company.

The Second Co-Investment Agreement

It is intended that all the units of the Third Project will be sold on the market. It is expected that pre-sales will begin upon commencement of construction of foundation works. Construction of foundation works for the Third Project is expected to commence in the first half of 2007.

Under the terms of the Second Co-Investment Agreement:

(a) Target will be given access to:

  (1) the accounts prepared with respect to the receipts and expenses relating to the Third Project; and

  (2) the Third Property to inspect and view the state and progress of the Third Project;

(b) Target and the Second Macau Company will provide funding in the ratio of 80% and 20% to cover any shortfall in the funding for the Third Project to the extent that the receipts derived from the Third Project do not cover the expenses of the Third Project (excluding land costs which will be borne by the Second Macau Company exclusively);

(c) The 80% funding provided by Target will take the form of loans extended to the Second Macau Company from time to time up to a maximum amount of HK$200 million calculated at HIBOR plus 0.5% per annum payable monthly to be applied to the payment of the expenditure incurred by the Second Macau Company in connection with the Third Project in the manner as set out in (b) above. Such loans will have no fixed term for repayment and will not be secured or guaranteed and are expected to provide principal funding for the Third Project in its initial stages before pre-sale proceeds are significant;

(d) Once the maximum principal amount of HK$200 million has been drawn, any additional funding required for the Third Project will be funded by the Second Macau Company itself;

(e) In addition to the repayment of the loans with interest by the Second Macau Company, Target will be entitled to receive (i) 80% of the excess of the gross sale proceeds from the sale of the units in the Third Project over the development expenses of the Third Project (including tax expenses and interest on loans but excluding land costs) and (ii) the Discounted Value in respect of the Third Property; and

(f) In the event that the receipts fall short of the development expenses and the Discounted Value (but before taxes), Target will bear 80% of the shortfall.

The ratio of 80% and 20% was determined with reference to (1) the respective roles of the Second Macau Company as the developer of the Third Property and registered owner of the Third Property, and Target as the investor to provide financing to the Second Macau Company in the development the Third Property; (2) the associated risk of Target as an unsecured creditor of the Second Macau Company under the Second Co-Investment Agreement; (3) the respective monetary commitments of Target and the Second Macau Company for the Third Project; and (4) the associated potential benefits from the Third Project.

The KDC Group (including the PAH Group) will not be involved in quality control, marketing or sales, and will not be involved in cost control except indirectly through approval of the design and business plan as per the provisions of the Second Co-Investment Agreement. However, the KDC Group (including the PAH Group) will exercise financial control over the Third Project through joint control of the bank account into which all sale proceeds are required to be deposited and approval of the sale price of the units. The KDC Group (including the PAH Group) will also monitor progress of the development and protect its interest in the development by (1) inspecting documentary evidence of all receipts and expenditures which the Second Macau Company has undertaken to collate on a monthly basis; (2) reviewing the monthly work progress report which the Second Macau Company has agreed to provide containing (among other things) a breakdown of the costs and expenses incurred by the Second Macau Company in connection with works to date; (3) reviewing the monthly sales status reports to be provided by the Second Macau Company; (4) reviewing the quarterly accounts with respect to receipts and expenditures which the Second Macau Company has undertaken to prepare and furnish on an ongoing basis; (5) requesting information on a regular basis from the Second Macau Company in accordance with its undertaking to keep Target informed on a timely and regular basis of the progress of the development and sales; (6) attending project or site meetings where appropriate; (7) reviewing the monthly management, the half-year and the full year audited accounts of the Second Macau Company which the Second Macau Company has agreed to provide; (8) through review of such financials ensuring compliance by the Second Macau Company of its financial covenants under the Second Co-Investment Agreement including incurrence of non-development indebtedness, extension of loans or giving of guarantees; and (9) reviewing the final audited accounts with respect to receipts and expenditures to be produced after completion of the development.

The Vendor is party to the Second Co-Investment Agreement as guarantor for the Second Macau Company and in the event that the Second Macau Company fails to perform its obligations under the Second Co-Investment Agreement the Vendor will be required to perform them instead, and to indemnify the Purchaser in respect of any loss suffered. The principal obligation of the Second Macau Company is to complete the development on the Third Property in accordance with all plans, consents, laws and regulations, and applicable restrictions, covenants and encumbrances and in particular with the minimum GFA stated above, and as soon as practicable to commence pre-sales of units. Apart from the covenants relating to information and accounts mentioned above, the Second Macau Company also has obligations to ensure that it does not incur non-development related indebtedness, extend loans or guarantees to third parties, declare dividends, make any acquisitions or change its business. The maximum liability of Target with respect to the 80% financing of the Third Project is HK$200 million as stated above, and the corresponding 20% of HK$50 million and every other necessary financial expenditure above the sum of such HK$200 million and HK$50 million that may be required for the completion of the Third Project is for the account of the Second Macau Company.

RELATIONSHIP BETWEEN THE VENDOR, THE COMPANY AND PAH

The Vendor is a controlling shareholder of KDC. The Vendor is ultimately and wholly owned by a discretionary family trust, of which Mr. Or, Ms. Ng Chi Man (Mr. Or's wife and an executive director of the Company), Mr. Or Pui Kwan (son of Mr. Or and Ms. Ng Chi Man and an executive director of the Company) and their family members are beneficiaries. Each of the First Macau Company and the Second Macau Company is a wholly-owned subsidiary of the Vendor.

The First Macau Company was already wholly-owned by Mr. Or and his family members at the time it acquired the First Property and the Second Property from the Macau Government in December 1990. Since 1994, the Vendor has been wholly owned by the Or Family Trust and the First Macau Company has been wholly owned by the Vendor.

The Second Macau Company acquired the Third Property from the Macau Government in June 1996 and the Vendor acquired the Second Macau Company through a series of acquisitions over 2004 to 2005 from the 4 previous capital holders of the Second Macau Company. One of the 4 previous capital holders of the Second Macau Company is controlled by a controlling shareholder of a substantial shareholder of a non-wholly owned subsidiary of PAH. The other 3 previous capital holders are third parties unrelated to the KDC Group, the PAH Group or their respective connected persons. The total costs that the Vendor has incurred in connection with the Third Property is approximately HK$825 million.

As at the Latest Practicable Date, the Or Family Trust is interested in approximately 51.9% of the issued share capital of the Company through the Vendor and the Company holds approximately 56.8% of the issued share capital of PAH. The Or Family Trust first acquired control of the Company in December 2001 when it purchased approximately 51.5% of the issued share capital of the Company followed by a mandatory unconditional cash offer for the remaining shares and share options of the Company in January 2002. Mr. Or became the single largest shareholder of PAH in August 2000 and acquired control of PAH (approximately 56.1%) in September 2001. He injected his interests in PAH into the Company in November 2005, from which time PAH has been a subsidiary of the Company.

THE CONNECTED PAH AGREEMENT

Date

5 May 2006

Parties

Issuer	—	PAH
Subscriber	—	the Company

Subject Matter

The issue by PAH and the subscription by the Company or its wholly-owned subsidiary of up to 1,598,000,000 new shares in PAH at the Subscription Price, representing 39.5% of the issued share capital of PAH as enlarged by the PAH Subscription. In the event that any of the other PAH Agreements does not proceed to completion, PAH will reduce the number of shares to be issued such that upon completion of the PAH Subscription, the Company will maintain the same shareholding of 56.8% in PAH.

Subscription Price

The 1,598,000,000 new shares in PAH is to be subscribed by the Company at HK$1.98 per Share.

The Subscription Price represents:

(a) a discount of approximately 11.01% to the last trading price of the PAH shares of HK$2.225 as at 27 April 2006 (being the trading date before the date of the joint announcement of the Company and PAH dated 8 May 2006);

(b) a discount of about approximately 14.47% to the average last trading price of the PAH shares of approximately HK$2.315 for the 10 trading days up to and including 27 April 2006 (being the trading date before the date of the joint announcement of the Company and PAH dated 8 May 2006);

(c) a discount of approximately 13.91% to the last trading price of the PAH shares of HK$2.30 as at the Latest Practicable Date; and

(d) a discount of approximately 15.74% to the average last trading price of the PAH shares of HK$2.35 for the 10 trading days up to and including the Latest Practicable Date.

The Subscription Price has been determined after arm's length negotiation between PAH and the subscribers of the PAH Subscription with reference to the traded price of PAH shares and the discount rate applicable to transactions of similar nature. The Directors consider the Subscription Price of the Connected PAH Agreement to be appropriate, fair and reasonable.

Conditions of the Connected PAH Agreement

The Connected PAH Agreement is conditional upon, among others, the following:

(a) the listing of and permission to deal in the new shares in PAH which are the subject matter of the Connected PAH Agreement being granted by the Listing Committee of the Stock Exchange;

(b) the Sale and Purchase Agreement becoming unconditional;

(c) the passing by the independent shareholders of PAH at an extraordinary general meeting of a resolution approving the Connected PAH Agreement as required by the Listing Rules; and

(d) the passing by the Independent Shareholders at an extraordinary general meeting of a resolution approving the Connected PAH Agreement as required by the Listing Rules.

REASONS FOR THE CONNECTED PAH AGREEMENT

The Directors consider that the subscription under the Connected PAH Agreement will enable the Company to maintain its shareholding in PAH upon completion of the PAH Subscription and the Company will fund the Connected PAH Agreement as to approximately HK$970 million by way of share issue as announced in the joint announcement of the Company and PAH dated 8 May 2006 and as to the balance by way of shareholder's loan from Intellinsight, which will carry interest at the rate of HIBOR plus 0.5% per annum. The provision of the loan from Intellinsight will 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 KDC will be granted in respect of such loan.

GENERAL

The Company and its subsidiaries are principally engaged in property development and investment, property management, financial services, investment in Hong Kong and Macau as well as local and overseas financial investments.

The Acquisition constitutes a very substantial acquisition and connected transaction for the Company and a very substantial acquisition and connected transaction for PAH under the Listing Rules. The provision by Target of loans to the First Macau Company under the First Co-Investment Agreement and to the Second Macau Company under the Second Co-Investment Agreement after Completion amounts to the granting of financial assistance to connected persons by the Company and also by PAH under the Listing Rules and the transactions contempleted under the First Co-Investment Agreement and the Second Co-Investment Agreement, including such financial assistance, will be connected transactions for the Company and PAH respectively.

The Acquisition and the provision by Target of loans to the First Macau Company under the First Co-Investment Agreement and to the Second Macau Company under the Second Co-Investment Agreement after Completion require approval of the Independent Shareholders and the PAH Independent Shareholders. The financial assistance to be provided to the First Macau Company and the Second Macau Company will not be in the ordinary and usual course of business for the purpose of Rule 14A.10(9).

Mr. Or is both a director and controlling shareholder of the Company and hence a connected person of the Company. Mr. Or is also a director of PAH and hence a connected person of PAH. The Connected PAH Agreement constitutes a connected transaction for the Company under the Listing Rules as the subscription money would be applied for settlement of part of the consideration for the Acquisition which constitutes a connected transaction for the Company.

The Directors are of the opinion that the Connected PAH Agreement is fair and reasonable and in the interest of the Company and its shareholders as a whole.

The Independent Board Committee has been formed to advise the Independent Shareholders in relation to the Acquisition and the Connected PAH Agreement. The Independent Financial Adviser has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders as to whether or not the terms and conditions of the Acquisition and the Connected PAH Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and whether the Acquisition and the Connected PAH Agreement is in the interest of the Company and the Shareholders as a whole.

Completion of the Acquisition and the Connected PAH Agreement is subject to conditions, which may or may not be fulfilled. Shareholders and potential investors should exercise caution when dealing in the securities of the Company.

Appendix I to this circular sets out the valuation report on the properties in which members of the KDC Group, the First Macau Company and the Second Macau Company have interests.

The Valuation on the properties located in Macau is based on the existing state of such properties, that is, properties under construction but assuming all premium (if any) has been fully paid instead of the values after completion of the development.

EXTRAORDINARY GENERAL MEETING

A notice convening the EGM to be held at Crystal Ballroom, Basement 3, Holiday Inn Golden Mile Hong Kong, 50 Nathan Road, Kowloon, Hong Kong, on Monday, 12 June 2006 at 2:00 p.m. or any adjournment thereof is set out on pages N1 to N3 of this circular for the purpose of considering and, if thought fit, passing, among others, the resolutions in respect of the Acquisition and the Connected PAH Agreement. The results of voting at the EGM will be announced by the Company following the conclusion thereof.

A form of proxy for use by the Shareholders at the EGM is enclosed. Whether or not you are able to attend the meeting in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon to the Company's share registrar, Computershare Hong Kong Investor Services Limited on 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event, not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish. In such event, the form of proxy shall be deemed to be revoked.

The votes of the Shareholders to be taken at the EGM will be by a poll in which Mr. Or, his family members, the Or Family Trust and their respective associates will abstain from voting.

RECOMMENDATIONS

Your attention is drawn to the letter of advice from the Independent Board Committee and the letter from the Independent Financial Adviser containing its recommendations to the Independent Board Committee and the Independent Shareholders in relation to the terms of the Acquisition and the Connected PAH Agreement set out on pages 29 to 30 and pages 31 to 70 of this circular, respectively. Your attention is also drawn to the additional information set out in the appendices to this circular and the Notice of EGM.

The Directors including its independent non-executive directors are of the opinion that the Acquisition (including the commitments of Target under the First Co-Investment Agreement and the Second Co-Investment Agreement) and the terms and conditions of the Sale and Purchase Agreement and the First Co-Investment Agreement and the Second Co-Investment Agreement and the Connected PAH Agreement are fair and reasonable and in the interest of the Company and the Shareholders as a whole.

The Directors recommend the Shareholders to vote in favour of the resolutions to be proposed at the EGM for approving the Acquisition and the provision by Target of loans to the First Macau Company under the First Co-Investment Agreement and to the Second Macau Company under the Second Co-Investment Agreement and the Connected PAH Agreement.

By Order of the Board
Kowloon Development Company Limited
Or Wai Sheun
Chairman

九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED
(Incorporated in Hong Kong with limited liability)
(Stock Code: 34)

23 May 2006

To the Independent Shareholders

Dear Sir/Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION RELATING TO PROPOSED ACQUISITION OF NEW BEDFORD PROPERTIES LIMITED AND CONNECTED TRANSACTION RELATING TO SUBSCRIPTION FOR NEW SHARES OF POLYTEC ASSET HOLDINGS LIMITED

INTRODUCTION

We refer to the circular dated 23 May 2006 of the Company of which this letter forms part. Terms defined in the circular shall have the same meaning herein unless the context otherwise requires.

We have been appointed to form the Independent Board Committee to consider and to advise the Independent Shareholders as to whether, in our opinion, the terms and conditions of the Acquisition (including the provision of financial assistance under the First Co-Investment Agreement and the Second Co-Investment Agreement) and the Connected PAH Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and of the Shareholders as a whole. The Independent Financial Adviser has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the terms and conditions of the Acquisition (including the provision of financial assistance under the First Co-Investment Agreement and the Second Co-Investment Agreement) and the Connected PAH Agreement.

We wish to draw your attention to the "Letter from the Board" set out on pages 6 to 28 of the circular which contains, inter alia, information relating to the Acquisition (including the provision of financial assistance under the First Co-Investment Agreement and the Second Co-Investment Agreement) and the Connected PAH Agreement, as well as the letter from the Independent Financial Adviser set out on pages 31 to 70 of the circular which contains its advice in respect of the terms and conditions of the Acquisition (including the provision of financial assistance under the First Co-Investment Agreement and the Second Co-Investment Agreement) and the Connected PAH Agreement.

RECOMMENDATION

Having taking into account the advice of the Independent Financial Adviser, including the factors and reasons considered by them as set out in their letter, we consider that the terms and conditions of the Acquisition (including the provision of financial assistance under the First Co-Investment Agreement and the Second Co-Investment Agreement) and the Connected PAH Agreement are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and of the Shareholders as a whole. Accordingly, we recommend the Independent Shareholders vote in favour of the ordinary resolutions to be proposed at the EGM to approve the Acquisition (including the provision of financial assistance under the First Co-Investment Agreement and the Second Co-Investment Agreement) and the Connected PAH Agreement.

Yours faithfully,
Independent Board Committee
Li Kwok Sing, Aubrey **Lok Kung Chin, Hardy** **Seto Gin Chung, John**
Independent Non-executive Directors

The following is the full text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Access Capital prepared for incorporation in this circular.

ACCESS
CAPITAL

Suite 606
6th Floor
Bank of America Tower
12 Harcourt Road
Central
Hong Kong

23 May 2006

To: The Independent Board Committee and the Independent Shareholders of Kowloon Development Company Limited

Dear Sir or Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION IN RELATION TO THE PROPOSED ACQUISITION OF NEW BEDFORD PROPERTIES LIMITED & CONNECTED TRANSACTION IN RELATION TO SUBSCRIPTION OF NEW SHARES OF POLYTEC ASSET HOLDINGS LIMITED

1. INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders with regard to the terms of (i) the Acquisition contemplated under the Sale and Purchase Agreement including the provision of loans by Target to the First Macau Company under the First Co-Investment Agreement and to the Second Macau Company under the Second Co-Investment Agreement; and (ii) the Connected PAH Agreement. Details of (i) the Acquisition; (ii) the First Co-Investment Agreement and the Second Co-Investment Agreement; and (iii) the Connected PAH Agreement are contained in the "Letter from the Board" of the circular to the Shareholders dated 23 May 2006 (the "Circular") of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular, unless the context otherwise specifies.

The Acquisition constitutes a very substantial acquisition and connected transaction for the Company. The provision of loans by Target to the First Macau Company under the First Co-Investment Agreement and to the Second Macau Company under the Second Co-Investment Agreement after Completion constitutes connected transactions for the Company under the Listing Rules. The Connected PAH Agreement also constitutes a connected transaction for the Company. As the subscription money would be applied for settlement of part of the consideration for the Acquisition, completion of the Connected PAH Agreement would be conditional upon, inter alia, the Acquisition as contemplated under the Sale and Purchase Agreement becoming unconditional.

As stated in the "Letter from the Board", (i) the Acquisition including the provision of loans by Target to the First Macau Company under the First Co-Investment Agreement and to the Second Macau Company under the Second Co-Investment Agreement; and (ii) the Connected PAH Agreement are subject to the approval of the Independent Shareholders at the EGM. Voting on (i) the Acquisition including the provision of financial assistance; and (ii) the Connected PAH Agreement will be conducted by way of poll.

Mr. Or, his family members, the Or family trust and their associates are required to abstain from voting on the resolutions to be proposed at the EGM to approve (i) the Acquisition (including the provision of financial assistance) and (ii) the Connected PAH Agreement.

2. THE INDEPENDENT BOARD COMMITTEE

An independent board committee, comprising Messrs. Li Kwok Sing, Aubrey, Lok Kung Chin, Hardy and Seto Gin Chung, John (all of whom are independent non-executive Directors), has been established to consider the terms of the Acquisition (including the provision of financial assistance) and the Connected PAH Agreement and to advise the Independent Shareholders thereon.

We have been appointed by the Independent Board Committee to advise them as to whether the terms of the Acquisition (including the provision of financial assistance) and the Connected PAH Agreement are fair and reasonable so far as the Independent Shareholders are concerned, and to give our opinion in relation to the terms of the Acquisition (including the provision of financial assistance) and the Connected PAH Agreement for their consideration when making their recommendation to the Independent Shareholders.

3. BASIS OF THE OPINION

In formulating our advice, we have relied solely on the statements, information, opinions and representations contained in the Circular and the information and representations provided and/or made to us by the Company and/or the Directors and/or the senior management of the Company. We have assumed that all such statements, information, opinions and representations contained or referred to in the Circular or otherwise provided or made or given by the Company and/or the Directors and/or the senior management of the Company and for which it is/they are solely responsible were true, accurate and valid at the time they were made and given and continue to be true, accurate and valid as at the date of the Circular. We have assumed that all the statements, information, opinions and representations made or provided by the Company and/or the Directors and/or the senior management of the Company contained in the Circular have been reasonably made after due and careful enquiry. We have also sought and obtained confirmation from the Company and/or the Directors and/or the senior management of the Company that no material facts have been omitted from the information provided and referred to in the Circular.

We consider that we have reviewed all currently available information and documents to enable us to reach an informed view and to justify our reliance on the information provided so as to provide a reasonable basis for our opinion. We have no reason to doubt the truth, accuracy and completeness of the statements, information, opinions and representations provided to us by the Company, the Directors, the senior management of the Company and their respective advisers or to believe that material information has been withheld or omitted from the information provided to us or referred to in the aforesaid documents. We have not, however, carried out an independent verification of the information provided, nor have we conducted an independent investigation into the business and affairs of the Company or any of its subsidiaries or PAH or any of its subsidiaries.

4. PRINCIPAL FACTORS AND REASONS CONSIDERED

In forming our opinion, we have taken into consideration the following principal factors and reasons:

4.1 Background to the Acquisition (including the provision of financial assistance) and the Connected PAH Agreement

4.1.1 Principal activities of the KDC Group, the PAH Group and Target

The KDC Group

The principal activity of the Company is investment holding. The Company and its subsidiaries are principally engaged in property development and investment, property management, financial services and investments in Hong Kong and Macau as well as local and overseas financial investments.

The Company has several projects under development at this time, including (i) the La Baie Du Noble project located at the Orient Pearl District in Macau, which is a residential and retail development with total GFA of 1,603,000 sq. ft. that is expected to be completed in the first half of this year; (ii) the Mount Davis 33 project located at Kennedy Town in Hong Kong, which is a residential joint venture with the Urban Renewal Authority with a total GFA of 78,000 sq. ft. that is expected to be completed in the first half of this year; (iii) the 31 Robinson Road project located at the Mid-levels in Hong Kong, which is a residential development with total GFA of 128,000 sq. ft. that is expected to be completed in 2007; and (iv) the 35 Clear Water Bay Road project located in Hong Kong, which is a residential and retail development with total GFA of 2,163,000 sq. ft. that is expected to be completed in 2008 or 2009. All such projects are developed for sale except that the retail portion of the 35 Clear Water Bay Road project will be retained as an investment property upon completion of this project.

The KDC Group's existing investment properties, excluding those of the PAH Group, have an aggregate GFA of approximately 649,000 sq. ft. as at 31 December 2005, with 44% in office space and 54% in retail space. The KDC Group (excluding associated companies) managed over 841,000 sq. ft. of residential and commercial premises as at 31 December 2005.

The PAH Group

The PAH Group is principally engaged in property investment, development and trading, ice manufacturing and provision of cold storage services as well as securities investment and trading.

The PAH Group currently has another residential and commercial project under development in Macau located at Taipa, which on completion will consist of two buildings with a total of 294 residential units and a number of retail shops on the ground floor with a total GFA of approximately 386,000 sq. ft. Site formation works began in February 2006 and the project is being developed for sale.

The PAH Group also has two investment properties in Macau, namely The Macau Square and Va Iong. The Macau Square, in which the PAH Group holds a 50% interest, is a commercial property situated at Avenida Do Infante D. Henrique with total GFA of approximately 393,000 sq. ft. The renovation of the retail portion, with GFA of approximately 90,000 sq. ft. has just been completed and the renovation of the office portion, with GFA of approximately 303,000 sq. ft. will shortly begin. The renovation of certain retail shops at Va Iong, which is situated at Praca da Amizade with an aggregate GFA of 20,300 sq. ft., will commence soon and is expected to be completed in the second half of 2006.

PAH has owned certain trading properties at China Plaza which is located at a prime area in Macau and intends to dispose of these properties gradually.

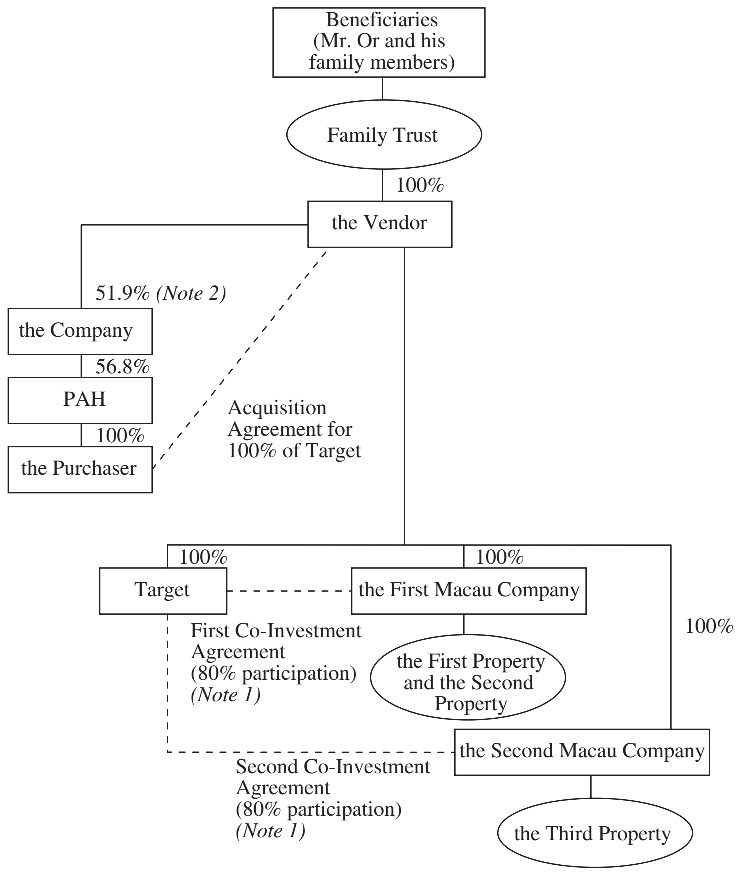
Target

Target is a company with limited liability incorporated in the British Virgin Islands on 9 March 2006 and is wholly-owned by the Vendor. It is principally engaged in the investment in and financing of the First Project, the Second Project and the Third Project in Macau.

Target does not own any assets apart from its rights and interests under the First Co-Investment Agreement and the Second Co-Investment Agreement. Target has entered into (i) the First Co-Investment Agreement with the First Macau Company with respect to its investment in and financing of the development of the First Project and the Second Project; and (ii) the Second Co-Investment Agreement with the Second Macau Company with respect to its investment in and financing of the development of the Third Project. The First Macau Company acquired the First Property and the Second

Property from the Macau Government under a Concession Agreement in December 1990 and the Second Macau Company acquired the Third Property from the Macau Government under a Concession Agreement in June 1996.

Set out below is the shareholding and corporate structure of the KDC Group before Completion:



Notes:

1. Target's 80% participation in the development (whether in terms of financing commitment or share of profits or share of losses) pursuant to the First Co-Investment Agreement or the Second Co-Investment Agreement as the case may be is detailed in the "Letter from the Board". The remaining 20% participation is attributable to the First Macau Company or the Second Macau Company as the case may be.

2. Following completion of the Top-up Placement (as defined in paragraph 4.1.3 (c) below), the interest of Mr. Or and parties acting in concert with him in the Company have reduced from approximately 62.29% to 51.91%.

Taken into account the outlook of the property market in Macau as mentioned in paragraph 4.1.3 below and the return to be received by Target under the First Co-Investment Agreement and the Second Co-Investment Agreement, Target is established to act as the investor/financier to provide financing to the First Macau Company and the Second Macau Company as mentioned in paragraphs 4.1.5 and 4.1.6 below.

4.1.2 Overall financial performance of the KDC Group, the PAH Group, Target and their respective business strategies

The KDC Group

As stated in the Company's annual report for the year ended 31 December 2005, the KDC Group recorded an audited consolidated turnover of approximately HK$1,320.3 million (2004 (restated): approximately HK$773.4 million), and an audited consolidated profit attributable to Shareholders of approximately HK$1,059.2 million (2004 (restated): approximately HK$515.6 million). The Directors attributed the year-on-year improvement from property sales and rental income resulting from the strong economic growth and the appreciation of property prices in Hong Kong and Macau.

Assuming completion of the acquisition of a controlling stake in Shenzhen Properties, which is still pending final approval from the Chinese Securities and Regulatory Commission, the KDC Group will pursue a three-tier development strategy, with an exposure in the three markets of the Greater China region. Hence, this will enable the listed companies of the KDC Group to maintain strategic focus on their respective markets and set a platform for the KDC Group to readily access the best investment opportunities in three markets, providing greater investment flexibility.

Based on the audited financial results of the KDC Group as at 31 December 2005, the KDC Group has recorded an audited net asset value of approximately HK$5,097.4 million (representing approximately HK$8.99 per Share on the basis of 566,767,850 Shares in issue as at 31 December 2005). In addition, as at 31 December 2005, the cash and bank deposits of the KDC Group amount to approximately HK$104.7 million and the total bank borrowings of the KDC Group amount to approximately HK$2,642 million.

The PAH Group

As stated in the PAH's annual report for the year ended 31 December 2005, the PAH Group recorded an audited consolidated turnover of approximately HK$196.8 million (2004 (for the thirteen months ended 31 December 2004): approximately HK$152.9 million) and an audited consolidated profit attributable to shareholders of approximately HK$477.4 million (2004 (for the thirteen months ended 31 December 2004): approximately HK$78.8 million). The directors of PAH attributed the year-on-year improvement from property sales and rental income resulting from the strong economic growth and the appreciation of property prices in Macau.

The main source of the PAH Group's income came from the sale of certain properties at China Plaza in Macau, with a realised profit of HK$40 million and representing 67% of the PAH Group's segment profit in 2005. Over the past two years, the PAH Group has, through a series of major asset acquisitions in Macau over the past 18 months, substantially strengthened its foundation for future growth. On 24 November 2005, the PAH Group became a subsidiary of the Company. In order to further pursue the KDC Group's stated strategy, PAH will continue to focus on the Macau property market and accelerate its property acquisition program amid the booming Macau economy.

Based on the audited financial results of the PAH Group as at 31 December 2005, the PAH Group has recorded an audited net asset value of approximately HK$1,095.1 million (representing approximately HK$0.89 per PAH Share on the basis of 1,229,814,484 PAH Shares in issue as at 31 December 2005). In addition, as at 31 December 2005, the cash and bank deposits of the PAH Group amount to approximately HK$75.7 million and the total bank borrowings of the PAH Group amount to approximately HK$87.8 million.

Target

Based on the audited accounts of Target, Target had a net asset value of HK$7.80 as at 31 March 2006 and recorded no profit or loss for the period since its incorporation up to 31 March 2006.

4.1.3 Reasons for and benefits of the Acquisition (including the provision of financial assistance) and the Connected PAH Agreement

a. The Acquisition

Based on the statistics published by the Statistics and Census Bureau of the Macau Government, visitor arrivals grew by 10.4% in November 2005 from a year ago to 1.6 million, an increase of approximately 12.5% year-on-year. Furthermore, Macau has experienced strong economic development since 1999, with gross domestic products ("GDP") growing at an average real growth rate of 12.1% between 2000 and 2005 (according to Statistics and Census Bureau of the Macau Government). GDP per capita has risen from approximately MOP125,100 in 2002 to MOP181,900 in 2004, representing a compounded increase of more than 20.5% per annum. Due to the on-going development of the gaming and tourism industries in Macau, the management of the Company expects that the trend of increasing inflow of additional professionals and workers in Macau will continue and this in turn will support the demand for quality residential properties in Macau. Accordingly, the Directors are optimistic on the long-term prospects of the property market in Macau, especially high-end residential units, including retail, recreation and parking facilities located in prime locations. Based on the aforesaid statistics and reasons, we concur with the view of the Directors and believe that the Acquisition is in line with the business strategy of the KDC Group.

In pursuing a proactive strategy in expanding PAH's presence in the Macau market as mentioned in paragraph 4.1.2 above, it will continue to increase its holding of land reserves for development and to actively identify property investment opportunities in Macau. Hence, the Acquisition represents an opportunity for PAH to consolidate its strong position and further capitalise on the growth potential of the Macau property market. Given the strong fundamentals of the Macau economy and its positive outlook as mentioned above, we concur with the view of the Directors and believe that the high-end residential housing market provides an attractive property development opportunity for PAH, and in turn, the Company, thus the Acquisition is in the interests of the Company and the Shareholders as a whole.

b. The provision of financial assistance

(i) With regard to the First Co-Investment Agreement and the Second Co-Investment Agreement

Prior to the entering into the Acquisition, Target has already entered into the First Co-Investment Agreement with the First Macau Company and the Second Co-Investment Agreement with the Second Macau Company; whereby Target is entitled to 80% participation in the development of the First Property, the Second Property and the Third Property respectively (whether in terms of financing commitment or share of profits or share of losses), whilst the remaining 20% participation in the development will be attributable to the First Macau Company and the Second Macau Company (both of which are held by the Vendor, a company controlled by Mr. Or and his associates). Upon Completion of the Acquisition, Target will become a wholly-owned subsidiary of PAH. As such, any kind of provision of financing via Target by PAH for the development of the First Property, the Second Property and the Third Property will constitute connected transactions for both PAH and the Company respectively. **Shareholders should note that no Independent Shareholders' approval will be sought at the general meeting of the Company with regard to the First Co-Investment Agreement and the Second Co-Investment Agreement. However, Shareholders should note that by considering and approving the Acquisition at the forthcoming general meeting of the Company, it is incidentally approving Target to provide financial assistance for the development of First Property, the Second Property and the Third Property as contemplated under the First Co-Investment Agreement and the Second Co-Investment Agreement (which will constitute connected transactions for both PAH and the Company respectively as described above). Accordingly, we have also reviewed and opined on the terms of the First Co-Investment Agreement and the Second Co-Investment Agreement as set out in paragraphs 4.1.5 and 4.1.6 below.**

We have discussed with the management of the Company and noted that the Projects would assume to be developed by stages over a period of 6 years. In addition, we have discussed on their view of the sales and development schedule of the Projects, the expected selling price, the estimated sales proceeds to be derived from the "pre-sale" and the estimated development cost, and concurred with the view of the Directors that the maximum cap amount of HK$700 million loans committed to be made by Target to the First Macau Company and the Second Macau Company as reasonable and adequate (if required) to finance the development of the Projects for, initially, a period of three years even if "pre-sale" is not arranged.

Taking into account the reasons for and benefits of the Acquisition as mentioned in paragraph (a) of this section, we are of the view that the First Co-Investment Agreement and the Second Co-Investment Agreement form an integral part of the Acquisition. In sum, under the terms of the First Co-Investment Agreement and the Second Co-Investment Agreement, the potential benefits of the Target (which will upon completion of the Acquisition become a 100% owned subsidiary of PAH) — i.e. 80% of the return to be generated from the sale of the First Property, the Second Property and the Third Property — are clearly stated therein. In addition, under the terms of the First Co-Investment Agreement and the Second Co-Investment Agreement, the potential obligations of the KDC Group is the maximum cap amount of loans (i.e. HK$700 million) committed to be made by Target to the First Macau Company and the Second Macau Company. As such, we are of the view that the provision of financial assistance by Target under the First Co-Investment Agreement and the Second Co-Investment Agreement (which is incidental as a result of the completion of the Acquisition) will facilitate the implementation of the development of the Projects and in return the PAH Group will be entitled to enjoy 80% of the profits generated from the sale of the Projects, which in turn, is beneficial to the KDC Group and in the interests of the Company and the Shareholders as a whole.

(ii) With regard to the HK$200 million loan from the Company to PAH

Taking into account (i) the respective financial positions of the KDC Group and the PAH Group as at 31 December 2005 respectively (as described above and in the Appendix III to the Circular); (ii) our discussion with the management of the Company with regard to the working capital requirement of the KDC Group; (iii) that due and careful consideration has been made by the KDC Group to include all capital expenditure items so far aware or anticipated by the KDC Group when preparing the working capital statement; and (iv) the management of the Company has confirmed that they are not aware of any other imminent and material capital expenditure requirement of the KDC Group for its existing businesses, we concur with the view of the Directors that the KDC Group is in a position to provide loan to PAH as financial assistance and to facilitate the implementation of the Acquisition by the PAH Group, which in turn, is beneficial to the KDC Group and in the interests of the Company and the Shareholders as a whole. Shareholders should note that as described in paragraph 4.1.7 (c) below, upon completion of the PAH Subscription, PAH will use part of the net proceeds of approximately HK$233 million to repay the Company with regard to (i) the aforesaid HK$200 million loan, being the deposit payment for the Acquisition and (ii) the HK$33 million non interest bearing loan.

c. *The Connected PAH Agreement*

As stated in the announcement dated 10 April 2006 with regard to, inter alia, the Acquisition, the balance of the consideration (i.e. HK$8,248 million and any interest calculated at the rate of HIBOR plus 0.5% per annum, the payment of which is permitted under the terms of the Sale and Purchase Agreement to be deferred for up to 36 months at the Purchaser's election) and the loans committed to be made by Target to the First Macau Company and the Second Macau Company to fund the development of the First Project, the Second Project and the Third Project under the First Co-Investment Agreement and the Second Co-Investment Agreement made by the Target (i.e. which are capped at HK$700 million) will be funded by PAH and/or the Company through internal resources and/or bank borrowings and/or issue of equity securities and/or debt securities and/or convertible securities.

The Company announced on 8 May 2006 a top-up placement of 113,353,000 Shares ("Top-up Placement") at a price of HK$12.40 per Share to raise net proceeds of approximately HK$1,377 million, of which 70% (approximately HK$970 million) will be used to fund the subscription of new PAH Shares as described below and the remaining 30% (approximately HK$407 million) will be used for business development and expansion.

PAH also on the same date announced the PAH Subscription with regard to the issue of a total of 2,811,411,970 new PAH shares at a price of HK$1.98 per PAH share to raise net proceeds of approximately HK$5,523 million, of which approximately HK$5,290 million will be used to fund the Acquisition, and approximately HK$233 million will be used by PAH for the repayment of loans from the Company (as described in paragraph (b) (ii) above).

In order to enable the Company to maintain its shareholding position in PAH following the completion of the PAH Subscription, the Company has entered into the Connected PAH Agreement with PAH for the subscription of up to 1,598,000,000 new PAH shares at a price of HK$1.98 per PAH share.

As explained in various circulars issued by the Company and the recent annual report of the KDC Group, it is the strategy of the KDC Group to maintain a three-tier corporate structure, with the Company and Shenzhen Properties (upon completion of the proposed acquisition by a subsidiary of the Company) focused on property development and investment in Hong Kong and the PRC, and PAH a 56.84% subsidiary of the Company focused on property development and investment in Macau. Given that the subscription of new PAH shares by the Company under the Connected PAH Agreement will enable the Company to maintain its shareholding in PAH upon completion of the PAH Subscription, we believe that it is in line with the stated strategy of the KDC Group. In addition, the Company will fund the Connected PAH Agreement as to approximately HK$970 million by way of the abovementioned Top-up Placement, which in turn, will help to fund the Acquisition, and ultimately benefit the KDC Group which is in the interests of the Company and the Shareholders as a whole.

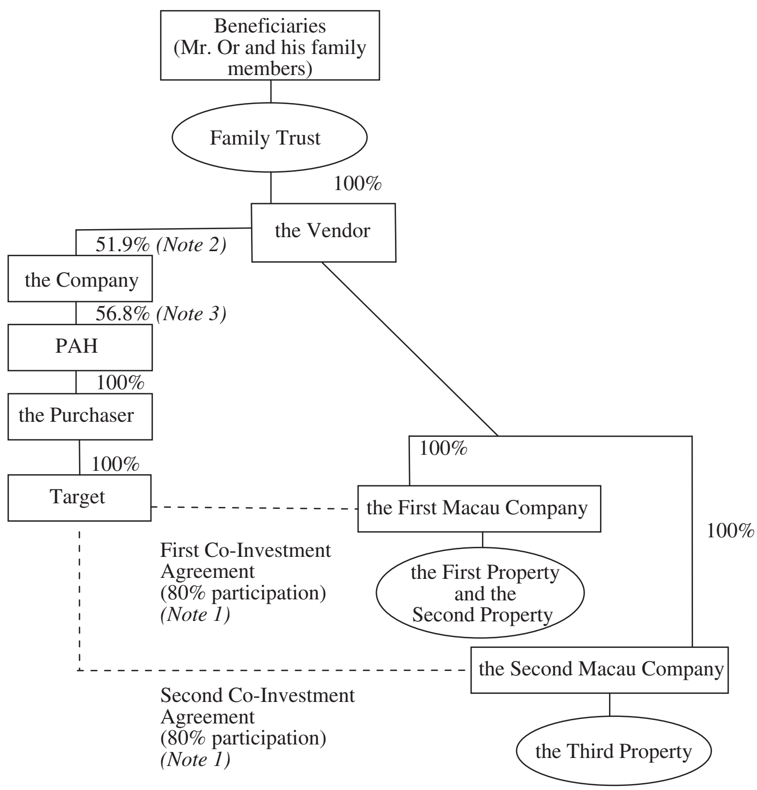
4.1.4 Terms of the Sale and Purchase Agreement

As stated in the "Letter from the Board", the terms of the Sale and Purchase Agreement were negotiated on an arm's length basis and were made on normal commercial terms. The Directors consider that the terms of the Sale and Purchase Agreement are fair and reasonable to the Company and in the interests of the Shareholders as a whole.

Assets to be acquired

In summary, the Purchaser (a wholly-owned subsidiary of PAH) agreed on 8 April 2006 to conditionally acquire from the Vendor the entire issued share capital of Target. As stated in paragraph 4.1.1 above, Target is the financier of the Projects. The characteristics of the Projects are set out in the "Letter from the Board". In sum, it is comprised of a large land site at prime location and proximity to public transportation hubs. In addition, details of each of the Projects are also set out in the "Letter from the Board" and the valuation reports prepared by DTZ Debenham Tie Leung Limited set out in Appendix I to the Circular respectively.

Set out below is the shareholding and corporate structure after Completion:



Notes:

1. Target's 80% participation in the development (whether in terms of financing commitment or share of profits or share of losses) pursuant to the First Co-Investment Agreement or the Second Co-Investment as the case may be is detailed in the "Letter from the Board". The remaining 20% participation is attributable to the First Macau Company or the Second Macau Company as the case may be.

2. Following completion of the Top-up Placement (as defined in paragraph 4.1.3 (c) above), the interest of Mr. Or and parties acting in concert with him in the Company have reduced from approximately 62.29% to 51.91%.

3. Upon completion of the PAH Subscription (which is conditional upon completion of the Acquisition), the interest of the Company and its associates in PAH will remain at approximately 56.84%.

After Completion, PAH will have property trading, development and investment projects in Macau comprising more than 11.4 million sq. ft. GFA of residential, retail and commercial properties and approximately 5,300 car parking spaces as compared to the current 0.9 million sq. ft. GFA of residential, retail and commercial properties and approximately 700 car parking spaces. Given the completion of the Acquisition will enable PAH (as a member of the reputable Polytec Group of Macau) to consolidate its position as one of the leading property developers in Macau, we are of the view of that the Acquisition not just fall in line with the stated strategy of the KDC Group, it is of the utmost importance for the future development PAH, and in turn, the KDC Group.

Consideration

The Consideration of HK$8,448 million will be satisfied by cash (i) at Completion, or (ii) after Completion on any business day before the first anniversary of the date of Completion, at the option of the Purchaser.

The consideration of the Acquisition was negotiated between the parties on an arm's length basis with reference to:

(i) the valuation of the properties prepared by DTZ Debenham Tie Leung Limited, as at 31 March 2006 on an open market basis;

		HK$' million
(1)	The First Property	9,000
(2)	The Second Property	1,800
(3)	The Third Property	2,400
	Total	13,200

(ii) Target's entitlement to share the profits derived from the sale of units comprised in the First Project, the Second Project and the Third Project; and

(iii) the anticipated costs of funding the construction of the First Project, the Second Project and the Third Project.

The final agreed consideration of the Acquisition represents a discount of 20% on the 80% interest shared by the Target of the independent valuation conducted by valuer DTZ Debenham Tie Leung Limited (i.e. HK$8,448 million). The discount was determined after negotiation between the parties. The Directors also consider, on the basis of the valuation by DTZ Debenham Tie Leung Limited and the 20% discount thereto, that the Sale and Purchase Agreement was entered into between the Purchaser and the Vendor on an arm's length basis and on normal commercial terms.

We have reviewed all publicly announced transactions over the past 12 months relating to property assets in Macau with valuation of those properties amount to over HK$1,000 million or above and noted that the consideration paid for each sq. ft. GFA was about HK$800 or HK$880.

Since the properties (as stated below) are located at different locations of Macau, Shareholders should note that the consideration paid for each sq. ft. GFA may vary due to the various factors, including but not limited to, (i) the total GFA of the property; (ii) the proximity of the property to the prime locations of Macau; (iii) the surroundings of the property — such as pure residential, or combination of residential and commercial, or combination with residential/commercial and gaming facilities; and (iv) the ancillary facilities — such as transportation hub.

Company and date of transaction	Location and size	Usage	Value paid for each sq. ft. GFA (valuation date)
Shun Tak Holdings Limited — 22 September 2005	Land development right in Lot B in Zone B of Nan Van, Macau (approximately 2.6 million sq. ft. GFA)	Hotel/serviced apartment/ residential development	Approximately HK$880 (22 September 2005)
Cheuk Nang Holdings Limited — 13 September 2005	A piece of land at Estrada De Seac Pai Van (also known as Lot No. 21202), S. Francisco Xavier, Coloane, Macau (approximately 1.0 million sq. ft. GFA)	Serviced apartment/ residential with a private casino development	Approximately HK$800 (7 September 2005)

Company and date of transaction	Location and size	Usage	Value paid for each sq. ft. GFA (valuation date)
The Company — 8 April 2006	**The Projects** — Please refer to the details set out in the valuation report set out in Appendix I to the Circular (approximately **10.5** million sq. ft. GFA)	Residential development	Approximately HK$1,000 (31 March 2006)

Given that the Properties under the Acquisition comprised of a large land site (with total GFA of over 10.5 million sq. ft.) located at a pure residential area of the North Eastern part of the Macau Peninsula and proximity to public transportation hubs (such as 5 minutes drive from the Macau Ferry Terminal and 10 minutes drive from the Central Business District of Macau) which are much attractive than the other publicly announced transactions, we are of the view that consideration paid for the Acquisition (i.e. at HK$1,000 per sq. ft. GFA) is fair and reasonable to PAH, and in turn, the Company.

Payment terms

The consideration for the Acquisition will be satisfied by cash. There are 3 options for the Purchaser to decide as to when to settle the Consideration in full. In sum, they are (i) Option 1 — at Completion; (ii) Option 2 — After Completion Date but within the first anniversary of the date of Completion ("Completion Date"); and (iii) Option 3 — If the Purchaser elects Option

2, it will have a further right to extend the time for payment by 24 months from the first anniversary of the date of Completion by notifying the Vendor not less than 30 business days before the first anniversary of the Completion Date. We have summarised in a table below for easy reference.

	On the date of signing the Sale and Purchase Agreement	On the Completion Date	After Completion Date but within the first anniversary of the Completion Date	After the first anniversary date of the Completion Date but within 24 months from the first anniversary date of the Completion Date	Total Consideration
	HK$' million	*HK$' million*	*HK$' million*	*HK$' million*	*HK$' million*
Option 1:					
Deposit	200				
Remaining balance of the Consideration		8,248			8,448
Option 2:					
Deposit	200				
Remaining balance of the Consideration			8,248 + interest charged at the rate of HIBOR plus 0.5% per annum		8,448 + interest charged at the rate of HIBOR plus 0.5% per annum
Option 3:					
Deposit	200				
Remaining balance of the Consideration				8,248 + interest charged at the rate of HIBOR plus 0.5% per annum	8,448 + interest charged at the rate of HIBOR plus 0.5% per annum

If the Purchaser elects Option (2), it will have a further right to extend the time for payment by 24 months from the first anniversary of the date of Completion by notifying the Vendor not less than 30 business days before the first anniversary of the date of Completion.

If the Purchaser elects to pay the consideration after Completion, interest calculated at HIBOR plus 0.5% per annum will be charged on the outstanding consideration due to the Vendor until payment. No security or guarantee is required to be given in respect of the outstanding consideration.

Since the pre-sales of units under the First Project, Second Project and Third Project will begin upon commencement of construction of foundation works, which are expected to be either in the second half of 2006 or the first half of 2007, as described in paragraphs 4.1.5 and 4.1.6 below, we are of the view that the payment arrangements provide ample time for First Macau Company and the Second Macau Company to develop the Projects and generate returns for Target, which in turn, enable the Purchaser to have sufficient time and flexibility to source funds to pay the Vendor. Accordingly, we believe that this arrangement is manageable and acceptable to PAH and, in turn, is fair and reasonable to the Company. In the event of any unforeseen circumstances which may have delayed or postponed any fund raising exercises of PAH and/or the Company, back-up arrangements, such as extending the deadline to pay the balance of the consideration to the Vendor or allowing the Vendor to provide financial support to complete the Projects, are incorporated in the Sale and Purchase Agreement and described below.

Funding arrangements

The Deposit paid to the Vendor on the signing date of the Sale and Purchase Agreement was funded by a HK$200 million shareholder's loan from the Company to PAH. Interest calculated at HIBOR plus 0.5% per annum is payable on this shareholder's loan, which has no fixed term for repayment and is neither secured nor guaranteed.

We have discussed with the management of the Company and noted the average cost of fund of the KDC Group were approximately HIBOR plus 0.5% per annum. Although there is no fixed term for repayment of this shareholder's loan and it is neither secured nor guaranteed, given (i) PAH is a 56.8% listed subsidiary of the Company; (ii) the shareholder's loan represents approximately 7.5% of the total bank borrowings of the KDC Group as at 31 December 2005; (iii) the provision of the shareholder's loan will facilitate the payment of the Deposit, and in turn, enable the PAH Group to implement the stated strategy of the KDC Group to become its flagship in Macau to focus on the property market and accelerate its property acquisition program amid the booming Macau economy; and (iv) the interest of the shareholder's loan is calculated at HIBOR plus 0.5% per annum, which is the average cost of fund currently incurred by the KDC Group, we are of the view that it is fair and reasonable for the KDC Group to provide the HK$200 million shareholder's loan at an interest rate calculated at HIBOR plus 0.5% per annum to PAH.

The balance of the consideration (i.e. HK$8,248 million and any interest calculated at the rate of HIBOR plus 0.5% per annum, the payment of which is permitted under the terms of the Sale and Purchase Agreement to be deferred for up to 36 months at the Purchaser's election) and the loans committed to be made by Target to the First Macau Company and the Second Macau Company to fund the development of the First Project, the Second Project and the Third Project under the First Co-Investment Agreement and the Second Co-Investment Agreement made by the Target (i.e. which are capped at HK$700 million) will be funded by PAH and/or the Company through internal resources and/or bank borrowings and/or issue of equity securities and/or debt securities and/or convertible securities. As mentioned in paragraph 4.1.3 (c) above, subject to completion of the PAH Agreements, a sum of HK$5,290 million would be available for partial settlement of the aforesaid balance of the consideration. As to the balance of HK$2,958 million, the Purchaser will have the options to choose to pay at a later date as provided in the "Payment terms" of the Sale and Purchase Agreement described immediately above this section (i.e. (a) Option 2 — After Completion Date but within the first anniversary of the date of Completion; or (b) Option 3 — If the Purchaser elects Option 2, it will have a further right to extend the time for payment by 24 months from the first anniversary of the Completion Date by notifying the Vendor not less than 30 business days before the first anniversary of the Completion Date).

According to the past experience of the KDC Group in developing La Baie Du Noble in Macau and the market practice of Macau in "pre-sale" property units, it is expected that reputable property developer (i.e. such as PAH, a member of the Polytec Group in Macau which has over 30 years of property development experience in Macau with the reputation for quality and to deliver the property on time) to receive a substantial portion of the sale proceeds at the "pre-sale" stage. Since the Projects are to be developed by stages over a period of 6 years, we have discussed with the management of the Company about the sales and development schedule of the Projects, the expected selling price, the estimated sales proceeds to be derived from the "pre-sale" and the estimated development cost, we concur with the view of the Directors that the maximum cap amount of HK$700 million loans committed to be made by Target to the First Macau Company and the Second Macau Company is reasonable and will be adequate if required to finance the development of the Projects for, initially, a period of three years, even if pre-sale is not arranged. As mentioned above, in the event of any unforeseen circumstances which may have delayed or postponed any fund raising exercises of PAH and/or the Company, back-up arrangements, such as extending the deadline to pay the balance of the consideration to the Vendor or allowing the Vendor to provide financial support to complete the Projects, are incorporated in the Sale and Purchase Agreement and described below.

In the event that PAH is unable, within the 36 months, to raise sufficient funds to fund the Purchaser in respect of the payment of the balance of the consideration (i.e. assuming completion of the PAH Subscription, the balance of the consideration will amount to HK$2,958 million), the Purchaser will be entitled to elect under the Sale and Purchase Agreement to further defer the payment of the Consideration against the Vendor for an unlimited further period until such time the liquidity of the PAH Group permits payment of the balance of the consideration. Interest calculated at HIBOR plus 0.5% per annum will be charged on the outstanding consideration due to the Vendor until payment. There is no fixed term for repayment. No security or guarantee is required to be given in respect of the outstanding Consideration. In view of the reasons mentioned above and the flexibility for the Company to obtain further extension of the deadline to settle the Consideration, the Directors are of the view that the agreement will allow the Purchaser to have sufficient time and flexibility to source funds to pay the Vendor. We concur with the view of the Directors and believe that this arrangement is manageable and acceptable to PAH and, in turn, is fair and reasonable to the Company.

In the event that PAH is unable at any time from time to time to raise sufficient funds to fund the Purchaser in respect of the making by Target of the loans to the First Macau Company and Second Macau Company to finance the development of the First Project, the Second Project and the Third Project under the First Co-Investment Agreement and the Second Co-Investment Agreement, then the Purchaser shall be entitled to require the Vendor to provide the relevant loan(s) on behalf of Target to the First Macau Company and/or the Second Macau Company. Interest shall be charged on the principal amounts lent by the Vendor on Target's behalf calculated at HIBOR plus 0.5% per annum, but the indebtedness of Target to the Vendor in respect of such loan(s) will not be secured or guaranteed in favour of the Vendor. Given (i) the Vendor will enjoy the benefits as a 20% participant of the First Co-Investment Agreement and the Second Co-Investment Agreement; (ii) the ultimate controlling shareholder of the Vendor is also the ultimate controlling shareholder of the Company; and (iii) the provision of the loans on behalf of Target to the First Macau Company and/or the Second Macau Company facilitate them to develop the First Property, the Second Property and the Third Property, we are of the view that this fall back arrangement ensures the completion of the Projects and such arrangement is beneficial to PAH and, in turn, is fair and reasonable to the Company.

4.1.5 Terms of the First Co-Investment Agreement

As stated in the "Letter from the Board", it is the intention of the directors of PAH that all the units of the First Project and the Second Project will be sold on the market. Hence, it is expected that pre-sales of units will begin upon commencement of construction of foundation works. According to the management of Target, the construction of foundation works for phase 1 of the First Project is expected to commence in the second half of 2007 and the construction of foundation works for the Second Project is expected to commence in the second half of 2006.

Under the terms of the First Co-Investment Agreement:

(a) Target will be given access to:

  (1) the accounts prepared with respect to the receipts and expenses relating to the First Project and the Second Project; and

  (2) the First Property and the Second Property to inspect and view the state and progress of the First Project and the Second Project;

(b) Target and the First Macau Company will provide funding in the ratio of 80% and 20% to cover any shortfall in the funding for the First Project and the Second Project to the extent that the receipts derived from the First Project and the Second Project do not cover the expenses of the First Project and the Second Project (excluding land costs which will be borne by the First Macau Company exclusively);

(c) the 80% funding provided by Target will take the form of loans extended to the First Macau Company from time to time up to a maximum amount of HK$500 million calculated at HIBOR plus 0.5% per annum payable monthly to be applied to the payment of the expenditure incurred by the First Macau Company in connection with the First Project and the Second Project in the manner as set out in (b) above. Such loans will have no fixed term for repayment and will not be secured or guaranteed and are expected to provide principal funding for the First Project and the Second Project in their initial stages before pre-sale proceeds are significant;

(d) once the maximum principal amount of HK$500 million has been drawn, any additional funding required for the First Project and the Second Project will be funded by the First Macau Company itself;

(e) in addition to the repayment of the loans with interest by the First Macau Company, Target will be entitled to receive (i) 80% of the excess of the gross sale proceeds from the sale of the units in the First Project and the Second Project over the development expenses of the First Project and the Second Project (including tax expenses and interest on loans but excluding land costs) and (ii) the Discounted Value in respect of the First Property and the Second Property; and

(f) in the event that the receipts fall short of the development expenses and the Discounted Value (but before taxes), Target will bear 80% of the shortfall.

The KDC Group (including the PAH Group) will not be involved in quality control, marketing or sales, and will not be involved in cost control except indirectly through approval of the design and building plan as per the provisions of the First Co-Investment Agreement. However, the KDC Group (including the PAH Group) will exercise financial control over the First Project and the Second Project through joint control of the bank account into which all sale proceeds are required to be deposited and approval of the sale price of the units. The KDC Group (including the PAH Group) will also monitor progress of the development and protect its interest in the development by:

(1) inspecting documentary evidence of all receipts and expenditures which the First Macau Company has undertaken to collate on a monthly basis;

(2) reviewing the monthly work progress report which the First Macau Company has agreed to provide containing (among other things) a breakdown of the costs and expenses incurred by the First Macau Company in connection with works to date;

(3) reviewing the monthly sales status reports to be provided by the First Macau Company;

(4) reviewing the quarterly accounts with respect to receipts and expenditures which the First Macau Company has undertaken to prepare and furnish on an ongoing basis;

(5) requesting information on a regular basis from the First Macau Company in accordance with its undertaking to keep Target informed on a timely and regular basis of the progress of the development and sales;

(6) attending project or site meetings where appropriate;

(7) reviewing the monthly management, the half-year and the full year audited accounts of the First Macau Company which the First Macau Company has agreed to provide;

(8) through review of such financials ensuring compliance by the First Macau Company of its financial covenants under the First Co-Investment Agreement including incurrence of non-development indebtedness, extension of loans or giving of guarantees; and

(9) reviewing the final audited accounts with respect to receipts and expenditures to be produced after completion of the development.

We have discussed with the management of the Company about the abovementioned control measures. Given that (i) Target is acting as the financier to the development of the First Project and the Second Project; (ii) the KDC Group (including the PAH Group) will exercise financial control over the First Project and the Second Project through joint control of the bank account into which all sale proceeds are required to be deposited and approval of the sale price of the units; and (iii) the KDC Group (including the PAH Group) will monitor progress of the development and protect its interest in the development through the various management reports or independent audit to be provided from time to time by the First Macau Company, we are of the view that sufficient measures have put in place to protect the interests of the KDC Group and the Shareholders.

The Vendor is party to the First Co-Investment Agreement as guarantor for the First Macau Company and in the event that the First Macau Company fails to perform its obligations under the First Co-Investment Agreement, the Vendor will be required to perform them instead, and to indemnify the Purchaser in respect of any loss suffered. The principal obligation of the First Macau Company is to complete the development on the First Property and the Second Property in accordance with all plans, consents, laws and regulations, and applicable restrictions, covenants and encumbrances and in particular with the minimum GFA stated above, and as soon as practicable to commence pre-sales of units. Apart from the covenants relating to information and accounts mentioned above, the First Macau Company also has obligations to ensure that it does not incur non-development related indebtedness, extend loans or guarantees to third parties, declare dividends, make any acquisitions or change its business. The maximum liability of Target with respect to the 80% financing of the First Project and the Second Project is HK$500 million as stated above, and the corresponding 20% of HK$125 million and every other necessary financial expenditure above the sum of such HK$500 million and HK$125 million that may be required for the completion of the First Project and Second Project is for the account of the First Macau Company. On this basis, we are of the view that the Vendor, also being ultimately controlled by the same owner of the Company, will ensure the fulfillment of its obligation as the guarantor to perform the First Co-Investment Agreement, provide additional safeguards to protect the interests of the Company and the Shareholders as a whole.

As described in paragraph 4.1.3 (b) (i) above, though no Independent Shareholders' approval will be sought at the general meeting of the Company with regard to the First Co-Investment Agreement and the Second Co-Investment Agreement, Shareholders should note that by considering and approving the Acquisition at the forthcoming general meeting of the Company, it is incidentally approving Target to provide financial assistance for the development of First Property, the Second Property and the Third Property as contemplated under the First Co-Investment Agreement and the Second Co-Investment Agreement. Given that the reasons for and benefits of the Acquisition as mentioned in paragraph 4.1.3 (a) above, we are of the view that the First Co-Investment Agreement and the Second Co-Investment Agreement form an integral part of the Acquisition.

Taking into account (i) the potential obligations of the Target as well as its rights are clearly set out in the First Co-Investment Agreement and the Second Co-Investment Agreement; and (ii) Target as the financier of the First Project, the Second Project and the Third Project will be able (a) to exercise financial control over the First Project, the Second Project and the Third Project through joint control of the bank account into which all sale proceeds are required to be deposited and approval of the sale price of the units and (b) to monitor progress of the development and protect its interest in the development by the various control measures mentioned above, we are of the view that the terms of the First Co-Investment Agreement to be fair and reasonable. In addition, due to sufficient control measures being put in place, we are of the view that the provision of financial assistance under the First Co-Investment Agreement (which is incidental as a result of the completion of the Acquisition) is acceptable and reasonable.

4.1.6 Terms of the Second Co-Investment Agreement

As stated in the "Letter from the Board", it is intended that all the units of the Third Project will be sold on the market. Hence, it is expected that pre-sales will begin upon commencement of construction of foundation works. According to the management of Target, the construction of foundation works for the Third Project is expected to commence in the first half of 2007.

Under the terms of the Second Co-Investment Agreement:

(a) Target will be given access to:

(1) the accounts prepared with respect to the receipts and expenses relating to the Third Project; and

(2) the Third Property to inspect and view the state and progress of the Third Project;

(b) Target and the Second Macau Company will provide funding in the ratio of 80% and 20% to cover any shortfall in the funding for the Third Project to the extent that the receipts derived from the Third Project do not cover the expenses of the Third Project (excluding land costs which will be borne by the Second Macau Company exclusively);

(c) the 80% funding provided by Target will take the form of loans extended to the Second Macau Company from time to time up to a maximum amount of HK$200 million calculated at HIBOR plus 0.5% per annum payable monthly to be applied to the payment of the expenditure incurred by the Second Macau Company in connection with the Third Project in the manner as set out in (b) above. Such loans will have no fixed term for repayment and will not be secured or guaranteed and are expected to provide principal funding for the Third Project in its initial stages before pre-sale proceeds are significant;

(d) once the maximum principal amount of HK$200 million has been drawn, any additional funding required for the Third Project will be funded by the Second Macau Company itself;

(e) in addition to the repayment of the loans with interest by the Second Macau Company, Target will be entitled to receive (i) 80% of the excess of the gross sale proceeds from the sale of the units in the

Third Project over the development expenses of the Third Project (including tax expenses and interest on loans but excluding land costs) and (ii) the Discounted Value in respect of the Third Property; and

(f) in the event that the receipts fall short of the development expenses and the Discounted Value (but before taxes), Target will bear 80% of the shortfall.

The KDC Group (including the PAH Group) will not be involved in quality control, marketing or sales, and will not be involved in cost control except indirectly through approval of the design and building plan as per the provisions of the Second Co-Investment Agreement. However, the KDC Group (including the PAH Group) will exercise financial control over the Third Project through joint control of the bank account into which all sale proceeds are required to be deposited and approval of the sale price of the units. The KDC Group (including the PAH Group) will also monitor progress of the development and protect its interest in the development by:

(1) inspecting documentary evidence of all receipts and expenditures which the Second Macau Company has undertaken to collate on a monthly basis;

(2) reviewing the monthly work progress report which the Second Macau Company has agreed to provide containing (among other things) a breakdown of the costs and expenses incurred by the Second Macau Company in connection with works to date;

(3) reviewing the monthly sales status reports to be provided by the Second Macau Company;

(4) reviewing the quarterly accounts with respect to receipts and expenditures which the Second Macau Company has undertaken to prepare and furnish on an ongoing basis;

(5) requesting information on a regular basis from the Second Macau Company in accordance with its undertaking to keep Target informed on a timely and regular basis of the progress of the development and sales;

(6) attending project or site meetings where appropriate;

(7) reviewing the monthly management, the half-year and the full year audited accounts of the Second Macau Company which the Second Macau Company has agreed to provide;

(8) through review of such financials ensuring compliance by the Second Macau Company of its financial covenants under the Second Co-Investment Agreement including incurrence of non-development indebtedness, extension of loans or giving of guarantees; and

(9) reviewing the final audited accounts with respect to receipts and expenditures to be produced after completion of the development.

We have discussed with the management of the Company about the abovementioned control measures. Given that (i) Target is acting as the financier to the development of the Third Project; (ii) the KDC Group (including the PAH Group) will exercise financial control over the Third Project through joint control of the bank account into which all sale proceeds are required to be deposited and approval of the sale price of the units; and (iii) the KDC Group (including the PAH Group) will monitor progress of the development and protect its interest in the development through the various management reports or independent audit to be provided from time to time by the Second Macau Company, we are of the view that sufficient measures have put in place to protect the interests of the KDC Group and the Shareholders.

The Vendor is party to the Second Co-Investment Agreement as guarantor for the Second Macau Company and in the event that the Second Macau Company fails to perform its obligations under the Second Co-Investment Agreement the Vendor will be required to perform them instead, and to indemnify the Purchaser in respect of any loss suffered. The principal obligation of the Second Macau Company is to complete the development on the Third Property in accordance with all plans, consents, laws and regulations, and applicable restrictions, covenants and encumbrances and in particular with the minimum GFA stated above, and as soon as practicable to commence pre-sales of units. Apart from the covenants relating to information and accounts mentioned above, the Second Macau Company also has obligations to ensure that it does not incur non-development related indebtedness, extend loans or guarantees to third parties, declare dividends, make any acquisitions or change its business. The maximum liability of Target with respect to the 80% financing of the Third Project is HK$200 million as stated above, and the corresponding 20% of HK$50 million and every other necessary financial expenditure above the sum of such HK$200 million and HK$50 million that may be required for the completion of the

Third Project is for the account of the Second Macau Company. On this basis, we are of the view that the Vendor, also being ultimately controlled by the same owner of the Company, will ensure the fulfillment of its obligation as the guarantor to perform the Second Co-Investment Agreement, provide additional safeguards to protect the interests of the Company and the Shareholders as a whole.

As described in paragraph 4.1.3 (b) (i) above, though no Independent Shareholders' approval will be sought at the general meeting of the Company with regard to the First Co-Investment Agreement and the Second Co-Investment Agreement, Shareholders should note that by considering and approving the Acquisition at the forthcoming general meeting of the Company, it is incidentally approving Target to provide financial assistance for the development of First Property, the Second Property and the Third Property as contemplated under the First Co-Investment Agreement and the Second Co-Investment Agreement. Given that the reasons for and benefits of the Acquisition as mentioned in paragraph 4.1.3 (a) above, we are of the view that the First Co-Investment Agreement and the Second Co-Investment Agreement form an integral part of the Acquisition.

Taking into account (i) the potential obligations of the Target as well as its rights are clearly set out in the First Co-Investment Agreement and the Second Co-Investment Agreement; and (ii) Target as the financier of the First Project, the Second Project and the Third Project will be able (a) to exercise financial control over the First Project, the Second Project and the Third Project through joint control of the bank account into which all sale proceeds are required to be deposited and approval of the sale price of the units and (b) to monitor progress of the development and protect its interest in the development by the various control measures mentioned above, we are of the view that the terms of the Second Co-Investment Agreement to be fair and reasonable. In addition, due to sufficient control measures being put in place, we are of the view that the provision of financial assistance under the Second Co-Investment Agreement (which is incidental as a result of the completion of the Acquisition) is acceptable and reasonable.

4.1.7 Terms of the Connected PAH Agreement

Pursuant to the Connected PAH Agreement, the Company will subscribe up to 1,598,000,000 new PAH shares at a price of HK$1.98 per PAH share. As stated in the "Letter from the Board", in the event that any of the other PAH Agreements does not proceed to completion, PAH will reduce the number of PAH shares to be issued such that upon completion of the PAH Subscription, the Company will maintain the shareholding of approximately 56.84% in PAH.

Also stated in the "Letter from the Board", the Subscription Price has been determined after arm's length negotiation between the board of directors of PAH and the subscribers with reference to the traded price of PAH shares and the discount rate applicable to transactions of similar nature. The directors of PAH consider the Subscription Price to be appropriate and reasonable.

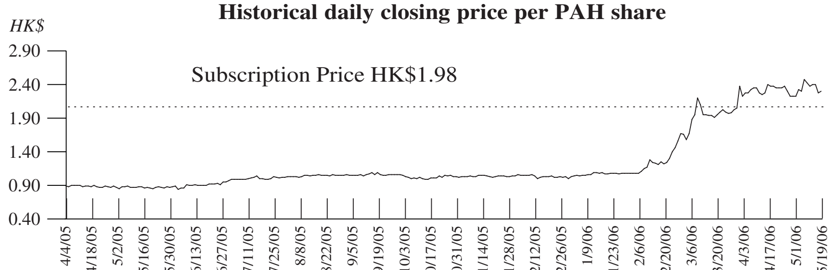
As described in the "Letter from the Board", in order to satisfy the balance of the payment for the subscription of new PAH shares by the Company under the Connected PAH Agreement (i.e. total amount of HK$3,164 million less HK$970 million derived from the Top-up Placement equal to HK$2,194 million), the Company will arrange a shareholder's loan of HK$2,194 million from Intellinsight, an immediate holding company of the Company (which will carry interest rate of HIBOR plus 0.5% per annum).

In order to assess the fairness and reasonableness of the terms of the Connected PAH Agreement, we have taken into account the following factors:

a. *Comparison to historical price level of the PAH shares*

The following chart sets out the daily closing price of the PAH shares on the Stock Exchange for the period from 4 April 2005 (being the first trading day of the 12 months period prior to suspension pending the announcement of the Acquisition on 4 April 2006) up to and including the Latest Practicable Date:

Historical daily closing price per PAH share



Source: Bloomberg

Period/month	Highest closing price	Lowest closing price	Average trading price
	HK$	*HK$*	*HK$*
Pre-Announcement			
2005			
April	0.90	0.87	0.886
May	0.89	0.85	0.871
June	0.99	0.84	0.915
July	1.04	0.99	1.009
August	1.06	1.02	1.047
September	1.09	1.00	1.052
October	1.05	0.99	1.022
November	1.06	1.02	1.041
December	1.06	1.00	1.032
2006			
January	1.11	1.06	1.081
February	2.20	1.15	1.466
March	2.375	1.91	2.107
3 April	2.275	2.275	2.275
Post-Announcement of the Acquisition			
11 to 27 April	2.40	2.225	2.323
Post-Announcement of the PAH Subscription			
9 May to the Latest Practicable Date	2.475	2.275	2.364

Source: Bloomberg

It is noted that the share price of PAH has gradually risen from HK$0.87 (in April 2005) to HK$1.11 (in January 2006). Then the share price rose within two months from HK$1.15 (in February 2006) to HK$2.275 (on 3 April 2006, the last trading day prior to suspension pending for the announcement of the Acquisition). Following the resumption of trading after the announcement of the Acquisition on 11 April 2006, the share price has risen to HK$2.40 (on 11 April

2006) and continued to trade between HK$2.225 to HK$2.375 until 27 April 2006 (the last trading day prior to suspension pending for the announcement of the PAH Subscription). Following the resumption of trading after the announcement of the PAH Subscription on 9 May 2006 to the Latest Practicable Date, the share price has been traded between the range of HK$2.275 to HK$2.475. Shareholders should also note that the historical share prices of PAH of the abovementioned period have always been traded at a premium to the audited consolidated net asset value per PAH share of HK$0.89.

The Subscription Price represents:

(i) a discount of approximately 11.01% to the closing price of the shares of PAH of HK$2.225 on 27 April 2006;

(ii) a discount of approximately 14.47% to the average closing price of the shares of PAH of HK$2.315 for the 10 trading days up to and including 27 April 2006;

(iii) a discount of approximately 13.91% to the closing price of the shares of PAH of HK$2.30 on the Latest Practicable Date; and

(iv) based on the audited consolidated net asset value of attributable to equity holders of PAH of approximately HK$1,095.1 million as at 31 December 2005 and 1,229,814,484 PAH shares in issue as at 31 December 2005, the audited consolidated net asset value per PAH share was approximately HK$0.89. The Subscription Price thus represents a premium of approximately 122% to the audited consolidated net asset value per PAH share.

b. Comparison to placing prices in similar transactions

For the purpose of a meaningful comparison, we have reviewed, to the best of our knowledge, all transactions involving placing and subscription of new shares (with gross proceeds between HK$1,000 million to HK$10,000 million) conducted by companies listed on the main board of the Stock Exchange from August 2005 (six months prior to the announcement of the Acquisition) and up to 27 April 2006 (the last trading day prior to suspension pending for the announcement of the PAH Subscription) (the "Comparable Transactions"). Set out below is a summary of the comparison of the Comparable Transactions:

			Premium/(discount) by the placing/subscription price over/to the		
Company	**Date of agreement**	**Size of the gross proceeds**	**date of agreement or the last trading date ("Last Price")**	**10 days average closing price ("10 days Average Price")**	**last published net asset value per share**
		HK$' million	*%*	*%*	*%*
Lifestyle International Holdings Limited (1212)	30 August 2005	1,255	(6.69)	(10.68)	423
Techtronic Industries Company Limited (669)	8 September 2005	1,815	(3.75)	(1.76)	578
New World Development Company Limited (17)	21 December 2005	1,230.5	(10.85)	3.28	(34.88)
China Resources Land Limited (1109)	20 January 2006	1,117.5	(8.00)	6.43	22
Henderson Investment Limited (97)	18 April 2006	3,116.5	(7.20)	(9.40)	61
Aluminum Corporation of China Limited (2600)	9 May 2006	4,247	(2.68)	(5.10)	(27)
Sung Hung Kai Properties Limited (16)	9 May 2006	7,833	(4.2)	(0.69)	42
PAH	**Between 28 April 2006 to 5 May 2006**	**5,566**	**(11.01)**	**(14.47)**	**122**

Taking into account:

(i) the size of the PAH Subscription is the second largest as compared to the Comparable Transactions which we would expect investors to request for a substantial discount to the recent closing price of the PAH shares;

(ii) the discount to the recent closing price of the PAH shares is only slightly higher than the Comparable Transactions;

(iii) the Subscription Price was determined after arm's length negotiation between the board of directors of PAH and the subscribers (including the Company); and

(iv) although the Subscription Price represents a premium to the closing price of the PAH shares, the historical share price of PAH of the abovementioned period have always been traded at a premium to the audited consolidated net asset value per PAH share of HK$0.89 and for the 7 Comparable Transactions, 4 were related to major property developers and 3 of them were placed at prices above their respective net asset value,

we are of the view that the Subscription Price is fair and reasonable.

c. *Use of proceeds*

Out of the proceeds to be generated from the Connected PAH Agreement would amount to approximately HK$3,164 million and the net proceeds of approximately HK$2,359 million to be generated from the completion of the PAH Agreements (other than the Connected PAH Agreement), PAH will use HK$5,290 million to settle part of the consideration for the Acquisition and use HK$233 million to repay the Company with regard to (i) the HK$200 million interest bearing loan (HIBOR plus 0.5% per annum), being the deposit payment for the Acquisition and (ii) the HK$33 million non interest bearing loan.

With the completion of the PAH Subscription (including the Connected PAH Agreement), PAH will be able to fund part of the consideration for the Acquisition at a cost lower than having to use the shareholder's loan from the Vendor which will be charged at an interest rate of HIBOR plus 0.5% per annum (which in turn is in the interests of the Company and the Shareholders as a whole) and repay the loan of HK$233 million owed to the Company (which is directly beneficial to the cashflow of the Company).

d. Effect on the shareholding of the Company in PAH

The shareholding of the Company in PAH will maintain at approximately 56.84% before and after completion of the PAH Subscription.

e. Summary for this section

Taking into account the abovementioned reasons and/or analysis of (i) the terms of the Connected PAH Agreement; (ii) the recent trend of the price of PAH shares; (iii) the intended use of proceeds of the PAH Subscription (including the Connected PAH Agreement); and (iv) the possible effect of the shareholding of the Company in PAH, we are of the view that the terms of the Connected PAH Agreement are fair and reasonable.

5. POSSIBLE FINANCIAL EFFECTS ON THE COMPANY

5.1 Net assets

Based on the audited consolidated result of the KDC Group for the year ended 31 December 2005, the KDC Group recorded an audited consolidated net asset value attributable to the Shareholders of approximately HK$5,097.4 million (representing approximately HK$8.99 per Share on the basis of 566,767,850 Shares in issue as at 31 December 2005).

As set out in Appendices IV and V to the Circular, the Company has prepared and reviewed by KPMG, the accountants of the Company, pursuant to the requirements set out in Rule 4.29 of the Listing Rules, the unaudited pro forma financial information of the KDC Group as a result of the Acquisition, the Top-up Placement and the PAH Subscription. It is noted that the unaudited pro forma consolidated balance sheet of the enlarged Group was prepared based on the audited consolidated balance sheet of the KDC Group as at 31 December 2005 and the audited balance sheet of the Target as at 31 March 2006 as if the Acquisition has been completed on 31 December 2005.

As stated in the "Letter from the Board" upon consolidation, the PAH Group's interest in the First Co-Investment Agreement and the Second Co-Investment Agreement (i.e. HK$8,448 million) will be treated as "Interest in Property Development" (i.e. a non-current assets of the enlarged Group). Also set out in the "Letter from the Board", the Company funded the HK$200 million shareholder's loan to PAH for the payment of the Deposit by drawing on its unutilised bank facilities. Hence, this will be recorded as "Bank loans" and non-current liabilities of the enlarged Group. As mentioned in paragraph 4.1.3 (c) above, both the Company and PAH have conditionally raised HK$1,377 million and HK$5,523 million respectively by means of issuing new shares under the Top-up Placement and the PAH Subscription respectively. Hence, by applying most of the aforesaid proceeds from the PAH Subscription to settle the consideration for the Acquisition, the Purchaser will have the options to choose to pay the balance of HK$2,958 million at a later date as provided in the "Payment terms" of the Sale and Purchase Agreement (i.e. (a) Option 2 — After Completion Date but within the first anniversary of the Completion Date; or (b) Option 3 — If the Purchaser elects Option 2, it will have a further right to extend the time for payment by 24 months from the first anniversary of the Completion Date by notifying the Vendor not less than 30 business days before the first anniversary of the Completion Date) (as described in paragraph 4.1.4 above). In addition, in order to satisfy the balance of the payment for the subscription of new PAH shares by the Company under the Connected PAH Agreement (i.e. total amount of HK$3,164 million less HK$970 million derived from the Top-up Placement equal to HK$2,194 million), the Company will arrange a sum of HK$2,194 million to be provided by Intellinsight, the immediate holding company of the Company, as a loan (which will carry interest rate of HIBOR plus 0.5% per annum). Accordingly, the Company has in preparing this pro forma statement assumed the completion of the Top-up Placement and the PAH Subscription, the payment of the abovementioned HK$2,958 million will be deferred and recognised as an amount payable to ultimate holding company and HK$2,194 million will be provided by Intellinsight, the immediate holding company of the Company as a shareholder's loan.

Based upon the abovementioned assumptions, the pro forma unaudited adjusted consolidated net asset value attributable to the Shareholders will be approximately HK$6,474.4 million (representing approximately HK$9.52 per Share on the basis of 680,120,850 Shares in issue as enlarged by the Top-up Placement). It also represents a modest enhancement of approximately 5.9% to the audited consolidated net asset value of approximately HK$8.99 per Share.

5.2 Earnings

Based on the audited consolidated result of the KDC Group for the year ended 31 December 2005, the KDC Group recorded an audited consolidated profit attributable to Shareholders of approximately HK$1,059.2 million.

As set out in Appendices IV and V to the Circular, the Company has prepared and reviewed by KPMG, the accountants of the Company, pursuant to the requirements set out in Rule 4.29 of the Listing Rules, the unaudited pro forma financial information of the KDC Group as a result of the Acquisition, the Top-up Placement and the PAH Subscription. It is noted that the unaudited pro forma income statement of the enlarged Group was prepared based on the audited consolidated income statement of the KDC Group for the year ended 31 December 2005 and the audited income of the Target for the period from 9 March to 31 March 2006 as if the Acquisition has been completed on 1 January 2005.

As set out in the "Letter from the Board", the Company funded the HK$200 million shareholder's loan to PAH for the payment of the Deposit by drawing on its unutilised bank facilities. According to the Company, interests on bank loans will be charged at HIBOR plus 0.5% per annum. As mentioned in paragraph 5.1 above, the Company has in preparing this pro forma income statement assumed (i) the payment of the HK$2,958 million will be deferred (but the outstanding payment will be charged at an interest rate of HIBOR plus 0.5% per annum) until a later date as provided in the Sale and Purchase Agreement and described in paragraph 4.1.4 above and (ii) the HK$2,194 million to be provided by Intellinsight, the immediate holding company of the Company, as a loan at an interest rate to be charged at HIBOR plus 0.5% per annum. As a result of the aforesaid and also taking into account the estimated expenses related to the Acquisition, the unaudited pro forma adjusted profit attributable to Shareholders will reduce from approximately HK$1,059.2 million to approximately HK921.7 million, representing a reduction of approximately 13.0%.

Shareholders should note that as described in paragraphs 4.1.3 (c) and 4.1.7 above, PAH use part of the proceeds to be generated from the PAH Subscription — approximately HK$233 million to repay the Company with regard to (i) the HK$200 million interest bearing loan (HIBOR plus 0.5% per annum), being the deposit payment for the Acquisition and (ii) the HK$33 million non interest bearing loan. Hence, the Company will be able to utilise this HK$200 million to repay the facilities borrowed for the deposit payment for the Acquisition.

In the event that the Company and/or PAH is able to secure funding arrangement at a cost lower than HIBOR plus 0.5% per annum, repay the loan for the balance of the subscription money for the Connected PAH Agreement (i.e. HK$2,194 million plus interest) and pay the remaining consideration for the Acquisition (i.e. HK$2,958 million) as early as possible, both the Company and PAH will be able to reduce or even save its interest expense of approximately HK$109.7 million and HK$147.9 million respectively per annum (i.e. based on HK$2,194 million and HK$2,958 million calculated at an interest rate of 5% per annum); which in turn, will assist to improve its earnings and the KDC Group's earnings as a whole. Any reduction in the amount of interest expense will enable both the Company and the PAH Group to preserve their respective cash position for other usage in the future, which in turn, may also enhance the liquidity position of the KDC Group as a whole on a consolidated basis.

5.3 Gearing and liquidity position

Based on the audited financial results of the KDC Group as at 31 December 2005, the KDC Group has cash and bank deposits amount to approximately HK$104.7 million.

Based on the latest management accounts of the KDC Group, the KDC Group has approximately HK$3,053 million bank facilities, of which approximately HK$324 million are unutilised as at 31 March 2006.

As mentioned in paragraph 4.1.3 (b) (ii) above, we have discussed with the management of the Company with regard to the working capital requirement of the KDC Group; and noted that (i) due and careful consideration has been made by the KDC Group to include all capital expenditure items so far aware or anticipated by the KDC Group when preparing the working capital statement; and (ii) the management of the Company has confirmed that they are not aware of any other imminent and material capital expenditure requirement of the KDC Group for its existing businesses. Although the Company plans to fund the HK$200 million shareholder's loan to PAH for the payment of the Deposit by drawing on its unutilised bank facilities, it is noted that upon completion of the PAH Subscription, such amount will be repaid in full. Accordingly, we are of the view that the liquidity of the KDC Group will not be adversely affected by the Acquisition.

Based on the audited financial results of the KDC Group as at 31 December 2005, the KDC Group's gearing (i.e. total borrowings to shareholders equity) was approximately 51.8%.

As a result of the Top-up Placement and the PAH Subscription, the cash and cash equivalent will improve from approximately HK$104.7 million as at 31 December 2005 to approximately HK$545.0 million as described in the unaudited pro forma consolidated balance sheet of the enlarged Group set out in Appendix IV to the Circular.

Given the Company plans to fund the HK$200 million shareholder's loan to PAH for the payment of the Deposit by drawing on its unutilised bank facilities (which will be repaid in full by PAH upon completion of the PAH Subscription), and assuming the shareholders equity remain unchanged since 31 December 2005 and with the completion of the Top-up Placement as well as the completion of the PAH Subscription, the KDC Group's gearing will decrease to approximately 40.8%. We have discussed with the management of the Company about the capital commitment of the KDC Group and the funding requirements and/or arrangements to develop the Projects by Target, we are of the view that such improvement in gearing is beneficial to the Company.

However, the Company and/or PAH has yet to determine/finalise the financing arrangements for the repayment of the shareholder's loan for the balance of the subscription money for the Connected PAH Agreement (i.e. HK$2,194 million plus interest) and the payment of the remaining consideration for the Acquisition (i.e. HK$2,958 million). Hence, it is not possible for us to evaluate the effects on any future funding arrangements on the gearing and liquidity position of the KDC Group at this stage.

6. RECOMMENDATIONS

In considering the terms of the Acquisition (including the provision of financial assistance) and the Connected PAH Agreement, we have taken into account the following factors:

— the businesses of the KDC Group, the PAH Group, and Target;

— the financial performance of the KDC Group, the PAH Group, Target and their respective business strategies;

— the reasons for and benefits of the Acquisition (including the provision of financial assistance) and the Connected PAH Agreement;

— the terms of the Sale and Purchase Agreement with regard to the basis of the consideration, the payment schedule and the funding arrangements;

— the First Co-Investment Agreement and the Second Co-Investment Agreement exist prior to the Sale and Purchase Agreement, and the provision of financial assistance under the First Co-Investment Agreement and the Second Co-Investment Agreement is incidental as a result of the completion of the Acquisition;

— the terms of the First Co-Investment Agreement and the Second Co-Investment Agreement and the protective measures put in place under the First Co-Investment Agreement and the Second Co-Investment Agreement;

— the background of the fund raising exercises of the Company and PAH and the terms of the Connected PAH Agreement; and

— the possible financial effects (in terms of net assets, earnings and gearing and liquidity position) to the Company.

After having considered the above principal factors and based on the information provided and the representations made to us, we consider the terms of the Acquisition as contemplated under the Sale and Purchase Agreement (including the provision of financial assistance as contemplated under the First Co-Investment Agreement and the Second Co-Investment Agreement) and the Connected PAH Agreement to be fair and reasonable so far as the Independent Shareholders are concerned; and that the Acquisition (including the provision of financial assistance) and the Connected PAH Agreement are in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favour of the relevant resolutions which will be proposed at the EGM to approve the Acquisition (including the provision of financial assistance) and the Connected PAH Agreement.

Yours faithfully,
For and on behalf of
Access Capital Limited
Jeanny Leung
Managing Director

The following is the text of the letter, summary of valuation and valuation certificates of Vigers Appraisal & Consulting Limited, an independent valuer, with respect to the properties held by the KDC Group, prepared by them for the purpose of inclusion in this circular.

Vigers Appraisal & Consulting Limited
International Asset Appraisal Consultants

23 May 2006

10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong

The Directors
Kowloon Development Company Limited
23rd Floor
Pioneer Centre
No. 750 Nathan Road
Kowloon

Dear Sirs,

Re: Valuation of various property interests in Hong Kong owned by Kowloon Development Limited and its subsidiaries

In accordance with your instructions for us to value the property interests of Kowloon Development Company Limited ("the company") and its subsidiaries (together referred to as "the Group") as at 31 March 2006, we confirm that we have carried out inspections, made relevant enquiries and obtained such information as we consider necessary for the purpose of providing you with our opinion of their values.

Our valuation represents our opinion of the market value. Market value as is defined to mean — "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuation has been made on the assumption that the owner sold the properties on the open market without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which could serve to increase or decrease the value of the properties.

In valuing the property interests in Group I which are held for investment by the Group, we have adopted the investment approach which capitalizes the rent receivable from the existing tenancies and the potential reversionary market rent of the property interests taking into account the market rental comparables in the open market.

In valuing the property interests in Group II, Group III and Group V, which are owner-occupied, held for sale and for future development purposes respectively by the Group, direct comparison approach is adopted with reference to comparable transactions in the open market and on the basis of vacant possession.

The property in Group IV, which is held by the Group under development, has been valued on comparison and residual bases assuming that the property is capable of development in accordance with the development proposals and terms of Government Leases supplied to us. We have also assumed that all consents, approvals and licences from relevant Government authorities for the proposed developments will or have been granted without any onerous conditions or undue delays which might affect the values.

We have relied to a considerable extent on information provided by you and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, occupations, lettings, rentals, site and floor areas and all other relevant matters. We have carried out searches at the Land Registry. However, we have not searched original documents to verify ownership or to ascertain the existence of any lease amendments which might not appear on the copies handed to us. All dimensions, measurements and areas are approximate.

We have inspected the exterior and, where possible, the interior of all properties included in the attached valuation certificates. However, we have not carried out any structural survey nor have we inspected woodwork or other parts of the structures which were covered, unexposed or inaccessible. We are therefore unable to confirm whether the properties were free from rot, infestation or any other defects.

We have not arranged for any investigation to be carried out to determine whether or not high alumina cement concrete or calcium chloride additive or pulverized fly ash, or any other deleterious material has been used in the construction of the properties. We are therefore unable to report that the properties were free from risk in this respect. For the purpose of this valuation, we have assumed that deleterious material has not been used in the construction of the properties.

No allowance has been made in our report for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties were free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Our valuations have been made in accordance with the HKIS Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors.

In valuing the property interests, we have complied with all the requirements set out in Chapter 5 the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all monetary amounts stated are in Hong Kong Dollars.

We enclose herewith our summary of values and valuation certificates.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
Gilbert, K. M. Yuen
Registered Professional Surveyor
MRICS, MHKIS
Executive Director

Note: Gilbert K. M. Yuen, a registered professional surveyor has near 20 years' experience in undertaking valuations of properties in Hong Kong.

SUMMARY OF VALUES

Group I: Property interests held for investment by the Group in Hong Kong

	Property	Capital value in existing state as at 31 March 2006	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 31 March 2006
1.	Pioneer Centre No. 750 Nathan Road Mongkok Kowloon	HK$3,235,000,000	100%	HK$3,235,000,000
2.	20th Floor of Argyle Centre Phase I No. 688 Nathan Road and No. 65 Argyle Street Mongkok Kowloon	HK$61,000,000	100%	HK$61,000,000
3.	The Whole of the Basement Carpark of Manor Centre No. 213 Un Chau Street and No. 218 Fuk Wing Street Sham Shui Po Kowloon	HK$35,000,000	100%	HK$35,000,000
4.	Parking Spaces Nos. L1, L2, L6-L8, L12-L36, V1-V28 on Basement and Parking Spaces Nos. V1-V17 on Ground Floor of Merit Industrial Centre No. 94 To Kwa Wan Road To Kwa Wan Kowloon	HK$21,800,000	100%	HK$21,800,000

	Property	Capital value in existing state as at 31 March 2006	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 31 March 2006
5.	2nd - 23rd Floors and the Roof The Elgin No. 51 Elgin Street Central Hong Kong	HK$51,000,000	100%	HK$51,000,000
6.	Parking Spaces Nos. L3-L5, L9-L11 on Basement Parking Spaces Nos. C1-C2 on Ground Floor and Storeroom B on Ground Floor of Merit Industrial Centre No. 94 To Kwa Wan Road To Kwa Wan Kowloon	HK$3,830,000	100%	HK$3,830,000
7.	Various Shops on 1st Floor and Signage Spaces New Mandarin Plaza No. 14 Science Museum Road Tsim Sha Tsui Kowloon	HK$169,000,000	100%	HK$169,000,000
8.	Various Shops on Basement, Ground Floor, Mezzanine Floor and 1st Floor Sino Centre Nos. 582-592 Nathan Road Mongkok Kowloon	HK$247,000,000	100%	HK$247,000,000
9.	Parking space Nos, 59, 59A, 60, 60A, 61, 61A, 62, 63, 68 & 73 and the Whole Shop Space on Basement Peninsula Centre No. 67 Mody Road Tsim Sha Tsui Kowloon	HK$67,000,000	100%	HK$67,000,000

	Property	Capital value in existing state as at 31 March 2006	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 31 March 2006
10.	The Whole of 2nd Floor and Signage Spaces New Mandarin Plaza No. 14 Science Museum Road Tsim Sha Tsui Kowloon	HK$133,000,000	100%	HK$133,000,000
	Sub-Total:	**HK$4,023,630,000**		**HK$4,023,630,000**

Group II: Property interests owned and occupied by the Group in Hong Kong

	Property	Capital value in existing state as at 31 March 2006	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 31 March 2006
11.	Units 1-4 on 17th Floor Pacific Trade Centre No. 2 Kai Hing Road Kowloon Bay Kowloon	HK$2,000,000	85%	HK$1,700,000
12.	Flat A on 2nd Floor Kam Tong Court No. 47A Elgin Street Central Hong Kong	HK$1,200,000	100%	HK$1,200,000
	Sub-Total:	**HK$3,200,000**		**HK$2,900,000**

Group III: Property interests held for sale purposes by the Group in Hong Kong

	Property	Capital value in existing state as at 31 March 2006	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 31 March 2006
13.	4 Car Parking Spaces on 5th Floor The Verandah Garden No. 42 Kung Lok Road Kwun Tong Kowloon	HK$880,000	100%	HK$880,000
14.	64 Car Parking Spaces on Lower Ground Floor Recours La Serre No. 118 Tong Yan San Tsuen Road Yuen Long New Territories	HK$9,600,000	100%	HK$9,600,000
15.	Flat C on 19/F and 14 carparking spaces on various levels of the carpark podium Padek Palace No. 377 Prince Edward Road West Kowloon City Kowloon	HK$11,500,000	100%	HK$11,500,000
	Sub-Total:	**HK$21,980,000**		**HK$21,980,000**

Group IV: Property interests held by the Group under development in Hong Kong

	Property	Capital value in existing state as at 31 March 2006	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 31 March 2006
16.	No. 31 Robinson Road Mid-Levels Hong Kong	HK$744,000,000	100%	HK$744,000,000
	Sub-Total:	**HK$744,000,000**		**HK$744,000,000**

Group V: Property interests held by the Group for future development in Hong Kong

	Property	Capital value in existing state as at 31 March 2006	Interest attributable to the Group	Capital value in existing state attributable to the Group as at 31 March 2006
17.	Sections A and C of Lot No. 1135, Sections A and E of Lot No. 1139, Section A of Lot No.1140, Sections A and B of Lot No. 1141, Section A of Lot No. 1148, Section A of Lot No.1149, Section A of Lot No. 1152, Section A and Remaining Portion of Lot No. 1153, Lot No. 1154, Section A of Lot No. 1157, Section A of Lot No. 1158 and Section A of Lot No. 1162 in Demarcation District No. 121, Yuen Long, New Territories	HK$13,000,000	100%	HK$13,000,000
18.	Nos. 150-162 Belcher Street, Kennedy Town, Hong Kong	HK$178,500,000	100%	HK$178,500,000
	Sub-Total:	**HK$191,500,000**		**HK$191,500,000**
	Grand-Total:	**HK$4,984,310,000**		**HK$4,984,010,000**

VALUATION CERTIFICATE

Group I: Property interests held for investment by the Group in Hong Kong

	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
1.	Pioneer Centre No. 750 Nathan Road Mongkok Kowloon Kowloon Inland Lot No. 2111	The property comprises a 25-storey commercial building plus three basement levels completed in about 1995. The basement levels are for car parking, retail and restaurant uses. The ground to 3rd floors are for retail uses. The 4th to 7th floors are for restaurant uses. The 8th and 9th floors are the mechanical floors and the upper floors are for office uses. The site on which the building stands has an area of about 37,261 sq.ft. (3,461.63 sq.m.). The approximate gross floor areas of the various floors are as follows : **Floor** / **Gross Floor Area** *sq.ft.* / *sq.m.* 1st Basement 26,240.87 2,437.86 G/F-7/F 185,801.90 17,261.58 10/F-24/F 271,538.68 25,226.79 Total 483,581.45 44,926.23 There are a total number of 124 car parking spaces. The property is held under a Government Lease for a term of 75 years from 30 April 1928, renewed for a further term of 75 years. The Ground Rent payable for the whole Lot is HK$3,971,258 per annum.	As at 31 March 2006, the retail and office portions were let or subject to various tenants with the latest expiry in September 2009. About 5.97% retail spaces were vacant, whilst 0.4% office spaces were vacant. Office spaces of 26,419 sq.ft. on 23/F and 24/F were occupied by the Group. The total monthly rent receivable from retail and office portions was HK$14,127,336 exclusive of rates and management fees. There are also incomes from various licences for advertising signs, banner, directory board & light box, exhibition spaces and antenna etc. Car parks are rented on monthly or hourly basis. The total income from various licences and car park for the first three months in 2006 were HK$1,991,672 and HK$1,992,073 respectively.	HK$3,235,000,000

Notes:

1. The registered owner of the property is Kowloon Development Company Limited.

2. The property is subject to a Mortgage to secure banking facilities and a Supplement and a Second Supplement to Mortgage in favour of Bank of China (Hong Kong) Limited.

	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
2.	20th Floor of Argyle Centre Phase I No. 688 Nathan Road and No. 65 Argyle Street Mongkok Kowloon 130/8,800th shares of and in Sections A, B and H of Kowloon Inland Lot No. 1262	The property comprises the whole of 20th Floor of Phase I of Argyle Centre which is a 21-storey commercial building with a basement completed in about 1982. The basement, ground and 1st to 5th floors of the building are occupied as shops and the 7th to 20th floors are used as offices. The 6th floor is the mechanical floor. The gross floor area of the property is about15,774 sq.ft. (1,465.44 sq.m.). The property is held under a Government Lease for a term of 75 years from 18 February 1910, renewed for a further term of 75 years. The current total Ground Rent payable for the property is HK$36,396 per annum.	As at 31 March 2006, the property was fully let to various tenants under various leases, with the latest one expires in March 2009. The total rent receivable was HK$273,270 per month, exclusive of rates and management fees.	HK$61,000,000

Note:

1. The registered owner of the property is Units Properties Limited which is a wholly owned subsidiary company of the Company.

	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
3.	The Whole of the Basement Carpark of Manor Centre No. 213 Un Chau Street and No. 218 Fuk Wing Street Sham Shui Po Kowloon 194/6,200th shares of and in The Remaining Portion of New Kowloon Inland Lot No. 2622	The property comprises 97 private car parking spaces on the basement of Manor Centre which is a private housing estate consisting of seven 13-storey residential blocks, a ground floor shopping arcade plus a car parking basement completed in 1986. The property is held under a Government Lease for a term originally expired on 30 June 1997 and has been extended to 30 June 2047 by virtue of New Territories Leases (Extension) Ordinance. The Government rent is equivalent to 3 per cent of the rateable value for the time being of the property per annum.	As at 31 March 2006, the property was licensed to a licensee to operate as a public car park. The licence term is for 2 years expiring on 31 December 2007 at a monthly licence fee (the "Minimum Licence Fee") of HK$178,810 or 82% of the gross receipts, whichever the higher. The licence fee is exclusive of rates and management fees.	HK$35,000,000

Note:

1. The registered owner of the property is Un Chau Properties Limited which is a wholly owned subsidiary company of the Company.

	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
4.	Parking Spaces Nos. L1, L2, L6-L8, L12-L36, V1-V28 on Basement and Parking Spaces Nos. V1-V17 on Ground Floor of Merit Industrial Centre No. 94 To Kwa Wan Road To Kwa Wan Kowloon 180/5,600th shares of and in The Remaining Portion of Kowloon Inland Lot No. 6393	The property comprises 28 private car and 30 lorry parking spaces on the basement and 17 private car parking spaces on the ground floor of Merit Industrial Centre which is a 13-storey plus a basement level industrial building completed in 1986. The property is held under a Government Lease for a term of 75 years from 5 October 1953 with a right to renew for a further term of 75 years. The Ground Rent payable for the Lot is HK$2,192.00 per annum.	As at 31 March 2006, a manager was appointed as the owner's managing agent to operate the car parks for two years expiring on 31 December 2007 and the income was based on the gross receipts from the operation of the property after the deduction of the manager's remuneration of HK$23,700 per month.	HK$21,800,000

Note:

1. The registered owner of the property is Un Chau Properties Limited which is a wholly owned subsidiary company of the Company.

	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
5.	2nd — 23rd Floors and the Roof The Elgin No. 51 Elgin Street Central Hong Kong 562/780th shares of and in The Remaining Portion of Section G of Inland Lot No. 126	The property comprises the whole of residential floors on 2nd, 3rd, 5th, 6th, 7th, 8th, 9th, 10th, 11th, 12th, 13th, 15th, 16th, 17th, 18th, 19th, 20th, 21st, 22nd, 23rd floors and the Roof of The Elgin which is a 23-storey composite building with the lower ground floor, upper ground floor and 1st floor for commercial use and the upper floors for residential use completed in 1997. The total gross floor area of the property is approximately 14,280 sq.ft. (1,326.64 sq.m.). The property is held under a Government Lease for a term of 999 years from 1 February 1855. The current Ground Rent payable for the whole of Section G of the Lot is HK$8.40 per annum.	As at 31 March 2006, except 22/F, which was vacant, all the units were let to various tenants under short to medium terms, with the latest one expires in March 2007. The total monthly rent and licence fee receivable was HK$355,750, inclusive of rates, management fees and service charge.	HK$51,000,000

Note:

1. The registered owner of the property is Units Properties Limited which is a wholly owned subsidiary company of the Company.

	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
6.	Parking Spaces Nos. L3-L5,L9-L11 on Basement, Parking Spaces Nos. C1-C2 and Storeroom B on Ground Floor of Merit Industrial Centre No. 94 To Kwa Wan Road To Kwa Wan Kowloon 40/5,600th shares of and in The Remaining Portion of Kowloon Inland Lot No. 6393	The property comprises 6 lorry parking spaces on the basement, 2 container parking spaces and a storeroom on the ground floor of Merit Industrial Centre which is a 13-storey plus a basement level industrial building completed in 1986. The gross floor area of the storeroom is about 822 sq.ft. (76.37 sq.m.). The property is held under a Government Lease for a term of 75 years from 5 October 1953 with a right of renewal for a further term of 75 years. The Ground Rent payable for the Lot is HK$2,192.00 per annum.	As at 31 March 2006, the property was vacant.	HK$3,830,000

Note:

1. The registered owner of the property is To Kwa Wan Properties Limited which is a wholly owned subsidiary company of the Company.

	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
7.	Various Shops on 1st Floor and Signage Spaces New Mandarin Plaza No. 14 Science Museum Road Tsim Sha Tsui Kowloon 44,331/50,127th of 2,081/30,000th shares of and in Kowloon Inland Lot No. 10599 *(for Shops)* 29,053/32,630th of 3.3/30,000th shares of and in Kowloon Inland Lot No. 10599 *(for Signage Spaces)*	The property comprises 127 shop units on the 1st Floor and the signage spaces on the external wall of New Mandarin Plaza, which is a development comprising two 14-storey commercial buildings plus two basement levels completed in 1982. The total gross floor area of the property is approximately 49,430 sq.ft. (4,592.16 sq.m.). The property is held under Conditions of Sale No. 11333 for a term of 75 years commencing from 18 June 1979, with a right of renewal for a further term of 75 years. The current Ground Rent payable for the whole Lot is HK$1,000 per annum.	As at 31 March 2006, about 4,193 sq.ft. gross spaces were vacant, other floor spaces were let to various tenants under various leases and licences with the latest one expires in February 2009. The total rent receivable was HK$832,511 per month, exclusive of rates and management fees and the total licence fee receivable was HK$6,300 per month, inclusive of rates and management fees, and the total licence fee receivable from signage space was HK$1,201 per month exclusive of rates.	HK$169,000,000

Notes:

1. The registered owner of the property is Units Properties Limited which is a wholly owned subsidiary company of the Company.

2. The subject units are Shop Nos. 101-103, 105-113, 115-123, 125-133, 135-143, 145-146, 157-163, 165-173, 175-183, 185-193, 195-203, 205-213, 215-223, 225-233, 235-243 and 245-251.

3. The property is subject to a Mortgage and an Assignment of Receivable in favour of Hang Seng Bank Limited.

	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
8.	Various Shops on Basement, Ground Floor, Mezzanine Floor and 1st Floor Sino Centre Nos. 582-592 Nathan Road Mongkok Kowloon 965/3,935th shares of and in Kowloon Inland Lot Nos. 7051, 7052, 7053, 7054, 7055 and 7056	The property comprises 29 shop units on the basement, 17 shop units on the ground floor, 2 shop units on the mezzanine floor and 3 shop units on the 1st floor of Sino Centre which is a 23-storey commercial building plus a basement level completed in 1979. The total gross floor area of the property is approximately 10,931 sq.ft. (1,015.51 sq.m.). The property is held under six Government Leases, all for a term of 75 years commencing from 28 January 1907, renewed for a further term of 75 years. The current Ground Rent payable for the Lots is HK$154,566.00 per annum.	As at 31 March 2006, about 9,746 sq.ft. of the property have been let or subject to various tenants under various leases and licences, with the latest one expires in September 2008. The total rent receivable was HK$1,070,431 per month, exclusive of rates and management fees.	HK$247,000,000

Notes:

1. The registered owner of the property is Tyleelord Development & Agency Company Limited which is a wholly owned subsidiary company of the Company.

2. The subject units are Shop Nos. B1, B7-B11, B15-B26, B29-B35, B41-B43, B50, G5, G6, G7, G8, G10-G12, G17-G21, G31, G34-G37, M19, M37, 118, 120 and 130.

3. The property is subject to a Mortgage to secure general banking facilities in favour of Hang Seng Bank Limited.

	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
9.	Parking Space Nos. 59, 59A, 60, 60A, 61, 61A, 62, 63, 68 & 73 and the Whole Shop Spaces on Basement Peninsula Centre No. 67 Mody Road Tsim Sha Tsui Kowloon 875/32,476th shares of and in Kowloon Inland Lot No. 10598	The property comprises 10 parking spaces and the whole shop spaces on the basement of Peninsula Centre, which is a commercial development of 15-storey plus a basement level completed in 1981. The total gross floor area of the whole shop spaces of the property is approximately 19,018 sq.ft. (1,766.82 sq.m.). The property is held from Government under Conditions of Sale No. 11241 for a term of 75 years commencing from 13 September 1978, with a right to renew for a further term of 75 years. The Government rent payable for the Lot is HK$1,000 per annum.	As at 31 March 2006, the whole shop spaces on the basement was leased to a tenant for three years seven months and twenty one days expiring on 31 December 2007, the current monthly rent is HK$328,000 and increased to HK$433,780 from 1 January 2006, both exclusive of rates and management fees, whilst all the 10 parking spaces are licensed to one licensee on monthly basis at monthly licence fee of HK$17,600 inclusive of rates and management fees.	HK$67,000,000

Note:

1. The registered owner of the property is Wealrise Investments Limited which is a wholly owned subsidiary company of the Company.

	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
10.	The Whole of 2nd Floor and Signage Spaces New Mandarin Plaza No. 14 Science Museum Road Tsim Sha Tsui Kowloon 2,325/30,000th shares of and in Kowloon Inland Lot No. 10599 *(for Shops)* 1.3/30,000th shares of and in Kowloon Inland Lot No. 10599 *(for Signage Spaces)*	The property comprises the whole of 2nd Floor and the signage spaces on the external wall of New Mandarin Plaza which is a development comprising two 14-storey commercial buildings plus two basement levels completed in 1982. The total gross floor area of the property is approximately 56,228 sq.ft. (5,223.71 sq.m.). The property is held from Government under Conditions of Sale No. 11333 for a term of 75 years commencing from 18 June 1979, with a right to renew for a further term of 75 years. The Ground rent payable for the whole Lot is HK$1,000 per annum.	As at 31 March 2006, the property was divided into three portions. Portion A was leased for a term of two years nine months and six days to expire on 31 December 2006 at a monthly rent of HK$293,502 exclusive of rates and management fees plus 5% to 20% turnover rent depending on the amount of gross receipt in each month with an option to renew for two years; Portion B1, B3 & B4 was leased for a term of four years to expire on 15 February 2010 at a monthly rent of HK$264,705 exclusive of rates and management fees with an option to renew for three years at a monthly rent of HK$317,646; and Portion B2 was leased for a term of three years to expire on 30 April 2008 at a monthly rent of HK$106,195 exclusive of rates and management fees with an option to renew for three years.	HK$133,000,000

Notes:

1. The registered owner of the property is Wealrise Investments Limited which is a wholly owned subsidiary company of the Company.

2. The property is subject to a Mortgage to secure general banking facilities and Rent Assignment in favour of the Hongkong and Shanghai Banking Corporation Limited.

Group II: Property interests owned and occupied by the Group in Hong Kong

	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
11.	Units 1-4 on 17th Floor Pacific Trade Centre No. 2 Kai Hing Road Kowloon Bay Kowloon 54/12,041st shares of and in New Kowloon Inland Lot No. 6036	The property comprises 4 workshops on the 17th Floor of a 15-storey (there is no 4th, 13th and 14th Floors) industrial building plus a basement level completed in 1990. The total gross floor area of the property is about 3,687 sq.ft. (342.53 sq.m.) and is listed as follows: **Unit** / **Gross Floor Area** *sq.ft.* / *sq.m.* Unit 1: 1,525 / 141.67 Unit 2: 716 / 66.52 Unit 3: 723 / 67.17 Unit 4: 723 / 67.17 Total: 3,687 / 342.53 The property is held from Government under Conditions of Sale No. 11936 for a term commencing from 23 March 1987 until 30 June 2047. The annual Government Rent payable for the property is equivalent to 3 per cent of the rateable value for the time being of the property.	As at 31 March 2006, the property was occupied by the Group as godown.	HK$2,000,000 (85% attributable to the Group: HK$1,700,000)

Note:

1. The registered owner of the property is Golden Princess Amusement Company Limited which is an 85% owned subsidiary company of the Company.

	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
12.	Flat A on 2nd Floor Kam Tong Court No. 47A Elgin Street Central Hong Kong 1/15th shares of and in Sub-Section 5 of Section A of Inland Lot No. 121	The property comprises an apartment unit on the 2nd floor of Kam Tong Court which is a 6-storey composite building completed in 1992. The gross floor area of the property is approximately 383 sq.ft. (35.58 sq.m.). The property is held under a Government Lease for a term of 999 years from 22 January 1845. The Ground Rent payable for the whole of Section A of the Lot is HK$7.00 per annum.	As at 31 March 2006, the property was occupied and used by a subsidiary company of the Group.	HK$1,200,000

Note:

1. The registered owner of the property is Units Properties Limited which is a wholly owned subsidiary company of the Company.

Group III: Property interests held for sale purposes by the Group in Hong Kong

Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
13. 4 Car Parking Spaces on 5th Floor The Verandah Garden No. 42 Kung Lok Road Kwun Tong Kowloon 36/3,410th shares of and in Kwun Tong Inland Lot No. 738	The property comprises Car Parking Spaces Nos. 51, 53, 54, and 55 on the 5th Floor of The Verandah Garden, which is a 21-level residential building surmounting on a 7-level of entertainment/car parking podium. The development was completed in 1998. The property is held from Government under Conditions of Exchange No. 12395 for a term commencing from 25 June 1996 until 30 June 2047. The Government Rent payable for the property is equivalent to 3 per cent of the rateable value for the time being of the property per annum.	As at 31 March 2006, the property was vacant.	HK$880,000

Note:

1. The registered owner of the property is Tyleelord Development & Agency Company Limited which is a wholly owned subsidiary company of the Company.

	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
14.	64 Car Parking Spaces on Lower Ground Floor Recours La Serre No. 118 Tong Yan San Tsuen Road Yuen Long New Territories 256/9,364th shares of and in Lot No. 2057 in Demarcation District No. 121	The property comprises 64 car parking spaces on the lower ground floor of Recours La Serre which is a development of eight 4-storey residential blocks erected on a lower ground carpark podium completed in 2002. The property is held under New Grant No. 4338 for a term commencing from 25 April 1997 until 30 June 2047. The Government Rent payable for the property is 3 per cent of the rateable value for the time being of the property per annum.	As at 31 March 2006, the property was vacant.	HK$9,600,000

Notes:

1. The registered owner of the property is Wealrise Investments Limited which is a wholly owned subsidiary company of the Company.

2. The car parking spaces include Nos. P1 — P3, P5 — P9, P12, P40, P42, P48, P51 — P52, P57 — P59, P67, P69 — P73, P75 — P80, P83, P85 — P93, P95, P99, P101 — P103, P105 — P110, P116, P131 — P133, P135 — P138, P143, P155 — P158 and P170.

Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
15. Flat C on 19/F and 14 car parking spaces on various levels of carpark podium of Padek Palace, No. 377 Prince Edward Road West, Kowloon City, Kowloon 464/22,336th shares of and in Section A of Kowloon Inland Lot No. 4234	The property comprises a residential unit on 19/F and 14 car parking spaces on various levels of the carpark podium of Padek Palace, which is a development of a 17-storey residential tower on a 5-level carpark podium and a level of clubhouse. The development was completed in 2004. The gross floor area of the residential unit is 71.07 sq.m. (765 sq.ft.). The property is held from Government under Conditions of Sale No. 4056 for a term of 75 years commencing from 11 March 1940 with a right to renew for a further 75 years. The Government rent payable for the whole lot is HK$246 per annum.	As at 31 March 2006, the property was vacant.	HK$11,500,000

Notes:

1. The registered owner of the property is Pak Hop Shing Company Limited which is a wholly owned subsidiary company of the Company.

2. The car parking spaces include Nos. 36, 37, 38, 39, 40, 41, 42, 43 and 44 on 3rd Floor and Nos. 49, 52, 53, 55 and 56 on 5th Floor.

Group IV: Property interests held by the Group under development in Hong Kong

	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
16.	No. 31 Robinson Road Mid-Levels Hong Kong The Remaining Portions of Sections B, C and E of Inland Lot No. 711, Sections F, G and the Remaining Portion of Inland Lot No. 711 and the Remaining Portions of Sub-sections 1 and 2 of Section C of Inland Lot No. 711	The property comprises a site having a site area of approximately 15,692 sq.ft. (1,457.82 sq.m.) upon which a 30-storey residential tower erected on a 5-level of carpark podium, a podium garden and a level of clubhouse is to be constructed. Foundation work has been completed. Superstructure work is in progress. Upon completion, the ground floor to 5th floor will be for car parking uses accommodating 88 private car parking spaces and 6 motor parking spaces and the upper floors will be for domestic uses with a podium garden, a sky garden and a clubhouse.The total gross floor area of the property is approximately 128,084 sq.ft. (11,899.32 sq.m.). The development is expected to be completed in the first half of 2007. The property is held under a Government Lease for a term of 999 years commencing from 25 June 1861. The current Ground Rent payable for the property is HK$26.00 per annum.	As at 31 March 2006, the property was under construction.	HK$744,000,000

Notes:

1. The registered owner of the property is King's City Holdings Limited which is a wholly owned subsidiary company of the Company.

2. The property is subject to a Debenture and Further Debenture in favour of Wing Lung Bank Limited.

3. The property is subject to a Sealed Copy of Amended Order and Sealed Copy of Order and a Sealed Copy Writ of Summons (Remarks: in H. C. Action No. 192 of 2003).

4. The property is zoned "Residential (Group B)" on the Mid-Levels West Outline Zoning Plan No. S/H11/13 dated 25 June 2002.

5. The total construction cost expended on the property as at 31 March 2006 was in the sum of HK$130,067,000 (excluding interests capitalized) which has been reflected in the capital value in existing state. The estimated further cost required of completing the development is HK$78,951,000.

6. The estimated capital value of the development when completed as at 31 March 2006 was HK$900,000,000.

Group V: Property interests held by the Group for future development in Hong Kong

Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
17. Sections A and C of Lot No. 1135, Sections A and E of Lot No. 1139, Section A of Lot No. 1140, Sections A and B of Lot No. 1141, Section A of Lot No. 1148, Section A of Lot No. 1149, Section A of Lot No. 1152 and Section A and Remaining Portion of Lot No. 1153, Lot No. 1154, Section A of Lot No. 1157, Section A of Lot No. 1158 and Section A of Lot No. 1162 in Demarcation District No. 121 Yuen Long New Territories	The property comprises 17 pieces of agricultural land situated in Tong Yan San Tsuen of Yuen Long. The registered site area of the property is approximately 40,491 sq.ft. (3,761.71 sq.m.). The property is held under a Block Government Lease for a term extended to 30 June 2047. The current Government Rent payable for the property is 3 per cent of the rateable value of the property per annum.	As at 31 March 2006, the property was vacant.	HK$13,000,000

Notes:

1. The registered owner of the property is Wealrise Investments Limited which is a wholly owned subsidiary company of the Company.

2. The property is zoned "Residential (Group B) 1" on the Tong Yan San Tsuen Outline Zoning Plan No. S/YL-TYST/109 dated 2 February 2006.

3. As at 31 March 2006, there was no development plan for the property.

	Property	Description and Tenure	Particulars of Occupancy	Open Market Value in existing state as at 31 March 2006
18.	Nos. 150-162 Belcher Street, Kennedy Town, Hong Kong The Remaining Portions of Subsection 8 of Section A, Section N of Subsection 1 of Section A, Section K of Subsection 1 of Section A, Section L of Subsection 1 of Section A, Section P of Subsection 1 of Section A, The Remaining Portion of Section J of Subsection 1 of Section A, The Remaining Portion of Section O of Subsection 1 of Section A and The Remaining Portion of Section D of Subsection 1 of Section A, all of Inland Lot No. 905	The property comprises eight contiguous pieces of land with a combined site area of approximately 6,071 sq.ft. (564.01 sq.m.) The combined site has frontages on three streets, which is classified as “Class C site” under the Building (Planning) Regulations (Chapter 123F). Erecting thereupon currently are three old buildings of 6-9 storeys high. The property is held under a Government Lease for a term of 999 years commencing from 24 September 1883. The current Ground rent payable for the whole lots is HK$52 per annum.	As at 31 March 2006, some of the units of the old buildings were tenanted with the latest tenancies expiring in February 2007.	HK$178,500,000

Notes:

1. The registered owner of the property is Wealrise Investments Limited which is a wholly owned subsidiary company of the Company.

2. The property is zoned “Residential (Group A)” on the Kennedy Town & Mount Davis (HPA1) Outline Zoning Plan No. S/H1/14 dated 2 November 2004.

3. As at 31 March 2006, there was no development plan for the property.

The following is the text of the letter and valuation certificates of Knight Frank Hong Kong Limited, an independent valuer, with respect to the properties held by the KDC Group, prepared by them for the purpose of inclusion in this circular.

Knight Frank
萊坊國際物業顧問

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23 May 2006

The Directors
Kowloon Development Company Limited
23rd Floor, Pioneer Centre
750 Nathan Road
Kowloon
Hong Kong

Dear Sirs,

In accordance with your instructions for us to value the properties and, where appropriate, the development rights in Hong Kong as per the attached certificate held by Kowloon Development Company Limited ("the Company") and its subsidiaries (together known as "the Group"), we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of values of the properties and, where appropriate, the development rights as at 31 March 2006.

We have valued the properties at their market values which we would define as meaning "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuations have been made on the assumption that the owners sell the properties in the open market in their existing state without the benefit of deferred terms contracts, leasebacks, joint ventures, management agreements or any similar arrangement which would serve to increase the values of the properties.

Property No. 1, which is under development, has been valued on the basis that this property will be developed and completed in accordance with the Company's latest development proposal provided to us. We have assumed that approvals for the proposal have been obtained. In arriving at our opinion of value, we have valued it by the Direct Comparison Approach by making reference to comparable market transactions in the locality and have also taken into account the construction costs that will be expended to complete the development to reflect the quality of the completed development. The "Capital value when completed" represents our opinion of the aggregate selling prices of the development assuming that it would have completed at the date of valuation.

Property No. 2, which is held for development, is valued by reference to comparable market transactions.

We have caused land searches to be made at the Land Registries. However, for property No. 2 we understand that the property is held from the Government under four New Grants (namely New Grant Nos. 902, 903, 904 and 1837). However, the Government records or copies of the said four New Grants are missing and cannot be found at the Sai Kung Land Registry. Thus the site area, the conditions governing the usage and development of the property, the lease term and Government Rent cannot be ascertained from the Government. According to two copies of Indentures provided by The Mother Superior of The Petites Soeurs Des Pauvres St. Pern Bretagne, the lease terms of the property, which expired before 30 June 1997, have been extended until 30 June 2047 under Annex III of the Joint Declaration and with an annual government rent charged at 3% of the then rateable value of the lots.

We have relied to a considerable extent on the information provided by the Company and have accepted advice given to us by the Company on such matters as statutory notices, easements, tenure, identification of property, development agreement, development proposal, construction cost expended, estimated outstanding construction costs to be expended, estimated completion date, site areas and all other relevant matters. All documents and leases have been used as reference only and all dimensions, measurements and areas are approximate.

We have inspected the exterior of the properties. During the course of our inspection, we did not note any serious defects. However, no structural survey has been made and we are therefore unable to report as to whether the properties are or are not free of rot, infestation or any other defects. No tests were carried out on any of the services. We have also not carried out investigation on site to determine the suitability of the ground conditions and the services etc. for any future development.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

We enclose herewith our valuation certificate.

Yours faithfully,
For and on behalf of
KNIGHT FRANK HONG KONG LIMITED
Catherine Cheung
MHKIS MRICS RPS(GP)
Director

Note: Ms. Catherine Cheung has extensive experience in valuation of properties in Hong Kong and the People's Republic of China.

VALUATION CERTIFICATE

Group I: Property under development

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2006
1.	No. 33 Ka Wai Man Road, Kennedy Town, Hong Kong Inland Lot No. 8873.	The property comprises a site with an area of approximately 7,837 sq.ft. (728.1 sq.m.) on which a residential development is being constructed. The proposed development will comprise a 30-storey (excluding a refuge floor) residential block erected on a 7-storey podium for carparking, club house and garden purposes. Upon completion, the proposed development will provide a total gross floor area (excluding the carparking spaces) of approximately 78,372 sq.ft. (7,281 sq.m.). In addition, 27 carparking spaces, 5 motorcycle parking spaces and a loading/unloading space will be provided. The proposed development is scheduled to be completed in mid 2006. The property is held under Conditions of Grant No. 12646 for a term of 50 years from 28 November 2003. The annual Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property.	Superstructure work is near completion.	HK$418,000,000

Notes:

(1) The registered owner of the property is Urban Renewal Authority.

(2) As advised by the Company, the total construction cost expended on the property as at 31 March 2006 was HK$79,000,000 (excluding interests capitalized) and the estimated construction cost to be spent to complete the proposed development as at the date of valuation was approximately HK$34,000,000, which has been taken into account in our valuation.

(3) The capital value when completed of the development as at the date of valuation was HK$480,000,000.

(4) The property falls within an area zoned for "Residential (Group A)" uses under Kennedy Town and Mount Davis Outline Zoning Plan No. S/H1/14 dated 12 November 2004.

Group II: Property held for development

	Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 March 2006
2.	Lot Nos. 1904 and 1905, Section A and the Remaining Portion of Lot No. 1906, Section C and the Remaining Portion of Lot No. 1907 all in Survey District No. 2, Ngau Chi Wan, Kowloon	The property comprises a development site with a total site area of approximately 208,125 sq.ft. (19,335.46 sq.m.) which forms part of the 240,823 sq.ft (22,373.2 sq.m.) Comprehensive Development Area in Ngau Chi Wan, Kowloon. The whole Comprehensive Development Area is proposed to be completed in about 2008 to 2009.	Foundation work is in progress.	HK$2,700,000,000

Notes:

(1) The registered owner of Section C of Lot No. 1907 is Jumbo Power Enterprises Limited, a wholly-owned subsidiary of Jumbo Star Limited, and the remainder of the property is owned by Best Power (Asia) Limited, a company wholly owned by The Mother Superior of The Petites, Soeurs Des Pauvres St. Pern Bretagne.

(2) According to the record in the Sai Kung Land Registry, the property is held from the Government under four New Grants (namely New Grant Nos. 902, 903, 904 and 1837). However, the Government records or copies of the said four New Grants are missing and cannot be found at the Sai Kung Land Registry when we conducted land search recently. Thus the site area, the conditions governing the usage and development of the property, the lease term and Government Rent, cannot be ascertained from the Government.

We have therefore relied on the provisions as contained in the two copies of Indentures provided by The Mother Superior of The Petites Soeurs Des Pauvres St. Pern Bretagne. One of those Indentures was executed between the Government and Chan King Yue and was dated 12 May 1919. It concerns Lots Nos. 1904, 1905 and 1906. The other one was executed between the Government and The Mother Superior of The Petites Soeurs Des Pauvres, St. Pern Bretagne and was dated 26 September 1933. It relates to Lot No. 1907. We have based our valuation on the information contained in those documents and other relevant material provided by you regarding the site area, the conditions governing the usage and development of the property, the lease term and Government Rent of the property. The lease terms have been extended until 30 June 2047 under Annex III of the Joint Declaration.

(3) According to the said copies of Indentures, the property is partly restricted for agricultural lot purposes and partly for building lot purposes subject to Schedule B of Government Notification Nos. 365 and 570 which mainly restrict developments to not exceeding two storeys.

(4) The property is currently zoned as a "Comprehensive Development Area" under Ngau Chi Wan Outline Zoning Plan No. S/K12/16 dated 2 November 2004. Any development or redevelopment in the "Comprehensive Development Area" necessitates an application under Section 16 of the Town Planning Ordinance with a Master Layout Plan. According to the explanatory notes of the said Outline Zoning Plan, no new development or addition, alteration and/or modification to the existing building(s) shall result in a total development or redevelopment being in excess of a maximum plot ratio of 7.5 for a domestic building or 9.0 for a building that is partly domestic and partly non-domestic.

(5) An agreement was made between The Mother Superior of The Petites Soeurs Des Pauvres, St. Pern. Bretagne (also known as The Little Sisters of The Poor) ("Little Sisters"), Best Power (Asia) Limited ("Best Power"), Jumbo Power Enterprises Limited ("the Company") and Polytec Holdings International Limited ("the Guarantor") on 11 February 2002. According to the arrangements stated in the aforesaid agreement, Little Sisters and Best Power have granted the Company exclusive right to develop the property and as confirmed by the Company, it still has an outstanding obligation of approximately HK$125,085,000 payable to the Little Sisters. Upon fulfillment of the outstanding obligation, the Company will be entitled to all sales proceeds derived from the completed development. The development rights of the entire property interest in the property has been assessed to be at least HK$2,700,000,000 as at 31 March 2006.

(6) As advised by the instructing party, Section 16 application has already been approved by the Town Planning Board and in undertaking the valuation we have taken into account the information contained in the Section 16 submission which are set out as follows:

Site Area	:	240,823 sq.ft.
Proposed Gross Floor Area for commercial use	:	636,954 sq.ft.
Proposed Gross Floor Area for residential use	:	1,476,807 sq.ft.
Proposed Gross Floor Area for GIC use	:	49,514 sq.ft.
No. of residential blocks	:	5

The following is the text of the letter, summary of valuation and valuation certificate of DTZ Debenham Tie Leung Limited, an independent valuer, with respect to the First Property, the Second Property and the Third Property together with the properties and property interest held and rented by the KDC Group, prepared by them for the purpose of inclusion in this circular.

DTZ Debenham Tie Leung
International Property Advisers
戴德梁行

23 May 2006

The Directors
Kowloon Development Company Limited
23rd Floor, Pioneer Centre
750 Nathan Road
Kowloon
Hong Kong

Dear Sirs,

RE: PROPERTY VALUATION

In accordance with your instructions for us to value the properties in which Kowloon Development Company Limited and/or its subsidiaries (including Polytec Asset Holdings Limited and/or its subsidiaries ("the PAH Group") together "the KDC Group") have interests and the properties in which Polytex Corporation Limited ("the First Macau Company") and Fok Kiu-Properties Investment Company Limited ("the Second Macau Company") have interests, we confirm that we have carried out inspections, made relevant enquiries and searches and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 31 March 2006 (the "date of valuation").

Our valuation of each property represents its market value which in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors is defined as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Our valuation of each property excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

Unless otherwise stated, we have valued the properties by reference to comparable market transactions. Properties nos. 1 to 4 are purpose-built premises for ice making or cold storage purpose. Evidence of direct comparable transactions are not readily available, we have valued those properties by "Depreciated Replacement Costs ("DRC") Approach". The DRC Approach requires an estimate of the market value of the land in its existing use and an estimate of the current cost of replacement of the buildings and structures, less deductions for physical deterioration and all relevant forms of obsolescence and optimisation. The values arrived at by the DRC approach are subject to adequate potential profitability of the business.

Property in Group VI is rented by the KDC Group in Hong Kong. It is considered to have no commercial value due mainly to the prohibitions against assignment or sub-letting or otherwise due to lack of substantial profit rent.

We have caused searches to be made at the relevant Land Registries in Hong Kong and Macau but we have not searched the original documents to ascertain ownership or to verify any lease amendments which may not appear on the copies handed to us. We have relied to a considerable extent on the information provided by the KDC Group and we have accepted advice given to us on such matter as planning approvals, statutory notices, easements, tenure, completion dates of buildings, identification of properties, particulars of occupancy, trading accounts, floor plans, site and floor areas and all other relevant matters.

Dimension, measurements and areas included in the valuation certificates are based on information provided to us and are therefore only approximations. We have had no reason to doubt the truth and accuracy of the information provided to us by the KDC Group and that no material facts have been omitted from the information supplied.

In valuing properties nos. 1, 3 and 4 in Group I and property no. 5 in Group II, the Government Leases of which expired before 30 June 1997, we have taken into account that under the provisions contained in Annex III of the Joint Declaration of the Government of the United Kingdom and the Government of the People's Republic of China on the Question of Hong Kong as well as in the New Territories Leases (Extension) Ordinance such leases have been extended without premium until 30 June 2047 and that rents of three per cent. of the rateable values are charged per annum from the date of extension.

We have inspected the properties. However, no structural survey has been made, but in the course of our inspection, we did not note any serious defects. We have not, however, been able to report whether the properties are free of rot, infestation or any other structural defects. We have not been able to carry out on-site measurements to verify the floor areas of the properties and we have assumed that the areas shown on the copies of the documents handed to us are correct. No tests were carried out on any of the services.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of any onerous nature which could affect their values.

Unless otherwise stated, all sums stated in our valuations are in Hong Kong dollars. The exchange rate adopted in our valuations for properties in Groups III, IV, V, VII and VIII is approximately HK$1=MOP1.03 which was the approximate exchange rate prevailing as at the date of valuation.

We enclose herewith a summary of valuations and our valuation certificates for your attention.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
K. B. Wong
Registered Professional Surveyor (GP)
M.R.I.C.S., M.H.K.I.S.
Director

Note: Mr. K. B. Wong is a Registered Professional Surveyor who has over 20 years of experience in valuation of properties in Hong Kong and Macau.

SUMMARY OF VALUATIONS

	Property	Capital value in existing state as at 31 March 2006
		HK$
Group I — Properties held by the KDC Group in Hong Kong for owner occupation		
1.	Yau Tong Ice Plant, 422 Cha Kwo Ling Road, Yau Tong, Kowloon.	117,000,000
2.	Shek Pai Wan Ice Plant and Cold Store, 11 Tin Wan Praya Road, Aberdeen, Hong Kong.	160,000,000
3.	Tai Po Ice Plant, 2 Yu On Street, Tai Po, New Territories.	9,000,000
4.	Castle Peak Bay Ice Plant, 11 Sam Shing Street, Tuen Mun, New Territories.	9,000,000
	Sub-total:	295,000,000
Group II — Property held by the KDC Group in Hong Kong for development		
5.	Sections G, H, J, K, L, M and N of Lot No. 3753, Section D of Lot No. 3779, Sections A and B of Lot No. 3780, Sections A, B and C of Lot No. 3781, Section A and the Remaining Portion of Lot No. 3782 in Demarcation District No. 124, Shun Fung Wai, Tuen Mun, New Territories.	17,000,000
	Sub-total:	17,000,000

	Property	Capital value in existing state as at 31 March 2006
		HK$
Group III — Property held by the KDC Group in Macau for sale		
6.	37 retail shops, 36 office units and 177 car parking spaces in China Plaza, Avenida da Praia Grande Nos. 730-804 and Avenida de D. Joao IV Nos. 2-6-B, Macau.	304,000,000
	Sub-total:	304,000,000
Group IV — Property and Property interest held by the KDC Group in Macau for development		
7.	A site at Estrada Coronel Nicolau de Mesquita, Taipa, Macau.	430,000,000
8.	La Baie Du Noble Lote S, Novos Aterros da Areia Preta, Macau.	2,000,000,000
	Sub-total:	2,430,000,000
Group V — Property held by the KDC Group in Macau for investment		
9.	Various Commercial Units and Car Parking Spaces at Va Iong, Praca da Amizade Nos: 6-52; Avenida do Infante D. Henrique Nos: 25-31 and Avenida Doutor Mario Soares Nos: 227-259, Macau.	150,000,000
	Sub-total:	150,000,000

	Property		Capital value in existing state as at 31 March 2006 *HK$*
Group VI — Property rented by the KDC Group in Hong Kong			
10.	A piece of ground situated at Tin Wan Praya Road, Aberdeen, Hong Kong		No commercial value
		Sub-total:	No commercial value
		Grand Total:	**3,196,000,000**
Group VII — Properties held by the First Macau Company in Macau for development			
11.	Lote P, Novos Aterros da Areia Preta, Macau.		9,000,000,000
12.	Lote V, Novos Aterros da Areia Preta, Macau.		1,800,000,000
Group VIII — Property held by the Second Macau Company in Macau for development			
13.	Lotes T and T1, Novos Aterros da Areia Preta, Macau.		2,400,000,000

VALUATION CERTIFICATE

Group I — Properties held by the KDC Group in Hong Kong for owner occupation

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006
1.	Yau Tong Ice Plant, 422 Cha Kwo Ling Road, Yau Tong, Kowloon. Yau Tong Marine Lot No. 71 ("Y.T.M.L. 71")	The property comprises a 2-storey ice-making plant building with high headrooms completed in 1980 at a waterfront location. The registered site area of the property is approximately 3,000 sq.m. (32,292 sq.ft.). The gross floor area of the property is approximately 1,400.04 sq.m. (15,070 sq.ft.). The property is held from the Government under Conditions of Sale No. 11180 for a term of 99 years from 1 July 1898 which has been statutorily extended to 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is currently owner-operated as an ice-making plant.	HK$117,000,000

Notes:

(1) The registered owner of the property is The Hong Kong Ice & Cold Storage Company Limited, which is a 56.84% owned subsidiary of the KDC Group.

(2) Pursuant to Conditions of Sale No. 11180 of Y.T.M.L. 71, the user of the lot is restricted to ice-making and cold storage purposes. No development on the lot shall exceed a height of 51.5 metres above the Hong Kong Principal Datum. The lot is granted with a right of access from the sea.

(3) The property is zoned for Comprehensive Development Area purposes on Cha Kwo Ling, Yau Tong, Lei Yue Mun Outline Zoning Plan No. S/K15/15 dated 21 June 2002.

(4) The property is subject to a Mortgage to secure general banking facilities in favour of The Hongkong and Shanghai Banking Corporation Limited for all moneys.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006
2.	Shek Pai Wan Ice Plant and Cold Store, 11 Tin Wan Praya Road, Aberdeen, Hong Kong. Aberdeen Marine Lot Nos. 10 and 11 ("A.M.L. 10 and 11")	The property comprises four 2-storey ice-making and cold storage plant/buildings with high headrooms completed in 1975 at a waterfront location. The total registered site area of the property is approximately 6,017.28 sq.m. (64,770 sq.ft.). The total gross floor area of the property is approximately 8,837.24 sq.m. (95,124 sq.ft.). The property is held from the Government under Conditions of Sale No. 9940 (Re: A.M.L. 10) and Conditions of Exchange No. 10426 (Re: A.M.L. 11) for the following terms: **Lot No.** — **Lease Term** A.M.L. 10 — 75 years from 28 June 1971 renewable for a further term of 75 years. A.M.L. 11 — 75 years from 24 February 1973 renewable for a further term of 75 years. The current aggregate Government rent payable for the lots is HK$1,486 per annum.	The property is currently owner-operated for ice-making and cold storage purposes.	HK$160,000,000

Notes:

(1) The registered owner of the property is The Hong Kong Ice & Cold Storage Company Limited, which is a 56.84% owned subsidiary of the KDC Group.

(2) Pursuant to Conditions of Sale No. 9940 of A.M.L. 10, the user of the lot is restricted to an ice-making plant having a production capacity of not less than one hundred tons per day and may be used for the processing of marine life and such other business allied to the fishing industry as may be approved by the relevant Government Authorities. The lot is granted with a right of access from the sea.

(3) Pursuant to Conditions of Exchange No. 10426 of A.M.L. 11, the user of the lot is restricted to processing of marine life, the manufacture of ice and general cold storage and such other business allied to fishing industry as may be approved by relevant Government Authorities provided always that not more than 50% of the total cold storage capacity on the lot shall be utilized for cold storage other than the cold storage of ice, marine life and products processed therefrom without the consent by relevant government authorities. No development on the lot shall exceed a height of 85 feet above the mean formation level. The lot is granted with a right of access from the sea.

(4) The property is zoned for Industrial purposes on Aberdeen and Ap Lei Chau Outline Zoning Plan No. S/H15/23 dated 24 March 2006.

(5) The property is subject to a Mortgage to secure general banking facilities in favour of The Hongkong and Shanghai Banking Corporation Limited for all moneys.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006
3.	Tai Po Ice Plant, 2 Yu On Street, Tai Po, New Territories. Tai Po Town Lot No. 47 ("T.P.T.L. 47")	The property comprises a single storey ice-making plant building with a high headroom completed in 1987 at a waterfront location. The registered site area of the property is 1,012 sq.m. (10,893 sq.ft.). The gross floor area of the property is approximately 299.42 sq.m. (3,223 sq.ft.). The property is held from the Government under New Grant No. 12132 for a term of 99 years from 1 July 1898, which has been statutorily extended to 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is currently owner-operated as an ice-making plant.	HK$9,000,000

Notes:

(1) The registered owner of the property is The Hong Kong Ice & Cold Storage Company Limited, which is a 56.84% owned subsidiary of the KDC Group.

(2) Pursuant to New Grant No. 12132 of T.P.T.L. 47, the user of the lot is restricted to ice-making and ancillary cold storage purposes as may be approved by the relevant Government Authorities. No development on the lot shall exceed two storeys. The lot is granted with a right of access from the sea.

(3) The property is not covered by any Outline Zoning Plan.

(4) The property is subject to a Mortgage to secure general banking facilities in favour of The Hongkong and Shanghai Banking Corporation Limited for all moneys.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006
4.	Castle Peak Bay Ice Plant, 11 Sam Shing Street, Tuen Mun, New Territories. Tuen Mun Town Lot No. 120 ("T.M.T.L. 120")	The property comprises a single storey ice-making plant with a high headroom completed in 1978 at a waterfront location. The registered site area of the property is approximately 929.02 sq.m. (10,000 sq.ft.). The gross floor area of the property is approximately 328.22 sq.m. (3,533 sq.ft.). The property is held from the Government under New Grant No. 2234 for a term of 99 years from 1 July 1898 which has been statutorily extended to 30 June 2047. The current Government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is currently owner-operated as an ice-making plant.	HK$9,000,000

Notes:

(1) The registered owner of the property is The Hong Kong Ice & Cold Storage Company Limited, which is a 56.84% owned subsidiary of the KDC Group.

(2) Pursuant to New Grant No. 2234 of T.M.T.L. 120, the user of the lot is restricted to ice-making, cold storage and such ancillary and other uses as may be approved by the relevant Government authorities. A certain portion of the lot is limited to a development of not more than two storeys. The lot is granted with a right of access from the sea.

(3) The property is zoned for Open Space purpose on Tuen Mun Outline Zoning Plan No. S/TM/21 dated 2 December 2005.

(4) The property is subject to a Mortgage to secure general banking facilities in favour of The Hongkong and Shanghai Banking Corporation Limited for all moneys.

Group II — Property held by the KDC Group in Hong Kong for development

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006
5.	Sections G, H, J, K, L, M and N of Lot No. 3753, Section D of Lot No. 3779, Sections A and B of Lot No. 3780, Sections A, B and C of Lot No. 3781, Section A and the Remaining Portion of Lot No. 3782 in Demarcation District No. 124, Shun Fung Wai, Tuen Mun, New Territories.	The property comprises fifteen pieces of agricultural lots with a total site area of approximately 1,770 sq.m. (19,052 sq.ft.) situated at Shun Fung Wai in Tuen Mun in the New Territories. The property is planned to be developed into various village type houses. Upon completion, it will provide a total of fifteen 3-storey village type houses with a total gross floor area of approximately 2,926.35 sq.m. (31,499 sq.ft.). The development is scheduled to be completed in mid-2006. The property is held from the Government for a term of 75 years from 1 July 1898 renewed for a term of 24 years. The lease term has been further statutorily extended to 30 June 2047. The current government rent payable for the property is an amount equal to 3% of the rateable value for the time being of the property per annum.	The property is currently under construction.	HK$17,000,000

Notes:

(1) The registered owners of the property are:

Lot No.	Registered Owner
Section G of Lot No. 3753	Leung Shing Wong Pakingson
Section H of Lot No. 3753	Leung Timothy
Section J of Lot No. 3753	Tsoi Kwok Man
Section K of Lot No. 3753	Chan Koon Tung
Section L of Lot No. 3753	Lee Kwong Ming
Section M of Lot No. 3753	Choi Peter Yun Fai
Section N of Lot No. 3753	Choi Alfred Wing Wah
Section D of Lot No. 3779	Hui Cheuk Ho
Section A of Lot No. 3780	Tsoi Kwok Cheong
Section B of Lot No. 3780	Lee Yuk Lun
Section A of Lot No. 3781	Leung Chiu Lun
Section B of Lot No. 3781	Chan King Fai
Section C of Lot No. 3781	Chan King Tong
Section A of Lot No. 3782	Lau Wai Lun
The Remaining Portion of Lot No. 3782	Lau Chi Keung

(2) Pursuant to fifteen Building Licences (Building Licence Nos. 2175 to 2178, 2203, 2208, 2211 to 2215, 2232, 2233, 2241 and 2242) granted by the Government of The Hong Kong Special Administrative Region in respect of the property, each of the subject lots is subject to the following restrictions on use and development:

(i) The lots and any buildings erected thereon or any part of such buildings shall not be used for any purpose other than non-industrial purposes.

(ii) Except for the building site, the remainder of the lot shall not be built upon and shall continue to be used for agricultural or garden purpose in accordance with the lease.

(iii) Each of the subject lots is licenced to erect one building which shall not contain more than three storeys, shall not exceed 8.23 m. (27 ft.) in height and shall not have a roofed-over area exceeding 65.03 sq.m. (700 sq.ft.).

(iv) The total gross floor area of each of the buildings shall not exceed 195.09 sq.m. (2,100 sq.ft.) or less than 117.05 sq.m. (1,260 sq.ft.).

(3) Pursuant to the above-mentioned Building Licences, each of the subject lots is subject to a restriction on alienation which prohibits disposal of the lot or any part thereof or any interest or undivided share therein or any building or any part of any building thereon. In the course of our valuation, we have taken into account such restrictions as stipulated in the said Building Liciences.

(4) The property is zoned on Lam Tei & Yick Yuen Outline Zoning Plan No. S/TM-LTYY/6 dated 14 March 2006 for "Village Type Development" purposes.

(5) According to a Letter of Intent executed by the KDC Group and a third party ("the counterparty") (as agent and attorney of the registered owners of the subject lots), the property will be jointly developed by the KDC Group and the counterparty into 15 village houses.

(6) As advised by the KDC Group, the total construction cost expended as at 31 March 2006 was HK$8,200,000 and we have taken into account such expended cost in our valuation.

Group III — Property held by the KDC Group in Macau for sale

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006
6.	37 retail shops, 36 office units and 177 car parking spaces in China Plaza, Avenida da Praia Grande Nos. 730-804 and Avenida de D.Joao IV Nos. 2-6-B, Macau.	China Plaza is a 23-storey commercial building erected over 5 levels of basement completed in 1995. The ground to 6th floors of the building are designed for retail purpose whilst the 7th to 22nd floors accommodate offices. The basement levels 1 to 5 are designed for carparking. The property comprises 37 shop units on the 1st, 4th and 6th floors, 36 office units on 8th, 9th, 14th, 17th and 20th floors and 177 car parking spaces on level 1 to level 5 of basement of the building. The property, excluding the area of car parking spaces, has a total gross floor area of approximately as follows: **Uses** / **Gross Floor Area** *sq.m.* / *sq.ft.* Retail 6,285.40 67,656 Office 6,213.40 66,881 Total : 12,498.80 134,537 The property is held for an unspecified term. No ground rent is payable for the property.	At the date of valuation, all the shop units on the 1st floor of the property with a total gross floor area of approximately 1,939.99 sq.m. (20,882 sq.ft.) are subject to a tenancy at a monthly rent of MOP177,497 exclusive of management fees. The remaining shop units are vacant. At the date of valuation, some office units of the property with a total gross floor area of approximately 1,121.05 sq.m. (12,067 sq.ft.) are vacant. The remaining office units are subject to various tenancies for terms of 1 year to 3 years with the latest term due to expire in November 2008 at a total monthly rent of approximately MOP396,733. 54 car parking spaces are vacant. The remaining car parking spaces are subject to various licences mainly on monthly basis at a total licence fee of about MOP83,069 per month. As advised by the KDC Group, all the tenants are third parties independent of the KDC Group and its connected persons.	HK$304,000,000

Notes:

(1) The property comprises the following:

Floor	Units	Uses
1st	A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R, S, T, U, V, W, X, Y, Z, AA, AB, AC, AD, AE, AF, AG, AH and AI.	Retail
4th	A.	Retail
6th	A.	Retail
8th	D, E, F and M.	Office
9th	A, B, C, H, I, J, K, L, M and N.	Office
14th	A, C, D, F, J and K.	Office
17th	A, B, C, D, E, F, G, H, I, J, K, L, M and N.	Office
20th	G and M.	Office
Basement 1	1, 2, 9, 12, 13, 22, 23, 34, 40, 41, 42, 43, 44 and 56.	Carparks
Basement 2	1, 2, 3, 4, 7, 8, 9, 10, 11, 12, 13, 14, 17, 18, 19, 20, 21, 22, 23, 24, 25, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 61, 62, 63, 64, 65, 66, 67 and 68.	Carparks
Basement 3	3, 4, 5, 6, 7, 8, 15, 16, 17, 32, 33, 34, 35, 36, 37, 38, 39, 40, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72 and 73.	Carparks
Basement 4	1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 24, 28, 29, 30, 31, 32, 33, 34, 42, 43, 44, 45, 70, 71 and 72.	Carparks
Basement 5	34, 35, 36, 37, 38, 39, 40, 41, 42, 43, 44, 45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 55, 56, 57, 58, 59, 60, 61, 62, 63, 64, 65, 66, 67, 68, 69, 70, 71, 72, 73, 74 and 75.	Carparks

(2) The registered owner of the property is Think Bright Limited, which is a 40.07% owned subsidiary of the KDC Group.

Group IV — Property and Property interest held by the KDC Group in Macau for development

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006
7.	A site at Estrada Coronel Nicolau de Mesquita, Taipa, Macau.	The property comprises a piece of land with a site area of 5,207.70 sq.m. (56,056 sq.ft), situated at Estrada Coronel Nicolau de Mesquita in the south-east part of Taipa Island. Portions of the land (to be known as TN25b and TN26d with a net site area of 2,751 sq.m. (29,611 sq.ft.)) are planned for residential development. According to the KDC Group, there is no restriction on the use of the site. Further to the Planta De Alinhamento Oficial（街道準線圖）No. 79/85/M issued by DSSOPT (Land, Public Works and Transport Bureau of Macau Government), the property is permitted for non-industrial use. The site is proposed to be developed into two blocks of 25-storey residential blocks erected over a 4-storey retailing, social facilities and car parking podium plus 2-storey basement. In accordance with the information provided by the KDC Group, the gross floor areas of the property are approximately as follows:	The property is currently under construction with site formation work in progress.	HK$430,000,000

	Gross Floor Area	
	sq.m.	*sq.ft.*
Residential	35,535.35	382,503
Commercial	359.10	3,865
Sub-total:	35,894.45	386,368
Car Parking	9,646.92	103,839
Social Facilities	1,071.66	11,535
Garden (covered)	530.44	5,710
Garden (open)	582.89	6,274
Grand Total :	47,726.36	513,726

The property is held under freehold.

Notes:

(1) The registered owner of the property is Investimento Imobiliario Kam Yuen, Limitada, which is a 32.97% owned subsidiary of the KDC Group.

(2) In undertaking our valuation, we have assumed that the KDC Group has a good and marketable title to the property and the proposed development scheme given to us is feasible and will be approved by the relevant Macau authorities without material changes.

(3) As advised by the KDC Group, a total number of 108 residential units were contracted to be sold to individual purchasers at a total consideration of about HK$243,000,000. In undertaking our valuation, we have included those presold units and the full amount of such consideration into our valuation.

(4) As advised by the KDC Group, the total construction cost expended as at 31 March 2006 was HK$8,000,000 and we have taken into account such expended cost in our valuation.

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006
8.	La Baie Du Noble Lote S, Novos Aterros da Areia Preta, Macau	The property comprises a site with a registered site area of 13,916 sq.m. (149,792 sq.ft.) situated in the new reclamation area of the Areia Preta in the northern part of Macau.	The property is under construction. The exterior of the superstructure works were almost completed.	HK$2,000,000,000

The site is proposed to be developed into five blocks of 33 to 35-storey residential blocks erected over a 3-storey commercial, car parking and recreation podium. The property is under construction and is scheduled to be completed by May 2006.

The development will comprise about 872 residential units, 832 private car parking spaces, 183 motor cycle parking spaces and 33 commercial units.

In accordance with the information provided by the KDC Group, the gross floor areas of the property are approximately as follows:

	Gross Floor Area	
	sq.m.	*sq.ft.*
Residential	140,363.62	1,510,874
Commercial	7,310.67	78,692
Sub-total:	147,674.29	1,589,566
Club House	3,211.35	34,567
Grand-total:	150,885.64	1,624,133

The property is held under a lease from the Macau Government for the residue of a term of 25 years from 26 December 1990. In undertaking our valuation, we have assumed that the lease term may be successively renewed for a terms of 10 years until 19 December 2049 in accordance with the relevant legislation and the conditions. The Government rent payable for the property during the development period is MOP111,328 per annum.

After issuance of occupation permits, the Government rents will be computed as follows:

Residential	:	MOP4 per sq.m. of gross construction area per annum.
Commercial	:	MOP6 per sq.m. of gross construction area per annum.
Parking	:	MOP4 per sq.m. of gross construction area per annum.

Notes:

(1) The registered owner of the property is Sociedade de Importacao e Exportacao Polytex Limitada (also known as "Polytex Corporation Limited"). Polytex Corporation Limited is a wholly-owned subsidiary of Polytec Holdings International Limited which is wholly-owned by the Or Family Trust.

(2) Pursuant to a co-investment agreement with Polytex Corporation Limited, the KDC Group has 80% interest in the development of the property.

(3) In undertaking our valuation, we have assumed that the property has been properly granted to Polytex Corporation Limited and it has a good and marketable title to the property and all necessary land premium and other site acquisition costs have been fully settled. We have also assumed that all units in the property when completed can be freely disposed of in the market to any third parties.

(4) According to the KDC Group, the total estimated cost for completing the development is about HK$37 million. We have allowed for the outstanding development cost in our valuation.

(5) As advised by the KDC Group, a total number of 850 residential units were contracted to be sold to individual purchasers at a total consideration of about HK$1,810,000,000. In undertaking our valuation, we have included those presold units and the full amount of such consideration into our valuation.

Group V — Property held by the KDC Group in Macau for investment

	Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006
9.	Various Commercial Units and Car Parking Spaces at Va Iong, Praca da Amizade Nos: 6-52; Avenida do Infante D. Henrique Nos: 25-31 and Avenida Doutor Mario Soares Nos: 227-259, Macau.	The subject building comprises a 21-storey residential building erected upon a 5-storey (including mezzanine) commercial podium plus 3 levels of basement. The development was completed in about 1993. The property comprises 14 car parking spaces on basement Level A, 15 shop units on ground floor, a cockloft and 23 shop units on the mezzanine of the building. The approximate total gross floor areas of the property are as follows:	The property is vacant since it was acquired by the KDC Group in late 2004.	HK$150,000,000

	Gross Floor Area	
	sq.m.	*sq.ft.*
Shop on G/F	902.36	9,713
Cockloft	61.32	660
Shops on M/F	923.63	9,942
Total :	1,887.31	20,315

The property is held under a lease from the Macau Government for a term of 25 years from 20 May 1988 which is, upon expiry, subject to renewal on application to the Macau Government for a further term of 10 years with a payment of a renewal charge equivalent to ten times the then prevailing annual ground rent. In undertaking our valuation, we have assumed that the lease term will be successively renewed for terms of 10 years until 19 December 2049 in accordance with the relevant legislation and conditions. The ground rent payable for the property is about MOP11,000 per annum from its completion in about 1993.

Notes:

(1) The registered owner of the property is Power Giant Limited, which is a 56.84% owned subsidiary of the KDC Group.

(2) The property comprises the following units:

Floor(s)	**Uses**	**Units**
AC/V	Car Parks	22, 28, 29, 30, 31, 32, 33, 34, 37, 38, 51, 54, 55 and 59.
Ground	Commercial	B, C, D, E, F, G, H, I, J, K, L, M, N, O, P and Cockloft D.
Mezzanine	Commercial	A, B, C, D, E, F, G, H, I, J, K, L, M, N, O, P, Q, R, S, T, U, V and W.

Group VI — Property rented by the KDC Group in Hong Kong

Property	Description and tenancy particulars	Capital value in existing state as at 31 March 2006
10. A piece of ground situated at Tin Wan Praya Road, Aberdeen, Hong Kong (Tenancy Agreement No. SHX-1080)	The property comprises a piece of land used for open car parking and loading/unloading purposes which is situated at Tin Wan Praya Road next to the Shek Pai Wan Ice Plant and Cold Store in Aberdeen, Hong Kong. The site area of the property is approximately 677 sq.m. (7,287 sq.ft.). The property is currently leased to The Hong Kong Ice & Cold Storage Company Limited by the Government of the Hong Kong Special Administrative Region under a tenancy agreement dated 30 July 2004 for a term of one year commencing from 1 July 2003 and thereafter on quarterly basis. The tenancy may be terminated by either party giving to the other at least three months' notice in writing to that effect at any time. Pursuant to the tenancy agreement of the property, in the event of the tenancy not being terminated within three years from its commencement, the rent may be increased by the landlord at his sole discretion on or after the expiry of every third year of the tenancy upon the landlord giving to the tenant not less than three months' notice. As from the date being the effective date as stipulated in such notice, such rental increase shall take effect whereupon the increased rent shall be deemed to be substituted for the rent previously in force under the tenancy agreement provided that no such revision shall take effect within three years of the immediately preceding revision. The rent payable since 1 July 2004 is HK$118,500 per quarter.	No commercial value

Group VII — Properties held by the First Macau Company in Macau for development

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006
11. Lote P, Novos Aterros da Areia Preta, Macau	The property comprises the whole of Lote P with a registered site area of 68,001 sq.m. (731,963 sq.ft.). It is situated in the new reclamation area of the Areia Preta. A total of six blocks (Blocks A, C, E, F, I and J) of single to 3-storey industrial building with a total gross floor area of approximately 33,503.5 sq.m. (360,631 sq.ft.) are currently standing on the subject lot. The site is planned to be developed into eighteen 47-storey residential blocks erected over a 5-storey commercial, car parking and recreational podium. In accordance with the information provided by the KDC Group, the approximate gross floor areas of the proposed development are as follows:	Block I is occupied by the owner as its workshop and ancillary office whilst the remainder of the property is vacant.	HK$9,000,000,000 *(see Notes (2) & (3) below)*

	Approximate Gross Floor Area	
	sq.m.	*sq.ft.*
Residential	587,730	6,326,326
Commercial	100,000	1,076,400
Sub-total:	687,730	7,402,726
Garden Area	50,600	544,658
Club House	12,000	129,168
Car Parking	116,400	1,252,930
Grand-total:	866,730	9,329,482

The proposed development will provide about 3,300 car parking spaces.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006
	The property is held under a lease from the Macau Government for the residue of a term of 25 years from 26 December 1990. In undertaking our valuation, we have assumed that the lease term will be successively renewed for terms of 10 years until 19 December 2049, in accordance with the relevant legislation and the conditions. The Government rent payable for the property during the development period is MOP544,008 per annum. After issuance of occupation permits, the Government rents will be computed as follows and will be renewed every 5 years from the insurance date of gazette: Residential : MOP4 per sq.m. of gross construction area per annum. Commercial : MOP6 per sq.m. of gross construction area per annum. Parking : MOP4 per sq.m. of gross construction area per annum. Garden Area : MOP4 per sq.m. of gross construction area per annum.		

Notes:

(1) The registered owner of the property is Sociedade de Importacao e Exportacao Polytex, Limitada (also known as Polytex Corporation Limited). Polytex Corporation Limited is a wholly-owned subsidiary of Polytec Holdings International Limited which is wholly-owned by the Or Family Trust.

(2) Pursuant to the Official Gazette No. 35 dated 26 August 1993 and No. 50 dated 16 December 1999, the original permitted usage of the subject lot is industrial uses. According to the recent official Gazette No. 9 dated 1 March 2006, the subject property has been approved for a change of usage to residential and commercial redevelopment. We have therefore valued the property in accordance with the abovesaid recent official Gazette provided by the KDC Group as a site ready for a proposed residential and commercial development as described above.

(3) In undertaking our valuation, we have assumed that the property has been properly granted to the First Macau Company and it has a good, clean and enforceable title to the property. We have not taken into account an outstanding land premium of HK$546 million which remains payable to the Government.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006
12. Lote V, Novos Aterros da Areia Preta, Macau	The property comprises a site with a registered site area of 13,699 sq.m. (147,456 sq.ft.) situated in the new reclamation area of the Areia Preta. The site is planned to be developed into five 48-storey residential blocks erected over a 2-storey commercial, car parking and recreation podium. In accordance with the information provided by the KDC Group, the approximate gross floor areas of the proposed development are as follows:	The property is a bare site with a single storey temporary sales office.	HK$1,800,000,000 *(See Note (2) below)*

	Approximate Gross Floor Area	
	sq.m.	*sq.ft.*
Residential	121,407	1,306,825
Commercial	4,987	53,680
Sub-total:	126,394	1,360,505
Garden Area	10,215	109,954
Club House	1,970	21,205
Car Parking	18,113	194,968
Grand-total:	156,692	1,686,632

The proposed development will provide about 572 car parking spaces and 80 motorcycle spaces.

The property is held under a lease from the Macau Government for the residue of a term of 25 years from 26 December 1990. In undertaking our valuation, we have assumed that the lease term will be renewed for terms of 10 years until 19 December 2049. The Government rent of the property will be MOP109,592 per annum during the development period.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006
	After issuance of occupation permits, the Government rents will be computed as follows and will be renewed every 5 years from the insurance date of gazette: Residential : MOP4 per sq.m. of gross construction area per annum. Commercial : MOP6 per sq.m. of gross construction area per annum. Parking : MOP4 per sq.m. of gross construction area per annum. Garden Area : MOP4 per sq.m. of gross construction area per annum.		

Notes:

(1) Pursuant to the Official Gazette No. 52 dated 26 December 1990 and amended as per Government Decisions published in the Official Gazette No. 26 dated 1 July 1991, No. 35 dated 1 September 1993, No. 50 dated 16 December 1999 and No. 9 dated 1 March 2006 respectively, the property is granted by the Government of Macau Special Administrative Region ("the Grantor") to Sociedade de Importacao e Exportacao Polytex, Limitada (also known as Polytex Corporation Limited) ("the Grantee"). Polytex Corporation Limited is a wholly-owned subsidiary of Polytec Holdings International Limited which is wholly-owned by the Or Family Trust.

(2) In undertaking our valuation, we have assumed that the property has been properly granted to the First Macau Company and it has a good, clean and enforceable title to the property. We have not taken into account an outstanding land premium of HK$95 million which remains payable to the Government.

Group VIII — Property held by the Second Macau Company in Macau for development

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006
13. Lotes T and T1, Novos Aterros da Areia Preta, Macau	The property comprises a site with a registered site area of 17,969 sq.m. (193,418 sq.ft.) situated in the new reclamation area of the Areia Preta. The site is planned to be developed into various blocks of 37-storey residential blocks erected over a 3-storey commercial, car parking and recreation podium. In accordance with the information provided the KDC Group, the approximate gross floor areas of the proposed development are as follows:	The property is vacant.	HK$2,400,000,000 *(See Note (2) below)*

	Approximate Gross Floor Area	
	sq.m.	*sq.ft.*
Residential	155,364	1,672,339
Commercial	8,863	95,401
Sub-total:	164,227	1,767,740
Car Parking	30,718	330,649
Grand-total:	194,945	2,098,389

The proposed development will provide about 777 car parking spaces.

The property is held under a lease from the Macau Government for the residue of a term of 25 years from 6 July 1992. In undertaking our valuation, we have assumed that the lease term will be successively renewed for terms of 10 years until 19 December 2049 in accordance with the relevant legislation and the conditions. The Government rent of the property will be MOP269,535 per annum during the development period.

Property	Description and tenure	Particulars of occupancy	Capital value in existing state as at 31 March 2006
	After issuance of occupation permits, the Government rents will be computed as follows: Residential : MOP6 per sq.m. of gross construction area per annum. Commercial : MOP10 per sq.m. of gross construction area per annum. Parking : MOP6 per sq.m. of gross construction area per annum.		

Notes:

(1) The registered owner of the property is Fok Kiu — Investimento Predial, Limitada (also known as Fok Kiu — Properties Investment Company Limited). Fok Kiu — Properties Investment Company Limited is an indirect wholly-owned subsidiary of Polytec Holdings International Limited which is wholly owned by the Or Family Trust.

(2) In undertaking our valuation, we have assumed that the property has been properly granted to the Second Macau Company and it has a good, clean and enforceable title to the property and all necessary land premium and other site acquisition costs have been fully settled.

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from Deloitte Touche Tohmatsu, the independent reporting accountants.

Deloitte.
德勤

23 May 2006

The Directors
Polytec Asset Holdings Limited
Kowloon Development Company Limited

Dear Sirs,

We set out below our report on the financial information (the "Financial Information") relating to New Bedford Properties Limited ("Target") for the period from 9 March 2006 (date of incorporation) to 31 March 2006 (the "Relevant Period") for inclusion in the circulars of Polytec Asset Holdings Limited (the "Company") and Kowloon Development Company Limited ("KDC") both dated 23 May 2006 (hereinafter collectively referred to as the "Circulars") in connection with the proposed acquisition of the entire issued share capital of Target.

Target was incorporated under the British Virgin Islands Business Companies Act, 2004 as an International Business Company with limited liability on 9 March 2006.

The Financial Information of Target for the Relevant Period set out in this report has been prepared from the audited financial statements of Target (the "Underlying Financial Statements") prepared in accordance with Hong Kong Financial Reporting Standards promulgated by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), for the purpose of preparing our report for inclusion in the Circulars. We have audited and examined the Underlying Financial Statements of Target for the Relevant Period in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" as recommended by the HKICPA.

The Underlying Financial Statements are the responsibility of the directors of Target who approved their issue. The directors of the Company and KDC are responsible for the contents of the Circulars in which this report is included. It is our responsibility to compile the financial information set out in this report from the Underlying Financial Statements, to form an independent opinion on the Financial Information and to report our opinion to you.

In our opinion, the Financial Information together with the notes thereon gives, for the purpose of this report, a true and fair view of the state of affairs of Target as at 31 March 2006.

BALANCE SHEET

At 31 March 2006

	Notes	*HK$*
Current asset		
Amount due from ultimate holding company	*6*	8
Share capital	*7*	8

STATEMENT OF CHANGES IN EQUITY

	Share capital
	HK$
Issue of share to the subscriber and subsequent allotment and balance at 31 March 2006	8

NOTES TO THE FINANCIAL INFORMATION

1. Basis of Presentation of Financial Information

Target is a limited liability company incorporated in the British Virgin Islands. Its ultimate holding company is Polytec Holdings International Limited, a company incorporated in the British Virgin Islands. The address of the registered office of Target is at P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands, and the principal place of business of Target is at 12th Floor, South China Building, 1-3 Wyndham Street, Central, Hong Kong.

Target is inactive during the Relevant Period.

The Financial Information is presented in Hong Kong dollars, which is the same as the functional currency of Target.

No income statement has been prepared as no revenue or cost was generated or incurred during the Relevant Period. All the administrative costs including preliminary expenses incurred for the Relevant Period were borne by its ultimate holding company.

No cash flow statement has been prepared because Target has no cash transaction during the Relevant Period.

2. Application of Hong Kong Financial Reporting Standards

Target has not early applied the following new Hong Kong Financial Reporting Standards ("HKFRS(s)"), Hong Kong Accounting Standards ("HKAS(s)") and Interpretations (hereinafter collectively referred to as "New HKFRSs") that have been issued by HKICPA but are not yet effective:

HKAS 1 (Amendment)	Capital disclosures[1]
HKFRS 7	Financial instruments: Disclosures[1]
HK (IFRIC) - Int 8	Scope of HKFRS 2[2]
HK (IFRIC) - Int 9	Reassessment of Embedded Derivatives[3]

[1] Effective for annual periods beginning on or after 1 January 2007.
[2] Effective for annual periods beginning on or after 1 May 2006.
[3] Effective for annual periods beginning on or after 1 June 2006.

The directors of Target anticipate that the application of these New HKFRSs will have no material impact on the Financial Information.

3. Significant Accounting Policies

The Financial Information has been prepared under the historical convention and in accordance with HKFRSs issued by the HKICPA. The principal accounting policies adopted are set out below:

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when Target becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in income statement.

Financial assets

Target's financial assets are generally classified as loans and receivables. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policy adopted in respect of loans and receivables is set out below.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including amount due from ultimate holding company) is carried at amortised cost using the effective interest method, less any identified impairment losses. An impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. Impairment losses are reversed in subsequent periods when an increase in the asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to a restriction that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years, and it further excludes items that are never taxable or deductible. Target's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against with the temporary difference can be utilised.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax rates that have been enacted or substantially enacted by the balance sheet date. Deferred tax is recognised in the income statement except when it relates to items recognised directly in equity, in which case the deferred tax is also recognised in equity.

Foreign currencies

In preparing the Financial Information of Target, transactions in currencies other than the functional currency of Target (foreign currencies) are recorded in its functional currency (i.e. the currency of the primary economic environment in which Target operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

4. Directors' Emoluments

None of the directors received any fees or emoluments in respect of their services to Target during the Relevant Period.

5. Taxation

No provision for Hong Kong and overseas profits tax has been made as Target has no assessable profit during the Relevant Period.

No provision for deferred taxation has been recognised in the Financial Information.

6. Amount Due From Ultimate Holding Company

The amount is unsecured, non-interest bearing and repayable on demand. The carrying value approximates its fair value at 31 March 2006.

7. Share Capital

	Number of shares	Amount
Ordinary shares of US$1.00 each		
Authorised:		
At 9 March 2006 (date of incorporation) and 31 March 2006	50,000	US$50,000
Issued and fully paid:		
At 9 March 2006 (date of incorporation)	—	—
Issued at par on 15 March 2006 *(Note)* and at 31 March 2006	1	US$1.00
Shown in the Financial Information		HK$8

Note: On 15 March 2006, 1 share of US$1 was issued at par to the subscriber to provide the initial capital to Target.

8. Subsequent Financial Statements

No audited financial statements of Target have been prepared in respect of any period subsequent to 31 March 2006.

9. Subsequent Events

On 8 April 2006, Target entered into two co-investment agreements with two fellow subsidiaries in respect of three property projects in Macau.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

I. SUMMARY OF THREE YEARS FINANCIAL RESULTS

The following is a summary of the audited financial information of the KDC Group for the three financial years ended 31 December 2003, 2004 and 2005. The accounts of the KDC Group have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

Consolidated Income Statement
For the year ended 31 December
(Expressed in Hong Kong dollars)

	2005	**2004**	**2003**
	$'000	*$'000*	*$'000*
		(restated)	(restated)
Turnover	1,320,301	773,425	673,812
Other revenue	5,475	6,518	4,061
Depreciation and amortization	(1,304)	(679)	(777)
Staff costs	(51,845)	(37,824)	(31,432)
Cost of inventories	(567,785)	(350,419)	(384,776)
Fair value changes on investment properties	505,818	257,792	(26,272)
Other operating expenses	(28,955)	(56,983)	(24,934)
Profit from operations	1,181,705	591,830	209,682
Finance costs	(17,694)	(6,169)	(11,036)
Share of profits of associated companies	10,542	9,554	5,023
Share of profits of jointly controlled entities	7,331	—	—
Profit on disposal of investments in securities	—	—	2,399
Negative goodwill on acquisition of subsidiaries	26,482	—	—
Profit before taxation	1,208,366	595,215	206,068
Income tax	(144,962)	(79,919)	(53,548)
Profit for the year	1,063,404	515,296	152,520
Attributable to:			
Shareholders of the Company	1,059,153	515,564	152,477
Minority interests	4,251	(268)	43
Profit for the year	1,063,404	515,296	152,520
Earnings per share — Basic	$1.87	$0.92	$0.32
Dividend per share	$0.45	$0.32	$0.28

Consolidated Balance Sheet

At 31 December

(Expressed in Hong Kong dollars)

	2005	2004	2003
	$'000	*$'000*	*$'000*
		(restated)	(restated)
Non-current assets			
Fixed assets			
— Investment properties	4,147,630	3,461,940	3,011,900
— Leasehold land held for own use	265,553	2,060	5,628
— Other property, plant and equipment	39,503	2,563	2,182
	4,452,686	3,466,563	3,019,710
Goodwill	16,994	—	—
Interest in jointly controlled entities	394,507	—	—
Interest in associated companies	56,568	46,026	32,674
Investments in securities	65,220	110,099	394,872
Loans and advances	55,320	60,158	56,239
Deferred tax assets	9,303	3,223	1,864
	5,050,598	3,686,069	3,505,359
Current assets			
Interest in property development	575,298	400,000	—
Inventories	3,194,826	2,126,450	2,140,056
Trade and other receivables	320,440	209,143	62,184
Loans and advances	63,523	84,834	104,828
Amounts due from jointly controlled entities	247,192	—	—
Amount due from an associated company	207	83	—
Derivative financial instruments	25,811	—	—
Investments in securities	242,445	129,251	63,644
Time deposit (pledged)	38,205	—	5,719
Cash and cash equivalents	104,706	44,497	8,889
	4,812,653	2,994,258	2,385,320

	2005	2004	2003
	$'000	*$'000*	*$'000*
		(restated)	(restated)
Current liabilities			
Trade and other payables	338,804	554,233	359,460
Amount due to a major shareholder	140,791	—	—
Amounts due to minority shareholders	31,924	—	—
Derivative financial instruments	7,741	—	—
Bank loans	978,413	665,442	370,000
Current taxation	44,814	24,677	13,006
	1,542,487	1,244,352	742,466
Net current assets	3,270,166	1,749,906	1,642,854
Total assets less current liabilities	8,320,764	5,435,975	5,148,213
Non-current liabilities			
Loan from ultimate holding company	2,635	7,519	—
Bank loans	1,663,600	1,086,987	1,838,989
Deferred tax liabilities	667,940	444,192	333,343
	2,334,175	1,538,698	2,172,332
NET ASSETS	5,986,589	3,897,277	2,975,881
CAPITAL AND RESERVES			
Share capital	56,677	56,677	48,377
Reserves	5,040,735	3,839,392	2,926,028
Total equity attributable to the shareholders of the Company	5,097,412	3,896,069	2,974,405
Minority interests	889,177	1,208	1,476
TOTAL EQUITY	5,986,589	3,897,277	2,975,881

II. AUDITED CONSOLIDATED FINANCIAL STATEMENT

The following is a summary of the audited consolidated income statement and consolidated cash flow statement of the KDC Group for the two years ended 31 December 2004 and 2005, the audited consolidated balance sheet of the KDC Group and the audited balance sheet of the Company as at 31 December 2004 and 2005 together with accompanying notes extracted from the audited financial statement of the Company:

Consolidated Income Statement
For the year ended 31 December 2005
(Expressed in Hong Kong dollars)

	Note	2005 $'000	2004 $'000 (restated)
Turnover	3	1,320,301	773,425
Other revenue		5,475	6,518
Depreciation and amortization		(1,304)	(679)
Staff costs		(51,845)	(37,824)
Cost of inventories		(567,785)	(350,419)
Fair value changes on investment properties	11	505,818	257,792
Other operating expenses		(28,955)	(56,983)
Profit from operations		1,181,705	591,830
Finance costs	4(a)	(17,694)	(6,169)
Share of profits of associated companies	4(c)	10,542	9,554
Share of profits of jointly controlled entities	4(d)	7,331	—
Negative goodwill on acquisition of subsidiaries		26,482	—
Profit before taxation	4	1,208,366	595,215
Income tax	6(a)	(144,962)	(79,919)
Profit for the year		1,063,404	515,296
Attributable to:			
Shareholders of the Company	26	1,059,153	515,564
Minority interests	26	4,251	(268)
Profit for the year		1,063,404	515,296
Earnings per share — Basic	8	$1.87	$0.92
Dividend per share	9(a)	$0.45	$0.32

Consolidated Balance Sheet
At 31 December 2005
(Expressed in Hong Kong dollars)

		2005		2004	
	Note	*$'000*	*$'000*	*$'000*	*$'000*
					(restated)
Non-current assets					
Fixed assets					
— Investment properties			4,147,630		3,461,940
— Leasehold land held for own use			265,553		2,060
— Other property, plant and equipment			39,503		2,563
	11		4,452,686		3,466,563
Goodwill	*14*		16,994		—
Interest in jointly controlled entities	*12*		394,507		—
Interest in associated companies	*16*		56,568		46,026
Investments in securities	*17*		65,220		110,099
Loans and advances			55,320		60,158
Deferred tax assets	*10(b)*		9,303		3,223
			5,050,598		3,686,069
Current assets					
Interest in property development	*19*	575,298		400,000	
Inventories	*20*	3,194,826		2,126,450	
Trade and other receivables	*21*	320,440		209,143	
Loans and advances		63,523		84,834	
Amounts due from jointly controlled entities	*12*	247,192		—	
Amount due from an associated company		207		83	
Derivative financial instruments	*18*	25,811		—	
Investments in securities	*17*	242,445		129,251	
Time deposit (pledged)	*30*	38,205		—	
Cash and cash equivalents		104,706		44,497	
		4,812,653		2,994,258	

	Note	2005 $'000	2005 $'000	2004 $'000	2004 $'000 (restated)
Current liabilities					
Trade and other payables	22	338,804		554,233	
Amount due to a major shareholder	33(c)	140,791		—	
Amounts due to minority shareholders	24	31,924		—	
Derivative financial instruments	18	7,741		—	
Bank loans	25	978,413		665,442	
Current taxation	10(a)	44,814		24,677	
		1,542,487		1,244,352	
Net current assets			3,270,166		1,749,906
Total assets less current liabilities			8,320,764		5,435,975
Non-current liabilities					
Loan from ultimate holding company	23	2,635		7,519	
Bank loans	25	1,663,600		1,086,987	
Deferred tax liabilities	10(b)	667,940		444,192	
			2,334,175		1,538,698
NET ASSETS			5,986,589		3,897,277
CAPITAL AND RESERVES					
Share capital			56,677		56,677
Reserves			5,040,735		3,839,392
Total equity attributable to shareholders of the Company			5,097,412		3,896,069
Minority interests			889,177		1,208
TOTAL EQUITY	26		5,986,589		3,897,277

Balance Sheet
At 31 December 2005
(Expressed in Hong Kong dollars)

		2005		2004	
	Note	*$'000*	*$'000*	*$'000*	*$'000*
					(restated)
Non-current assets					
Fixed assets					
— Investment properties			3,235,000		2,800,000
— Other property, plant and equipment			903		553
	11		3,235,903		2,800,553
Interest in subsidiaries	*15*		2,698,153		2,317,774
			5,934,056		5,118,327
Current assets					
Trade and other receivables	*21*	11,201		7,267	
Cash and cash equivalents		15,531		13,196	
		26,732		20,463	
Current liabilities					
Amount due to a major shareholder	*33(c)*	140,791		—	
Trade and other payables	*22*	84,649		86,676	
Bank loans	*25*	217,287		140,300	
Current taxation	*10(a)*	2,847		5,363	
		445,574		232,339	
Net current liabilities			(418,842)		(211,876)
Total assets less current liabilities			5,515,214		4,906,451
Non-current liabilities					
Loan from ultimate holding company	*23*	2,635		7,519	
Bank loans	*25*	1,320,900		1,017,687	
Deferred tax liabilities	*10(b)*	446,152		372,238	
			1,769,687		1,397,444
NET ASSETS			3,745,527		3,509,007
CAPITAL AND RESERVES					
Share capital			56,677		56,677
Reserves			3,688,850		3,452,330
TOTAL EQUITY	*26*		3,745,527		3,509,007

Consolidated Statement of Changes in Equity
For the year ended 31 December 2005
(Expressed in Hong Kong dollars)

		2005		2004	
	Note	*$'000*	*$'000*	*$'000*	*$'000*
				(restated)	
Total equity at 1 January					
As previously reported					
— Attributable to shareholders of the Company	*26*	4,253,761		3,286,773	
— Minority interests	*26*	1,208		1,476	
		4,254,969		3,288,249	
Prior year adjustments arising from changes in accounting policies	*2(a)(i)&(ii), 26*	(357,692)		(312,368)	
As restated, before opening balance adjustment		3,897,277		2,975,881	
Opening balance adjustment arising from changes in accounting policies	*2(a)(i), 26*	172,842		—	
At 1 January, after prior year and opening balance adjustments			4,070,119		2,975,881
Net income for the year recognized directly in equity					
Surplus on revaluation of investment properties (as previously reported)				257,792	
Prior year adjustment arising from changes in accounting policies	*2(a)(iv)*			(257,792)	
Surplus on revaluation of investment properties (2004: as restated)			—		—
Changes in fair value of equity securities available-for-sale	*26*		(1,310)		14,218
Changes in fair value of interest in property development	*2(a)(iv), 26*		462,456		—
Transfer to income statement upon disposal of equity securities available-for-sale	*26*		(11,156)		—
Transfer to income statement upon receipt of cash distribution of interest in property development	*26*		(282,273)		—
Net income for the year recognized directly in equity (2004: as restated)			167,717		14,218

		2005		2004	
	Note	*$'000*	*$'000*	*$'000*	*$'000*
				(restated)	
Net profit for the year					
As previously reported					
— Attributable to shareholders of the Company				303,096	
— Minority interests				(268)	
				302,828	
Prior year adjustments arising from changes in accounting policies	*2(a)(iii)*			212,468	
Net profit for the year (2004: as restated)	*26*		1,063,404		515,296
Total net income recognized for the year (2004: as restated)			1,231,121		529,514
Attributable to :					
Shareholders of the Company		1,226,870		529,782	
Minority interests		4,251		(268)	
		1,231,121		529,514	
Final dividend declared and paid	*9(b)*		(141,692)		(124,689)
Interim dividend declared and paid	*9(a)*		(56,677)		(39,674)
Loan from a minority shareholder	*26*		26,625		—
Minority interests of subsidiaries acquired during the year	*26*		857,093		—
Issue of shares	*26*		—		8,300
Net share premium received	*26*		—		547,945
Total equity at 31 December			5,986,589		3,897,277

	Note	2005 $'000	2005 $'000	2004 $'000	2004 $'000 (restated)
Restatements of total income and expense recognized for the year are attributable to:					
Shareholders of the Company					(45,324)
Minority interests					—
					(45,324)
Arising from restatements of:					
Net loss recognized directly in equity	*2(a)(iv)*				(257,792)
Net profit for the year	*2(a)(iii)*				212,468
					(45,324)

Consolidated Cash Flow Statement

For the year ended 31 December 2005

(Expressed in Hong Kong dollars)

	Note	2005 $'000	2004 $'000 (restated)
Net cash from operating activities	27(a)	91,887	678,802
Investing activities			
Sale of other fixed assets		35	2
Additions to fixed assets and properties		(32,772)	(182,589)
Acquisition of subsidiaries	27(b)	(623,430)	(400,000)
Increase in loan to an associated company		—	(4,638)
Dividend received from an associated company		—	840
Net cash used in investing activities		(656,167)	(586,385)
Financing activities			
Increase/(Decrease) in bank loans		800,784	(456,560)
(Decrease)/Increase in loan from ultimate holding company		(4,884)	7,519
Net proceeds from shares issued		—	556,245
Dividend paid		(198,036)	(164,013)
Increase in loan from a minority shareholder	26	26,625	—
Net cash from/(used in) financing activities		624,489	(56,809)
Net increase in cash and cash equivalents		60,209	35,608
Cash and cash equivalents at 1 January		44,497	8,889
Cash and cash equivalents at 31 December		104,706	44,497

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 a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised HKFRSs for the current and prior accounting periods reflected in these accounts is provided in note 2.

(b) Measurement basis

The measurement basis used in the preparation of the accounts is the historical cost basis except for the investment properties, interest in property development, derivative financial instruments and financial instruments classified as available-for-sale 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.

(e) Interest in subsidiaries

Subsidiaries, in accordance with the Hong Kong Companies Ordinance, are companies in which the Group, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or controls the composition of the board of directors.

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

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

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

(f) Interest in associated companies

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

An investment in an associated company is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of associated company's net assets, unless it is classified as held for sale. The consolidated income statement reflects the Group's share of the post-acquisition, 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 venturers, are recognized in the income statement when it is probable that the economic benefits associated with the transactions will flow to or from the Group.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group and other parties, where the contractual arrangement establishes that the Group and other parties share joint control over the economic activity of the entity. Unless the interest in a jointly controlled entity is classified as held for sale, an investment in a jointly controlled entity is accounted for in the consolidated accounts under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of jointly controlled entity's net assets. The consolidated income statement reflects the Group's share of the post-acquisition, 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 the fair value of investment properties are recognized directly in the income statement.

(ii) Land held for future development

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

(iii) Interest in property development

Interest in property development is stated at fair value. Changes in fair value are recognized in the fair value reserve, unless there is objective evidence that the interest in property development has been impaired, any amount held in fair value reserve in respect of the interest in property development is transferred to the income statement for the period in which the impairment is identified. Impairment losses recognized in the income statement are not reversed through profit or loss. Any subsequent increase in the fair value of the interest in property development is recognized directly in equity. The fair value is determined based on the estimated entitlement on the interest in property development. When the interest in property development is derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in profit or loss.

(iv) Properties under development

Properties under development are 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. The cost comprises borrowing costs capitalized, aggregate costs of development, materials and supplies, wages and other expenses.

(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.

(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 instruments

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

Dated debt securities that the Group has the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are initially recognized in the balance sheet at fair value plus transaction costs. Subsequently, they 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.

Other investments in securities are classified as available-for-sale securities and are initially recognized at fair value plus transaction costs. At each balance sheet date the fair value is remeasured, with any gain or loss being recognized directly in equity, except for impairment losses. When these investments are derecognized, the cumulative gain or loss previously recognized directly in equity is recognized in the income statement.

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

Derivative financial instruments are recognized initially at fair value. At each balance sheet date the fair value is remeasured. The gain or loss on remeasurement to fair value is charged immediately to the income statement, except where the derivatives qualify for 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 statements.

(k) Trade and other payables

Trade and other payables are initially recognized at fair value and thereafter stated at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(l) Borrowings

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

Borrowing 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.

(m) 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

(n) 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) Investments in debt and equity securities

— 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 securities, 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 securities, reversal of an impairment loss is recognized in the income statement.

(ii) Other assets

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

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

(o) Deferred taxation

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.

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.

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.

(p) Recognition of revenue

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

(i) Rental income from operating leases

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

(ii) Sale of properties

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

(iii) Income from interest in property development

Revenue from interest in property development is recognized when the distribution in respect of the investment is entitled and declared.

(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) Interest income

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

(q) 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.

(r) Related parties

For the purposes of these accounts, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

(s) Segment reporting

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

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

2. Changes in accounting policies

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarized in note 1. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these accounts.

(a) Summary of the effect of changes in accounting policies

(i) Effect on opening balance of total equity at 1 January 2005

The following table sets out adjustments that have been made to the opening balances at 1 January 2005. These are the aggregate effect of retrospective adjustments to the total equity as at 31 December 2004 and the opening balance adjustment made as at 1 January 2005.

Group

	Note	Retained profits $'000	Fair value reserve $'000	Investment property revaluation reserve $'000	Total equity $'000
Effect of new policy (increase/(decrease))					
Prior year adjustments:					
HKAS 17					
Leasehold land	*2(c)*	(561)	—	—	(561)
HKAS 40					
Investment properties, net of deferred tax	*2(b)*	1,683,620	—	(2,040,751)	(357,131)
Total increase/(decrease) in equity before opening balance adjustment		1,683,059	—	(2,040,751)	(357,692)
Opening balance adjustment:					
HKAS 39					
Interest in property development	*2(d)(ii)*	—	172,842	—	172,842
Total effect at 1 January 2005		1,683,059	172,842	(2,040,751)	(184,850)

Company

	Note	**Retained profits** *$'000*	**Investment property revaluation reserve** *$'000*	**Total equity** *$'000*
Effect of new policy (increase/(decrease))				
Prior year adjustments:				
HKAS 40				
Investment properties, net of deferred tax	*2(b)*	1,678,032	(2,033,978)	(355,946)
Total effect at 1 January 2005		1,678,032	(2,033,978)	(355,946)

(ii) *Effect on opening balance of total equity at 1 January 2004*

The following table sets out adjustments that have been made to the opening balances at 1 January 2004. However, the change in the policy as explained in note 2(d) did not result in retrospective adjustment being made to the opening balances as at 1 January 2004 as this was prohibited by the relevant transitional provisions.

Group

	Note	**Retained profits** *$'000*	**Investment property revaluation reserve** *$'000*	**Total equity** *$'000*
Effect of new policy (increase/(decrease))				
HKAS 17				
Leasehold land	*2(c)*	(351)	—	(351)
HKAS 40				
Investment properties, net of deferred tax	*2(b)*	1,470,942	(1,782,959)	(312,017)
Total effect at 1 January 2004		1,470,591	(1,782,959)	(312,368)

Company

	Note	Retained profits $'000	Investment property revaluation reserve $'000	Total equity $'000
Effect of new policy (increase/(decrease))				
HKAS 40				
Investment properties, net of deferred tax	2(b)	1,515,406	(1,836,856)	(321,450)
Total effect at 1 January 2004		1,515,406	(1,836,856)	(321,450)

(iii) *Effect on profit attributable to shareholders of the Company for the years ended 31 December 2005 and 2004*

The following table sets out adjustments that have been made to the profit after taxation for the years ended 31 December 2005 and 2004. As retrospective adjustment has not been made for all changes in policies, as explained in note 2(d), the amounts shown for the year ended 31 December 2004 may not be comparable to the amounts shown for the current year.

		Group		Company	
	Note	2005 $'000	2004 $'000	2005 $'000	2004 $'000
Effect of new policy (increase/(decrease))					
HKAS 17					
Leasehold land	2(c)	—	(210)	—	—
HKAS 39					
Derivative financial instruments	2(d)(i)	13,141	—	—	—
HKAS 40					
Investment properties, net of deferred tax	2(b)	417,300	212,678	335,795	162,626
Interest in jointly controlled entities	2(b)	4,244	—	—	—
HKFRS 3					
Negative goodwill	2(e)	26,482	—	—	—
Total effect for the year		461,167	212,468	335,795	162,626
Effect on earnings per share — basic		$0.81	$0.38		

(iv) Effect on net income recognized directly in equity for the years ended 31 December 2005 and 2004

The following table sets out adjustments that have been made to the net income recognized directly in equity for the years ended 31 December 2005 and 2004. As retrospective adjustment has not been made for the changes in the polices, as explained in note 2(d), the amounts shown for the year ended 31 December 2004 may not be comparable to the amounts shown for the current year.

		Group		**Company**	
		2005	**2004**	**2005**	**2004**
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Effect of new policy (increase/(decrease))					
HKAS 39					
Interest in property development — effect on fair value reserve	*2(d)(ii)*	462,456	—	—	—
HKAS 40					
Investment properties — effect on investment property revaluation reserve	*2(b)*	(505,818)	(257,792)	(407,024)	(197,123)
Total effect for the year		(43,362)	(257,792)	(407,024)	(197,123)

(v) Effect on total equity attributable to the shareholders of the Company as at 31 December 2005 and 2004

The following table summarizes effect of adjustments in note 2(a)(i) to 2(a)(iv) on total equity as at 31 December 2005 and 2004.

		Group		**Company**	
		2005	**2004**	**2005**	**2004**
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Effect of new policy (increase/(decrease))					
HKAS 17					
Leasehold land	*2(c)*	(561)	(561)	—	—
HKAS 39					
Derivative financial instruments	*2(d)(i)*	13,141	—	—	—
Interest in property development	*2(d)(ii)*	635,298	—	—	—
HKAS 40					
Investment properties, net of deferred tax	*2(b)*	(445,650)	(357,131)	(427,175)	(355,946)
Interest in jointly controlled entities	*2(b)*	4,244	—	—	—
HKFRS 3					
Negative goodwill	*2(e)*	26,482	—	—	—
Total effect for the year		232,954	(357,692)	(427,175)	(355,946)

(b) Investment properties (HKAS 40, Investment property, and HK(SIC) Interpretation 21, Income taxes — Recovery of revalued non-depreciable assets)

Changes in accounting policies relating to investment properties are as follows:

(i) Timing of recognition of movements in fair value in the income statement

In prior years, movements in the fair value of the Group's investment properties were recognized directly in the investment property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognized in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances, movements in the fair value were recognized in the income statement.

Upon adoption of HKAS 40 as from 1 January 2005, all changes in the fair value of investment properties are recognized directly in the income statement in accordance with the fair value model in HKAS 40.

The change in accounting policy has been adopted retrospectively by increasing the opening balance of retained earnings as of 1 January 2005 by $2,040,751,066 (1 January 2004: $1,782,959,470) and $2,033,977,796 (1 January 2004: $1,836,855,179) to include all of the Group's and the Company's previous investment property revaluation reserve respectively.

As a result of this new policy, the Group's and the Company's profit before taxation for the year ended 31 December 2005 has increased by $505,818,287 (2004: $257,791,596) and $407,023,781 (2004: $197,122,617) respectively, being the net increase in the fair value of the Group's and the Company's investment properties respectively.

The Group's share of profits of jointly controlled entities attributable to shareholders of the Company has increased by $4,243,733 (2004: $Nil), being the Group's share of increase in fair value of the investment properties in the jointly controlled entities for the year ended 31 December 2005.

(ii) Measurement of deferred tax on movements in fair value

In prior years, the Group was required to apply the tax rate that would be applicable to the sale of investment properties to determine whether any amounts of deferred tax should be recognized on the revaluation of investment properties. Consequently, deferred tax was only provided to the extent that tax allowances already given would be clawed back if the property was disposed of at its carrying value, as there would be no additional tax payable on disposal.

As from 1 January 2005, in accordance with HK(SIC) Interpretation 21, the Group recognizes deferred tax on movements in the value of investment property using tax rates that are applicable to the property's use, if the Group has no intention to sell it and the property would have been depreciable had the Group not adopted the fair value model.

The change in accounting policy has been adopted retrospectively by reducing the opening balance of retained earnings as of 1 January 2005 by $357,131,436 (1 January 2004: $312,017,907) and increasing deferred tax liabilities by $420,444,891 (1 January 2004: $375,331,362) for the Group.

The change in accounting policy has been adopted retrospectively by reducing the opening balance of retained earnings and increasing deferred tax liabilities as of 1 January 2005 by $355,946,114 (1 January 2004: $321,449,656) for the Company.

As a result of this new policy, the Group's and the Company's taxation expense for the year ended 31 December 2005 has increased by $88,518,200 (2004: $45,113,529) and $71,229,161 (2004: $34,496,458) respectively.

(c) Leasehold land (HKAS 17, Leases)

In prior years, leasehold land and buildings were stated at cost less accumulated depreciation and impairment losses.

With the adoption of HKAS 17 as from 1 January 2005, the distinguishable leasehold interest in the land is accounted for as being held under an operating lease and is amortized on a straight-line basis over the lease term. Any building held for own use which is situated on such leasehold land continues to be presented as part of other property, plant and equipment and stated at cost less accumulated depreciation and impairment, if any.

The new accounting policy has been adopted retrospectively with the balances of leasehold land reclassified from other property, plant and equipment to leasehold land held for own use under operating lease. The effect of changes in the accounting policy for 31 December 2005 and 2004 is disclosed in note 2(a).

(d) Financial instruments (HKAS 32, Financial instruments: Disclosure and presentation and HKAS 39, Financial instruments: Recognition and measurement)

(i) Derivatives and hedging

In prior years, derivative financial instruments entered into by the Group were not separately recorded in the accounts. The notional amounts of derivatives were recorded off balance sheet.

With effect from 1 January 2005 and in accordance with HKAS 39, all derivative financial instruments entered into by the Group are stated at fair value. Changes in the fair value of derivatives are generally recognized in the income statement unless the derivative financial instrument qualifies 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.

The effect of the policy change for the current year is disclosed in note 2(a) and there has been no effect on the opening balance as there was no outstanding derivative financial instrument entered into by the Group as at 31 December 2004.

(ii) Financial assets and financial liabilities other than debt and equity securities

In prior years, interest in property development was stated at cost less impairment losses.

With effect from 1 January 2005 and in accordance with HKAS 39, interest in property development is classified as available-for-sale financial assets and carried at fair value. Changes in fair value are recognized in the fair value reserve, unless there is objective evidence that the interest in property development has been impaired, any amount held in fair value reserve in respect of the interest in property development is transferred to the income statement for the period in which the impairment is identified. Any subsequent increase in the fair value of the interest in property development is recognized directly in equity.

This change was adopted prospectively by way of an adjustment to the opening balance of fair value reserve of $172,842,297 as at 1 January 2005 as shown in note 2(a)(i). Comparative amounts have not been restated nor has the opening balance of the fair value reserve been restated as this is prohibited by the transitional arrangements in HKAS 39.

As a result of this new policy, net income recognized in equity for the year ended 31 December 2005 has increased by $462,455,703.

(e) Amortization of negative goodwill (HKFRS 3, Business combinations)

In prior periods:

— Negative goodwill which arose prior to 1 January 2001 was taken directly to reserve at the time it arose, and was not recognized in the income statement until disposal or impairment of the acquired business; and

— Negative goodwill which arose on or after 1 January 2001 was amortized over the weighted average useful life of the depreciable/amortizable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognized in the income statement as those expected losses were incurred.

With effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid, the excess is recognized immediately in the income statement as it arises.

The effect of the policy change for the current year is disclosed in note 2(a) and there has been no effect on the opening balance as there was no negative goodwill deferred as at 31 December 2004.

(f) Changes in presentation (HKAS 1, Presentation of financial statements)

(i) Presentation of shares of associated companies' and jointly controlled entities' taxation (HKAS 1, Presentation of financial statements)

In prior years, the Group's share of taxation of associated companies and jointly controlled entities accounted for using the equity method was included as part of the Group's income tax in the consolidated income statement. With effect from 1 January 2005, in accordance with the implementation guidance in HKAS 1, the Group has changed presentation and includes the share of taxation of associated companies and jointly controlled entities accounted for using the equity method in the respective shares of profit or loss reported in the consolidated income statement before arriving at the Group's profit or loss before tax. These changes in presentation have been applied retrospectively with comparatives restated.

(ii) Minority interests (HKAS 1, Presentation of financial statements and HKAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as a deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the shareholders of the Company, and minority interests in the results of the Group for the year are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between the minority interests and the shareholders of the Company.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative year has been restated accordingly.

3. 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

	2005				
	Consolidated	**Property development**	**Property investment**	**Financing and investments**	**Others**
	$'000	*$'000*	*$'000*	*$'000*	*$'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 on acquisition of subsidiaries	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

In 2005, an asset amount of $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") was not allocated to business segments as the transaction was not yet completed.

	2004 (restated)				
	Consolidated	**Property development**	**Property investment**	**Financing and investments**	**Others**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Turnover	773,425	294,718	206,595	264,894	7,218
Contribution from operations	365,928	102,114	182,778	78,412	2,624
Fair value changes on investment properties	257,792	—	257,792	—	—
Unallocated group expenses	(31,890)				
Profit from operations	591,830				
Finance costs	(6,169)				
Share of profits of associated companies	9,554	—	—	—	9,554
Profit before taxation	595,215				
Income tax	(79,919)				
Profit for the year	515,296				
Segment assets	6,582,707	2,568,814	3,606,189	401,318	6,386
Interest in associated companies	46,026	—	—	—	46,026
Unallocated	51,594				
Total assets	6,680,327				
Segment liabilities	659,542	428,265	91,693	124,027	15,557
Unallocated	2,123,508				
Total liabilities	2,783,050				
Capital expenditure incurred during the year	193,670	—	193,670	—	—

(b) Geographical segments

	Group turnover		Group profit from operations	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
				(restated)
Hong Kong	966,929	723,189	885,492	544,125
Macau	282,311	—	281,395	—
North America	66,768	43,679	12,341	42,780
Others	4,293	6,557	2,477	4,925
	1,320,301	773,425	1,181,705	591,830

	Segment assets		Capital expenditure incurred during the year	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
		(restated)		(restated)
Hong Kong	7,088,766	6,140,802	186,996	193,670
Macau	1,500,549	400,000	398,134	—
North America	163,478	23,998	—	—
Others	24,784	17,907	—	—
	8,777,577	6,582,707	585,130	193,670

(c) Major customers and suppliers

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

4. Profit before taxation

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

(a) Finance costs

	2005	**2004**
	$'000	*$'000*
Interest on bank loans and overdrafts	69,750	18,448
Interest on loan from ultimate holding company	128	1,010
Less: Amount capitalized *(Note)*	(50,207)	(12,141)
	19,671	7,317
Less: Interest expense included as other operating expenses	(1,977)	(1,148)
	17,694	6,169

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

(b) Other items

	2005	2004
	$'000	*$'000*
Auditors' remuneration	1,430	978
Provision for bad and doubtful debts	2,137	9,173
Impairment losses on land and buildings	—	4,429
Rentals receivable under operating leases less outgoings	(187,621)	(179,361)
Rental income	(212,083)	(206,595)
Less: Outgoings	24,462	27,234
Dividend income from available-for-sale securities	(2,938)	(1,650)
Dividend income from other listed trading securities	(1,655)	(1,498)
Income from held-to-maturity securities	(5,639)	(43,296)
Income from other unlisted securities	(34,850)	(3,148)
Provision for bad and doubtful debts written back	(3,582)	—

(c) The Group's share of profits for the year, after minority interests and after the declaration of dividend, retained by the associated companies was $10,542,300 (2004: $8,714,434).

(d) The Group's share of profits for the year, after minority interests and after the declaration of dividend, retained by the jointly controlled entities was $4,166,726 (2004: $Nil).

5. Directors' and management's emoluments

(a) Directors' emoluments

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

	2005				
	Directors' fees	Salaries and allowances	Performance related bonuses	Provident fund contributions	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Executive directors:					
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
Non-executive directors:					
Keith Alan Holman	120	384	—	—	504
Tam Hee Chung	120	—	—	—	120
Yeung Kwok Kwong	120	150	—	11	281
Independent non-executive directors:					
Chau Cham Son	120	—	—	—	120
Li Kwok Sing, Aubrey	120	—	—	—	120
Lok Kung Chin, Hardy	120	—	—	—	120
Seto Gin Chung, John	120	—	—	—	120
	845	2,023	1,100	110	4,078

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

	2004				
	Directors' fees	Salaries and allowances	Performance related bonuses	Provident fund contributions	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Executive directors:					
Or Wai Sheun	—	—	—	—	—
Ng Chi Man	—	—	—	—	—
Lai Ka Fai	—	1,300	700	90	2,090
Non-executive directors:					
Keith Alan Holman	100	344	—	—	444
Tam Hee Chung	100	—	—	—	100
Yeung Kwok Kwong	100	—	—	—	100
Independent non-executive directors:					
Chau Cham Son	100	—	—	—	100
Li Kwok Sing, Aubrey	100	—	—	—	100
Lok Kung Chin, Hardy	100	—	—	—	100
Seto Gin Chung, John	100	—	—	—	100
	700	1,644	700	90	3,134

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, one (2004: one) is a director whose emoluments are disclosed in note 5(a). The aggregate of the emoluments in respect of the remaining four (2004: four) individuals are as follows:

	2005	2004
	$'000	*$'000*
Salaries and allowances	3,929	3,881
Performance related bonuses	1,688	1,566
Provident fund contributions	194	192
	5,811	5,639

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

	2005	2004
$0 — $1,000,000	—	—
$1,000,001 — $1,500,000	4	4

6. Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

	2005	2004
	$'000	*$'000*
		(restated)
Current tax		
Provision for Hong Kong profits tax at 17.5% on the estimated assessable profits of the year	61,503	40,001
Under/(Over) provision in respect of prior years	515	(6,259)
	62,018	33,742
Deferred tax		
Origination and reversal of temporary differences	(5,574)	1,064
Change in fair value of investment properties	88,518	45,113
	82,944	46,177
	144,962	79,919

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

	2005	2004
	$'000	*$'000*
		(restated)
Profit before taxation	1,208,366	595,215
Tax at applicable tax rates	209,340	96,433
Non-deductible expenses	6,108	2,589
Non-taxable revenue	(62,810)	(2,909)
Under/(Over) provision in prior years	515	(6,259)
Unrecognized tax losses	1,067	1,173
Previously unrecognized tax losses utilized	(1,122)	(7,615)
Previously unrecognized tax losses now recognized	(5,594)	(2,455)
Others	(2,542)	(1,038)
Actual tax expense	144,962	79,919

7. Profit attributable to shareholders

The consolidated profit attributable to shareholders includes a profit of $434,888,796 (2004 (restated): $269,892,794) which has been dealt with in the accounts of the Company.

8. Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of $1,059,153,190 (2004 (restated): $515,564,047) and the weighted average number of shares in issue during the year of 566,767,850 (2004: 562,685,882).

(b) Diluted earnings per share

No diluted earnings per share for 2004 and 2005 has been presented as the Company had no dilutive potential shares for both years.

(c) Number of shares

	2005	**2004**
	'000	*'000*
Number of shares used in calculating basic earnings per share	566,768	483,768
Effect of issue of new shares	—	78,918
Weighted average number of shares used in calculating basic earnings per share	566,768	562,686

9. Dividends

(a) Dividends attributable to the year

	2005	**2004**
	$'000	*$'000*
Interim dividend declared and paid of $0.10 (2004: $0.07) per share	56,677	39,674
Final dividend proposed after the balance sheet date of $0.35 (2004: $0.25) per share	198,369	141,692
	255,046	181,366

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

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

	2005	**2004**
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of $0.25 (2004: $0.22) per share	141,692	124,689

10. Income tax in the balance sheets

(a) Current taxation in the balance sheets represents:

	Group		**Company**	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Provision for Hong Kong profits tax for the year	61,503	40,001	16,545	18,559
Provisional profits tax paid	(28,752)	(16,448)	(13,698)	(13,196)
	32,751	23,553	2,847	5,363
Through acquisition of subsidiaries	7,836	—	—	—
Balance of profits tax provision relating to prior years	4,227	1,124	—	—
	44,814	24,677	2,847	5,363

(b) Deferred taxation

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 *$'000*	General provision *$'000*	Total *$'000*
At 1 January 2004					
— as previously reported	3,163	(6,451)	(17,373)	1,200	(19,461)
— prior year adjustments	—	(375,331)	—	—	(375,331)
— as restated	3,163	(381,782)	(17,373)	1,200	(394,792)
Credited/(Charged) to income statement (as restated)	318	(42,454)	(3,933)	(108)	(46,177)
At 31 December 2004 (as restated)	3,481	(424,236)	(21,306)	1,092	(440,969)
At 1 January 2005 (as restated)	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	8,566	(640,334)	(27,700)	831	(658,637)

Company

	Revaluation of properties *$'000*	Accelerated depreciation allowances *$'000*	General provision *$'000*	Total *$'000*
At 1 January 2004				
— as previously reported	—	(13,702)	15	(13,687)
— prior year adjustments	(321,450)	—	—	(321,450)
— as restated	(321,450)	(13,702)	15	(335,137)
Charged to income statement (as restated)	(34,496)	(2,590)	(15)	(37,101)
At 31 December 2004 (as restated)	(355,946)	(16,292)	—	(372,238)
At 1 January 2005 (as restated)	(355,946)	(16,292)	—	(372,238)
Charged to income statement	(71,229)	(2,685)	—	(73,914)
At 31 December 2005	(427,175)	(18,977)	—	(446,152)

	Group		Company	
	2005	2004	2005	2004
	$'000	*$'000*	*$'000*	*$'000*
		(restated)		(restated)
Net deferred tax asset recognized on the balance sheet	9,303	3,223	—	—
Net deferred tax liability recognized on the balance sheet	(667,940)	(444,192)	(446,152)	(372,238)
	(658,637)	(440,969)	(446,152)	(372,238)

(c) ***Deferred tax assets not recognized***

The Group has not recognized deferred tax assets in respect of tax losses of $126,053,000 (2004: $148,154,000) as the probability of generating future taxable profits in order to utilize the tax losses is uncertain at this point of time.

11. Fixed assets

(a) ***Group***

	Investment properties	Leasehold land held for own use	Other property, plant and equipment: Buildings	Other property, plant and equipment: Others	Total
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Cost or valuation					
At 1 January 2004	3,011,900	6,446	1,820	29,826	3,049,992
Additions	192,248	—	—	1,715	193,963
Disposals	—	—	—	(149)	(149)
Revaluation surplus	257,792	—	—	—	257,792
At 31 December 2004	3,461,940	6,446	1,820	31,392	3,501,598
Representing					
Professional valuation	3,461,940	—	—	—	3,461,940
Cost	—	6,446	1,820	31,392	39,658
	3,461,940	6,446	1,820	31,392	3,501,598
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
Representing					
Professional valuation	4,147,630	—	—	—	4,147,630
Cost	—	270,206	33,060	36,626	339,892
	4,147,630	270,206	33,060	36,626	4,487,522

	Investment properties	Leasehold land held for own use	Other property, plant and equipment: Buildings	Other property, plant and equipment: Others	Total
	$'000	$'000	$'000	$'000	$'000
Aggregate depreciation and amortization					
At 1 January 2004	—	818	400	29,064	30,282
Charge for the year	—	96	52	320	468
Written back on disposals	—	—	—	(144)	(144)
Impairment losses	—	3,472	957	—	4,429
At 31 December 2004	—	4,386	1,409	29,240	35,035
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
Carrying value					
At 31 December 2005	4,147,630	265,553	31,571	7,932	4,452,686
At 31 December 2004	3,461,940	2,060	411	2,152	3,466,563

(b) Company

	Investment properties	Leasehold land held for own use	Other property, plant and equipment: Buildings	Other property, plant and equipment: Others	Total
	$'000	$'000	$'000	$'000	$'000
Cost or valuation					
At 1 January 2004	2,570,000	—	—	23,554	2,593,554
Additions	32,878	—	—	294	33,172
Disposals	—	—	—	(97)	(97)
Revaluation surplus	197,122	—	—	—	197,122
At 31 December 2004	2,800,000	—	—	23,751	2,823,751
Representing					
Professional valuation	2,800,000	—	—	—	2,800,000
Cost	—	—	—	23,751	23,751
	2,800,000	—	—	23,751	2,823,751
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
Representing					
Professional valuation	3,235,000	—	—	—	3,235,000
Cost	—	—	—	22,874	22,874
	3,235,000	—	—	22,874	3,257,874

	Investment properties	Leasehold land held for own use	Other property, plant and equipment Buildings	Others	Total
	$'000	$'000	$'000	$'000	$'000
Aggregate depreciation and amortization					
At 1 January 2004	—	—	—	23,091	23,091
Charge for the year	—	—	—	200	200
Written back on disposals	—	—	—	(93)	(93)
At 31 December 2004	—	—	—	23,198	23,198
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
Carrying value					
At 31 December 2005	3,235,000	—	—	903	3,235,903
At 31 December 2004	2,800,000	—	—	553	2,800,553

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

	Group 2005	Group 2004	Company 2005	Company 2004
	'000	'000	'000	'000
Investment properties				
In Hong Kong				
— Long leases	3,961,630	3,426,940	3,235,000	2,800,000
— Medium-term leases	36,000	35,000	—	—
Outside Hong Kong				
— Medium-term leases	150,000	—	—	—
	4,147,630	3,461,940	3,235,000	2,800,000
Other properties				
In Hong Kong				
— Long leases	991	1,000	—	—
— Medium-term leases	296,133	1,471	—	—
	297,124	2,471	—	—

The investment properties of the Group and of the Company were revalued at 31 December 2005 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 $408,818 was received in 2005 (2004: $73,221).

The gross carrying amounts of investment properties of the Group held for use in operating leases were $4,147,630,000 (2004: $3,461,940,000). The gross carrying amounts of other fixed assets of the Group held for use in operating leases were $7,072,596 (2004: $8,500,236) and the related accumulated depreciation charges were $6,929,368 (2004: $8,285,100).

The gross carrying amounts of investment properties of the Company held for use in operating leases were $3,235,000,000 (2004: $2,800,000,000). The gross carrying amounts of other fixed assets of the Company held for use in operating leases were $954,152 (2004: $2,370,992) and the related accumulated depreciation charges were $950,745 (2004: $2,366,465).

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

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

	Group		**Company**	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Within 1 year	190,736	154,546	155,387	123,265
After 1 year but within 5 years	104,812	150,748	84,305	120,939
	295,548	305,294	239,692	244,204

12. Interest in jointly controlled entities

	Group	
	2005	**2004**
	$'000	*$'000*
Share of net assets	394,507	—
Amounts due from jointly controlled entities	247,192	—
	641,699	—

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	Percentage of equity attributable to the Group	Principal activities
Eastford Development Limited	Corporate	Hong Kong	27.28%	Property development
South Bay Centre Company Limited	Corporate	Macau	28.42%	Property investment and trading

All of the above investments in jointly controlled entities are indirectly held by the Company.

The followings are the financial information on significant jointly controlled entity — the Group's effective interest after acquisition.

South Bay Centre Company Limited

	From 24 November 2005 (date of acquisition) to 31 December 2005
	$'000
Revenue	116
Expenses	(254)

	At 31 December 2005
	$'000
Non-current assets	403,618
Current assets	223
Current liabilities	(134,264)
Non-current liabilities	(45,339)
Net assets	224,238

13. Jointly controlled assets

As at 31 December, the aggregate amounts of assets and liabilities recognized in the accounts relating to the Group's interest in jointly controlled assets were as follows:

	Group	
	2005	**2004**
	$'000	*$'000*
Assets		
Properties under development	190,425	133,822
Trade and other receivables	368	102
	190,793	133,924
Liabilities		
Bank loans — secured	110,300	69,300
Trade and other payables	9,222	5,711
	119,522	75,011

14. Goodwill

	Group	
	2005	**2004**
	$'000	*$'000*
At 1 January	—	—
Through acquisition of subsidiaries	16,994	—
At 31 December	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 attributed to the goodwill.

15. Interest in subsidiaries

	Company	
	2005	**2004**
	$'000	*$'000*
Unlisted shares, at cost	1,530,460	704,398
Loans to subsidiaries		
— interest free	944,573	831,833
— interest bearing	1,292,194	1,349,089
Loans from subsidiaries		
— interest free	(567,265)	(333,118)
— interest bearing	(297,221)	(28,417)
Amounts due to subsidiaries	(7)	(230)
Impairment losses on subsidiaries	(204,581)	(205,781)
	2,698,153	2,317,774

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 31.

16. Interest in associated companies

	Group	
	2005	**2004**
	$'000	*$'000*
Share of net assets	51,682	41,140
Loan to an associated company	4,886	4,886
	56,568	46,026

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. Prior to 1 July 2004, loan to an associated company was interest free.

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
Southern Success Corporation	Cayman Islands/ Asia	20%	Distribution and sales of footwear

Summary of financial information on significant associated companies:

	Assets	**Liabilities**	**Equity**	**Revenue**	**Profit**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
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
2004					
Aggregate on associated companies' accounts	569,884	381,921	187,963	618,496	41,101
Group's effective interest	120,995	79,855	41,140	133,941	9,554

17. Investments in securities

	Group	
	2005	**2004**
	$'000	*$'000*
Non-current assets		
Available-for-sale securities		
— Equity shares, listed in Hong Kong	17,430	86,476
— Investment fund, unlisted	47,790	23,623
	65,220	110,099
Current assets		
Trading securities, equity shares		
— Listed in Hong Kong	111,204	113,388
— Listed outside Hong Kong	30,823	—
Held-to-maturity securities, unlisted	100,418	15,863
	242,445	129,251
	307,665	239,350
Market value of investment securities		
— Listed in Hong Kong	128,634	199,864
— Listed outside Hong Kong	30,823	—

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

18. Derivative financial instruments

	Group			
	2005		**2004**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	$'000	*$'000*	*$'000*	*$'000*
Over-the-counter contingent forward transactions	7,619	—	—	—
Interest rate swaps				
— Hong Kong Dollars	18,192	—	—	—
— US Dollars	—	7,741	—	—
	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 purchase commitments of the Group under the agreements were $342,623,770 of which $323,176,850 will not be crystallized. The market price of the underlying equity securities has reached the pre-determined price level and all 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 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.

(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 USD65 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. Subsequent to the balance sheet date, 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.

19. Interest in property development

Interest in property development represents the Group's interest in the development of a property in Macau under the co-investment agreement with a wholly owned subsidiary of the ultimate holding company, Polytec Holdings International Ltd ("Polytec Holdings").

20. Inventories

	Group	
	2005	**2004**
	$'000	*$'000*
		(restated)
Land held for future development	611,519	8,939
Properties under development	2,242,381	1,991,537
Properties held for sale	339,776	124,291
Trading goods	1,150	1,683
	3,194,826	2,126,450

Included in properties under development is an amount of $1,459,138,520 (2004 (restated): $1,328,250,578), which represents the Group's interest in 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 2005, the Group had an outstanding payable to The Little Sisters under the development agreement of approximately $129 million (2004: $162 million).

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

	Group	
	2005	**2004**
	$'000	*$'000*
In Hong Kong		
— Long Leases	520,917	412,072
— Medium-term leases	1,381,392	1,377,977
	1,902,309	1,790,049
Outside Hong Kong		
— Freehold	604,964	—
	2,507,273	1,790,049

The amount of properties for future development and under development expected to be recovered after more than one year is $611,519,074 and $2,051,956,273 respectively (2004: $8,939,114 and $1,991,537,354 respectively). 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 2005, total future minimum lease payments under non-cancellable operating leases are as follows:

	Group	
	2005	**2004**
	$'000	*$'000*
Within 1 year	4,038	—
After 1 year but within 5 years	3,330	—
	7,368	—

21. Trade and other receivables

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

	Group		Company	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
0-90 days	54,498	44,480	1,910	615
91-180 days	1,614	2,866	145	231
Over 180 days	9,466	12,686	21	11
Trade receivables	65,578	60,032	2,076	857
Utility and other deposits	3,656	3,455	1,932	1,975
Other receivables and prepayments	251,206	145,656	7,193	4,435
	320,440	209,143	11,201	7,267

Utility and other deposits of the Group and of the Company of $3,454,165 (2004: $3,358,677) and $1,883,563 (2004: $1,969,063) respectively are expected to be recovered after more than one year.

In 2005, prepayments of the Group of an amount of $225,743,000 represents deposit paid for the acquisition of approximately 70.3% 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 2004, prepayments of the Group of an amount of $134,200,000 represented the deposit paid for the acquisition of a property interest under a provisional sale and purchase agreement.

Receivables and prepayments of the Group and of the Company of $1,810,596 (2004: $306,498) and $1,530,000 (2004: $21,470) respectively are expected to be recovered after more than one year.

22. Trade and other payables

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

	Group		Company	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Not yet due or on demand	46,612	29,892	586	4,580
0-90 days	20,047	7,715	879	1,350
91-180 days	137	14	—	—
Over 180 days	52	20	—	—
Trade payables	66,848	37,641	1,465	5,930
Rental and other deposits	51,070	51,407	38,362	38,178
Other payables and accrued expenses	198,171	463,804	44,822	42,568
Deposits received on sale of properties	22,715	1,381	—	—
	338,804	554,233	84,649	86,676

Rental and other deposits of the Group and of the Company of $48,077,670 (2004: $48,096,776) and $38,042,459 (2004: $36,863,174) respectively are expected to be refunded after more than one year.

In 2004, other payables of the Group included an amount of $240,700,000 received from a fellow subsidiary and was payable on demand. An amount of $240,000,000 was repaid to the fellow subsidiary during the year.

Payables and accrued expenses of the Group and of the Company of $12,322,065 (2004: $1,006,122) and $85,655 (2004: $85,655) respectively are expected to be settled after more than one year.

Deposits received on sale of properties of the Group of $22,715,605 (2004: $Nil) are expected to be settled after more than one year.

23. Loan from ultimate holding company

Loan from ultimate holding company is unsecured, interest bearing and has fixed terms of repayment. Interest is charged at bank lending rates.

24. Amounts due to minority shareholders

The amounts due to minority shareholders of subsidiaries are unsecured and have no fixed terms of repayment, of which $12,488,754 is interest bearing at prevailing market rates and $19,434,985 is interest free.

25. Bank loans

At 31 December, bank loans were repayable as follows:

	Group		**Company**	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Within 1 year or on demand	978,413	665,442	217,287	140,300
After 1 year but within 2 years	413,000	194,300	125,000	125,000
After 2 years but within 5 years	1,250,600	847,687	1,195,900	847,687
After 5 years	—	45,000	—	45,000
	1,663,600	1,086,987	1,320,900	1,017,687
	2,642,013	1,752,429	1,538,187	1,157,987

Bank loans were classified in the balance sheets as follows:

	Group 2005	Group 2004	Company 2005	Company 2004
	$'000	$'000	$'000	$'000
Current liabilities				
Secured	686,127	585,142	125,000	60,000
Unsecured	292,286	80,300	92,287	80,300
	978,413	665,442	217,287	140,300
Non-current liability				
Secured	1,663,600	1,086,987	1,320,900	1,017,687
	2,642,013	1,752,429	1,538,187	1,157,987

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

26. Total equity

(a) Group

	Note	Share capital	Share premium	Capital reserve	Investment property revaluation reserve	Fair value reserves	Retained profits	Total	Minority interests	Total equity
		Attributable to shareholders of the Company								
	Note	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*	*$'000*
At 1 January 2004										
— as previously reported		48,377	9,971	2,154	1,782,959	(17,736)	1,461,048	3,286,773	1,476	3,288,249
— prior year adjustments in respect of:										
— Leasehold land	*2(c)*	—	—	—	—	—	(351)	(351)	—	(351)
— Investment properties, net of deferred tax	*2(b)*	—	—	—	(1,782,959)	—	1,470,942	(312,017)	—	(312,017)
— as restated		48,377	9,971	2,154	—	(17,736)	2,931,639	2,974,405	1,476	2,975,881
Issue of shares		8,300	—	—	—	—	—	8,300	—	8,300
Premium on issue of shares		—	560,250	—	—	—	—	560,250	—	560,250
Expenses on issue of shares		—	(12,305)	—	—	—	—	(12,305)	—	(12,305)
Changes in fair value of equity securities available-for-sale		—	—	—	—	14,218	—	14,218	—	14,218
Final dividend declared and paid	*9(b)*	—	—	—	—	—	(124,689)	(124,689)	—	(124,689)
Interim dividend declared and paid	*9(a)*	—	—	—	—	—	(39,674)	(39,674)	—	(39,674)
Profit for the year (as restated)		—	—	—	—	—	515,564	515,564	(268)	515,296
At 31 December 2004 (as restated)		56,677	557,916	2,154	—	(3,518)	3,282,840	3,896,069	1,208	3,897,277

	Note	Share capital	Share premium	Capital reserve	Investment property revaluation reserve	Fair value reserves	Retained profits	Total	Minority interests	Total equity
		Attributable to shareholders of the Company								
		$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000	$'000
At 1 January 2005										
— as previously reported		56,677	557,916	2,154	2,040,751	(3,518)	1,599,781	4,253,761	1,208	4,254,969
— prior year adjustments in respect of:										
— Leasehold land	2(c)	—	—	—	—	—	(561)	(561)	—	(561)
— Investment properties, net of deferred tax	2(b)	—	—	—	(2,040,751)	—	1,683,620	(357,131)	—	(357,131)
— as restated, before opening balance adjustment		56,677	557,916	2,154	—	(3,518)	3,282,840	3,896,069	1,208	3,897,277
— opening balance adjustment in respect of interest in property development	2(d)(ii)	—	—	—	—	172,842	—	172,842	—	172,842
— as restated, after opening balance adjustment		56,677	557,916	2,154	—	169,324	3,282,840	4,068,911	1,208	4,070,119
Changes in fair value of equity securities available-for-sale		—	—	—	—	(1,310)	—	(1,310)	—	(1,310)
Changes in fair value of interest in property development	2(d)(ii)	—	—	—	—	462,456	—	462,456	—	462,456
Transfer to income statement upon disposal of equity securities available-for-sale		—	—	—	—	(11,156)	—	(11,156)	—	(11,156)
Transfer to income statement upon receipt of cash distribution from interest in property development		—	—	—	—	(282,273)	—	(282,273)	—	(282,273)
Loan from a minority shareholder		—	—	—	—	—	—	—	26,625	26,625
Minority interests of subsidiaries acquired during the year	27(b)	—	—	—	—	—	—	—	857,093	857,093
Final dividend declared and paid	9(b)	—	—	—	—	—	(141,692)	(141,692)	—	(141,692)
Interim dividend declared and paid	9(a)	—	—	—	—	—	(56,677)	(56,677)	—	(56,677)
Profit for the year		—	—	—	—	—	1,059,153	1,059,153	4,251	1,063,404
At 31 December 2005		56,677	557,916	2,154	—	337,041	4,143,624	5,097,412	889,177	5,986,589

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

(b) Company

	Note	Share capital $'000	Share premium $'000	Investment property revaluation reserve $'000	Retained profits $'000	Total $'000
At 1 January 2004						
— as previously reported		48,377	9,971	1,836,856	1,273,478	3,168,682
— prior year adjustments in respect of:						
— Investment properties, net of deferred tax	2(b)	—	—	(1,836,856)	1,515,406	(321,450)
— as restated		48,377	9,971	—	2,788,884	2,847,232
Issue of shares		8,300	—	—	—	8,300
Premium on issue of shares		—	560,250	—	—	560,250
Expenses on issue of shares		—	(12,305)	—	—	(12,305)
Final dividend declared and paid	9(b)	—	—	—	(124,689)	(124,689)
Interim dividend declared and paid	9(a)	—	—	—	(39,674)	(39,674)
Profit for the year (as restated)		—	—	—	269,893	269,893
At 31 December 2004 (as restated)		56,677	557,916	—	2,894,414	3,509,007
At 1 January 2005						
— as previously reported		56,677	557,916	2,033,978	1,216,382	3,864,953
— prior year adjustments in respect of:						
— Investment properties, net of deferred tax	2(b)	—	—	(2,033,978)	1,678,032	(355,946)
— as restated		56,677	557,916	—	2,894,414	3,509,007
Final dividend declared and paid	9(b)	—	—	—	(141,692)	(141,692)
Interim dividend declared and paid	9(a)	—	—	—	(56,677)	(56,677)
Profit for the year		—	—	—	434,889	434,889
At 31 December 2005		56,677	557,916	—	3,130,934	3,745,527

The Group's share of profits retained in the accounts of the associated companies at 31 December 2005 after minority interests were $19,896,912 (2004: $9,354,612).

The Group's share of profits retained in the accounts of the jointly controlled entities at 31 December 2005 after minority interests were $4,166,726 (2004: $Nil).

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 interest in property development are not available for distribution to shareholders because they do not constitute realized profits within the meaning of Section 79B(2) of the Hong Kong Companies Ordinance.

Reserves of the Company available for distribution to shareholders at 31 December 2005 amounted to $3,130,934,916 (2004 (restated): $2,894,414,867).

(c) Share capital

	2005		**2004**	
	No. of shares of $0.1 each	*$'000*	**No. of shares of $0.1 each**	*$'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	483,767,850	48,377
Issue of shares	—	—	83,000,000	8,300
At 31 December	566,767,850	56,677	566,767,850	56,677

On 19 January 2004, the Company issued and alloted 83,000,000 new shares to its major shareholder at a price of $6.85 per share after the placement of 83,000,000 old shares by the major shareholder at a price of $6.85 per share to independent third parties.

27. Notes to consolidated cash flow statement

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

	2005	**2004**
	$'000	*$'000*
		(restated)
Profit before taxation	1,208,366	595,215
Adjustments for:		
Unclaimed dividend written back	(239)	(188)
(Profit)/Loss on disposal of other fixed assets	(18)	3
Share of profits of associated companies	(10,542)	(9,554)
Share of profits of jointly controlled entities	(7,331)	—
Negative goodwill on acquisition of subsidiaries	(26,482)	—
Fair value changes on investment properties	(505,818)	(257,792)
Fair value changes on derivative financial instruments	(17,762)	—
Impairment losses on land and buildings	—	4,429
Impairment losses on land held for future development	—	716
Interest income	(1,526)	(353)
Interest expenses	17,694	6,169
Depreciation and amortization	1,304	679
Operating profit before working capital changes	657,646	339,324
Decrease in interest in property development	177,727	—
(Increase)/Decrease in inventories	(420,305)	2,428
Increase in trade and other receivables	(99,734)	(147,350)
(Increase)/Decrease in time deposits (pledged)	(38,205)	5,719
Decrease in loans and advances	26,149	16,075
(Increase)/Decrease in investments in securities	(10,589)	233,384
Increase in amounts due from jointly controlled entities	(5,889)	—
Increase in amount due from an associated company	(124)	(83)
(Decrease)/Increase in trade and other payables	(79,571)	271,439
Increase in amounts due to minority shareholders	49	—
Cash generated from operations	207,154	720,936
Interest received	1,352	353
Interest paid	(66,902)	(20,416)
Profits tax paid	(49,765)	(23,694)
Profits tax refunded	48	1,623
Net cash from operating activities	91,887	678,802

(b) Acquisition of subsidiaries

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 Holdings Limited ("PAH") and its interest in all the outstanding partly paid non-voting convertible redeemable preference shares of PAH.

	2005
	$'000
Net assets acquired:	
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 subsidiaries	623,430

In 2005, 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.

In 2004, the Group acquired from Polytec Holdings, the entire issued share capital together with shareholder's loan of one of Polytec Holdings' wholly owned subsidiary. The company had entered into a co-investment agreement with another wholly owned subsidiary of Polytec Holdings in a property project in Macau. The consideration paid was $400,000,000.

	2004
	$'000
Net assets acquired:	
Interest in property development	400,000
Shareholder's loan	(175,699)
Cash consideration paid for net assets	224,301
Cash consideration paid for shareholder's loan	175,699
Cash outflow on acquisition of subsidiaries	400,000

28. Capital commitments

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

	Group		**Company**	
	2005	**2004**	**2005**	**2004**
	$'000	*$'000*	*$'000*	*$'000*
Contracted for				
— Investment properties	1,410	24,756	1,410	24,620
— Acquisition of subsidiaries	222,333	—	—	—
	223,743	24,756	1,410	24,620
Authorized but not contracted for				
— Investment properties	95,745	—	95,745	—

29. Contingent liabilities

(a) The Group and the Company have given guarantees to insurance companies in respect of performance bonds entered into by certain associated companies to the extent of $8,020,000 (2004: $13,867,000).

(b) The Company has given guarantees in respect of banking facilities and other obligations of certain subsidiaries to the extent of $1,636,093,000 (2004: $757,317,000). The banking facilities and other obligations were utilized to the extent of $1,360,115,000 (2004: $597,459,000) at 31 December 2005.

30. Pledge of assets

At 31 December 2005, properties and securities of the Group with an aggregate carrying value of approximately $4,983,376,000 (2004: $3,960,362,000) and time deposits of $38,205,000 (2004: $Nil) 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.

31. 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	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
Jumbo Power Enterprises Limited	Hong Kong	$2	—	100%	Property development
Jumbo Star Limited	British Virgin Islands	US$1	100%	—	Investment holding
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
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	$2	—	100%	Property development
Roe Investment Limited	Hong Kong	$500,000	100%	—	Investment holding
Searson (Hong Kong) Limited	Hong Kong	$2	100%	—	Property development

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held *Direct*	*Indirect*	Principal activities
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
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/People's Republic of China	US$100	85%	—	Investment holding
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	$122,981,448	—	56.84%	Investment holding
Genius Star Investments Limited	British Virgin Islands/ Macau	US$1	—	56.84%	Financial investment

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held *Direct*	*Indirect*	Principal activities
Glentech International Company Limited	Hong Kong	$2	—	56.84%	Provision of consultancy services
Imperial Profit Investment Limited	British Virgin Islands/ Hong Kong	US$1	—	56.84%	Financial investment
Newcott Limited	British Virgin Islands	US$10,000	—	56.84%	Investment holding
Noble Prime International Limited	British Virgin Islands	US$1	—	56.84%	Investment holding
Power Charm International Limited	British Virgin Islands	US$1	—	56.84%	Investment holding
Power Giant Limited	British Virgin Islands/ Macau	US$1	—	56.84%	Property trading and investment
Profit Sphere International Limited	British Virgin Islands	US$1	—	56.84%	Investment holding
Sheen Concord Enterprises Limited	Hong Kong	$2	—	56.84%	Property development
Sinocharm Trading Limited	British Virgin Islands	US$1	—	56.84%	Investment holding
Success Ever Limited	British Virgin Islands	US$1	—	56.84%	Investment holding
The Hong Kong Ice & Cold Storage Company Limited	Hong Kong	$500,000	—	56.84%	Ice manufacturing and provision of cold storage
Top Vision Assets Limited	British Virgin Islands	US$1	—	56.84%	Investment holding
Acestart Investments Limited	British Virgin Islands/ Macau	US$1	—	40.07%	Property trading and investment
Think Bright Limited	British Virgin Islands/ Macau	US$200	—	40.07%	Property trading and investment

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	—	32.97%	Property trading and investment
Kam Yuen Property Investment Limited	Macau	MOP30,000	—	32.97%	Property investment and development
New Cosmos Holdings Limited	British Virgin Islands	US$100	—	32.97%	Investment holding

32. 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 $38,354 (2004: $41,225). There were no unutilized forfeited contributions at the balance sheet date of both years. The Group's annual contribution for the year was $615,120 (2004: $712,465).

Contributions to the Mandatory Provident Funds of $1,051,580 (2004: $587,311) as required under the Hong Kong Mandatory Provident Fund Schemes Ordinance were charged to the income statement for the year.

33. 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 20.

(b) During the year, an amount of $460,000,000 was received from a subsidiary of Polytec Holdings being cash distribution of the Group's interest in property development (note 19).

(c) During the year, the Group acquired from the major shareholder a group of companies at an aggregate consideration of $826,062,195. Details of the acquisition were set out in note 27(b). An amount of $140,791,092 remained payable to the major shareholder for this acquisition as at the balance sheet date and to be payable not later than 31 December 2006.

(d) As at 31 December 2005, a director of the Company granted a guarantee to a bank to secure the liabilities of a subsidiary to the extent of $22,000,000.

(e) Guarantees in respect of performance bonds provided for certain associated companies were disclosed in note 29.

(f) During the year, the remuneration for key management personnel being short term employee benefits amounted to $9,883,894 (2004: $8,772,569) as disclosed in notes 5(a) and 5(b). The remuneration of directors and senior management is determined by the Remuneration Committee having regard to the performance and responsibilities of individuals and market trends.

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 judgments that have significant effect on the amounts recognized in the accounts.

Depreciation and amortization

The Group's net book value of fixed assets other than properties as at 31 December 2005 was $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.

Allowances for bad and doubtful debts

The policy for allowances of 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 judgment. A considerable amount of judgment 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.

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.

35. Financial risk management objectives and policies

The Group's major financial instruments include loans and advances, borrowings, trade receivables, other receivables, trade payables and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings. The interest rate and terms of repayment of bank borrowings of the Group are disclosed in note 25. Appropriate hedging instruments are engaged to partially mitigate the Group's exposure in 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 2005 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 the 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.

36. Parent and ultimate holding company

At 31 December 2005, 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. Comparative figures

Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies. Further details are disclosed in note 2.

38. Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting year ended 31 December 2005

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 accounting year ended 31 December 2005.

The Group has not early adopted these amendments, new standards and new interpretations in the accounts for the year ended 31 December 2005. The Group has already commenced an assessment of the impact of these amendments, new standards and new interpretations but is not yet in a position to state whether these amendments, new standards and new interpretations would have a significant impact on the Group's results of operations and financial position.

II. FINANCIAL AND TRADING RESULTS

Management Discussion and Analysis of Results of the KDC Group

You should read the following discussion and analysis of the results in conjunction with the financial statements earlier reproduced. The following discussion may contain forward-looking statements based upon current expectations that involve risks and uncertainties. The actual results of the KDC Group may differ materially from those anticipated in these forward-looking statements as a result of various factors.

For the year ended 31 December 2003, the KDC Group recorded a turnover of approximately HK$673.8 million with profit attributable to shareholders of the Company amounted to approximately HK$152.5 million. At the beginning of year 2003, the KDC Group acquired all the residential units of The Bonham Mansion at Mid-Levels which were all sold subsequently in September 2003. The gross rental income generated by the investment property portfolio of the KDC Group amounted to approximately HK$179.3 million and turnover from sale of properties during the year was approximately HK$228.3 million. As at 31 December 2003, the KDC Group had invested a total of approximately HK$458.5 million in securities and net operating profits of approximately HK$64 million was recorded for financing and investment activities

The total bank borrowings of the KDC Group as at 31 December 2003 were approximately HK$2,209 million with HK$370 million repayable within one year and HK$1,839 million repayable more than one year. The gearing ratio calaculated on the basis of bank borrowings to equity attributable to shareholders of the Company was 74.3%. All banking facilities were arranged on a floating rate basis. As at 31 December 2003, properties and securities of the KDC Group with an aggregate carrying value of approximately HK$3,936.8 million and time deposits of approximately HK$5.7 million were pledged to banks to secure credit facilities or as margin for financial investments. Capital commitments in respect of investment properties as at 31 December 2003 amounted to approximately HK$18.1 million.

In order to strengthen the capital base and allow the KDC Group to grow rapidly while maintaining stability, the KDC Group had issued 83,000,000 new shares and raised approximately HK$568.55 million in January 2004. Meanwhile, recognizing the promising prospect of Macau's economy, the KDC Group had made its first step to invest in the Macau property market by acquiring an 80% interest in La Baie Du Noble, a property development project in Macau at a consideration of HK$400 million from the ultimate holding company, Polytec Holdings International Limited, in February 2004. In the first half of 2004, the KDC Group also acquired at a total consideration of approximately HK$152 million two commercial properties in Tsim Sha Tsui East to further strength the portfolio of investment properties and improve the recurrent income base.

For the year ended 31 December 2004, the KDC Group recorded a turnover of approximately HK$773.4 million with profit attributable to shareholders of the Company amounted to approximately HK$515.6 million. Changes in fair value of investment properties amounted to approximately HK$257.8 million. During the year, the gross rental income generated by the investment properties increased by 15% and reached approximately HK$207 million. The increase was largely due to the rise in rental income from retail tenancies of Pioneer Centre and additional rental contributed by the two commercial properties acquired during the year. With the return in general confidence to the property market, the property sales turnover in the year climbed to approximately HK$295 million, representing a 29% increase as compared with 2003. Such income was generated primarily from the sale of a majority of the 75 residential units of La Maison Du Nord at No. 12 North Street and about 40% of the luxury residential units of Padek Palace at No. 377 Prince Edward Road West. As at 31 December 2004, the KDC Group had invested a total of approximately HK$239 million in financial investments. The decrease in investment from approximately HK$459 million at the end of 2003 was a result of the early redemption by the issuer of the US$50 million 10 year note held as long term investment during the year 2004. Financing and investment activities delivered approximately HK$78 million contribution from operations for the year ended 31 December 2004.

The total bank borrowings of the KDC Group as at 31 December 2004 amounted to approximately HK$1,752.4 million with HK$665.4 million repayable within one year and HK$1,087 million repayable more than one year. The gearing ratio, expressed as a percentage of the bank borrowings over the equity attributable to the shareholders of the Company was reduced to 45% as compared with 2003. All banking facilities were arranged on a floating basis. Properties and securities of the KDC Group with an aggregate carrying value of approximately HK$3,960 million were pledged to banks to secure credit facilities or as margin for financial investments. Capital commitments in respect of construction works amounted to approximately HK$24.8 million.

To further expand to Macau and the Mainland China, two major acquisitions were made in 2005. In April 2005, through an 85% owned subsidiary, the KDC Group had entered into an agreement to acquire a 70.3% stake in Shenzhen Properties & Resources Development (Group) Limited ("Shenzhen Properties") for a cash consideration of approximately RMB459 million. Shenzhen Properties, indirectly owned by the Shenzhen Municipal Government, is an enterprise listed on the Shenzhen Stock Exchange and principally engaged in real estate development, investment and property management in the PRC. The acquisition was still pending approval from the China Securities Regulatory Commission. In November 2005, the Company acquired an aggregate interest of approximately 56.84% in the existing issued shares of PAH and all the outstanding partly paid non-voting convertible redeemable preference shares of PAH for a total consideration of approximately HK$826 million.

For the year ended 31 December 2005, the KDC Group recorded a turnover of approximately HK$1,320.3 million with profit attributable to shareholders of the Company amounted to approximately HK$1,059.2 million. Changes in fair value of investment properties amounted to approximately HK$505.8 million. The KDC Group's property sales rose to approximately HK$531 million in 2005, an increase of 80% over 2004. The substantial increase in sales was primarily due to the recognition of a portion of the cash distribution from the 80% interest in La Baie Du Noble in Macau, and the sales of a majority of the 68 residential units of Padek Palace at No. 377 Prince Edward Road West in Hong Kong. The gross rental income for 2005 from its property investment portfolio amonted to approximately HK$212 million. Excluding a one-off termination fee from a retail tenancy in 2004, the underlying gross rental income rose 17% in 2005 over 2004. The improvement was broad-based, with the underlying rental income from office and retail properties rising 20% and 19% respectively. As at 31 December 2005, the KDC Group invested a total of approximately HK$308 million in financial investments. For the year ended 31 December 2005, financing and investment activities combined contributed approximately HK$124 million to the operating profits, an increase of 58% over 2004.

The total bank borrowings of the KDC Group as at 31 December 2005 amounted to approximately HK$2,642 million with HK$978.4 million repayable within one year and HK$1,663.6 million repayable more than one year. The gearing ratio, expressed as a percentage of the bank borrowings over the equity attributable to the shareholders of the Company was 51.8%. All banking facilities were arranged on a floating basis with HK$700 million bank loans being hedged by structured swaps. Properties and securities of the KDC Group with an aggregate carrying value of approximately HK$4,983 million and time deposits of approximately HK$38 million were pledged to banks to secure credit facilities or as margin for financial investments. Capital commitments in respect of acquisition of Shenzhen Properties and construction works amounted to approximately HK$222 million and HK$97 million respectively as at 31 December 2005.

The KDC Group's exposure to currency risk is insignificant as most of its operations are in Hong Kong and transactions are denominated in local currency.

As at 31 December 2003, 2004 and 2005, the KDC Group had given guarantees in the amount of HK$7 million to HK$14 million to insurance companies in respect of performance bonds entered into by the associated companies engaged in property management services.

As at 31 December 2003 and 2004, the total number of employees (excluding associated companies) was around 135 to 155. As at 31 December 2005, the total number of employees (including PAH Group but excluding associated companies) was about 250. The salary levels of the KDC Group's employees are reviewed regularly so that they can be kept at a competitive level. Employees are rewarded based on their responsibilities and performance within the salary and bonus system.

Trading Prospects of the Enlarged Group

The KDC Group is pursuing a three-tier development strategy, aiming at an exposure in the three markets of the Greater China region, namely Hong Kong, Macau and the PRC.

While the Company will concentrate on its activities in Hong Kong, it also acts as a holding company for the KDC Group's interest in Macau and China. PAH will be the KDC Group's business flagship in the Macau market while assuming completion of the acquisition of a controlling stake in Shenzhen Properties Development & Resources (Group) Limited (which is still pending final approval from the relevant authorities in China), this joint stock company which is listed in the Shenzhen Stock Exchange will be the development platform of the KDC Group in China.

The worldwide economy is expected to continue its steadiness this year despite of higher oil prices and interest. Mainland economy growth should remain strong. Declining unemployment and modest rise in income improved spending confidence. The topping out of interest rates and abundant liquidity should bring an optimistic outlook for Hong Kong's economy. On the back of robust and accelerating economic and population growth, household formation rate, and the launch of new casinos and the proposed Hong Kong-Zhuhai-Macau bridge, it is expected that the Macau property market will continue to grow at a fast pace.

The Hong Kong residential property market continues to show resilience while the demand has been buoyant in the Macau property market. The KDC Group's development projects both in Hong Kong and Macau are progressing well.

In Hong Kong, the KDC Group has development projects of more than 2.4 million sq. ft. GFA in progress span over the next 3 to 4 years. Mount Davis 33, a joint venture residential project with the Urban Renewal Authority has just been released to the market and is well received by the market due to its prime location, user-oriented design and quality finishes. The luxury residential development at 31 Robinson Road, Mid-level is expected to be completed in 2007 and will be offered to the market in appropriate time to take advantage of the market condition. Completion of the 35 Clear Water Bay Road project in Kowloon East, a comprehensive residential development with retail and community facilities comprising 2.16 million sq. ft. GFA, is planned to be in the years 2008/2009.

In Macau, La Baie Du Noble, one of the most prestigious residential and commercial property developments in town which the KDC Group owns 80%, has set new standards for luxury living in Macau with its contemporary designs and superior finishes. While nearly all the residential units have been sold, the retained duplex units will be released to the market in the second half of this year. Pacifica Garden, a residential and commercial project in Taipa has since the beginning of 2006 undergone site formation works and has received encouraging enquires. The project is scheduled to be completed by 2008.

Upon Completion, the Acquisition will allow PAH and in turn the KDC Group to become one of the leading property development and investment groups in Macau. After Completion, the KDC Group will have property trading, development and investment projects in Macau comprising more than 13 million sq. ft. GFA of residential and commercial properties and approximately 6,100 car parking spaces. The Projects are planned to be developed by phases starting from the second half of 2006 through 2012.

The broad-based improvement in the KDC Group's rental income is expected to continue in 2006, in particular with respect to the KDC Group's interest in Macau Square, a commercial property with approximately 400,000 sq.ft. GFA, situated at Av. Do Infante D. Henrique in Macau, which renovation programs are completing by phase and is ready to be launched to the market for lease. With the completion of the 35 Clear Water Bay Road project in 2008/2009, the retail portion of the project which is reserved for rental purposes, will further strengthen the rental income base of the investment property portfolio of the KDC Group.

The proposed acquisition of a controlling stake in Shenzhen Properties Development & Resources (Group) Limited in 2005 is part of the KDC Group's three-tier strategic plan to identify its platform for investment in China. The KDC Group will actively take advantage of opportunities which arise in the PRC and invest selectively in prime locations in good potential mainland cities.

The KDC Group will continue to focus on maintaining the dynamic earnings growth in the long term and the delivery of best return from the business.

III. INDEBTEDNESS STATEMENT

Save as disclosed below and apart from intra-group liabilities and normal trade payables, the KDC Group did not have, as at the close of business on 31 March 2006, any mortgages, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness (including those authorised or otherwise created but unissued), finance leases or hire-purchase commitments, liabilities under acceptances or acceptance credits, or any guarantees or other contingent liabilities outstanding as at close of business on 31 March 2006.

Borrowings

As at 31 March 2006, bank borrowings of the KDC Group amounted to approximately HK$2,813 million, which comprise secured bank loans of approximately HK$2,607 million and unsecured bank loans of approximately HK$206 million. As at 31 March 2006, an advance from a minority shareholder amounted to approximately HK$11 million which was unsecured, bearing interest at prevailing market rates and was repayable on demand.

Pledge of assets

As at 31 March 2006, certain properties, securities, cash and bank balances and receivables of the KDC Group with carrying value of approximately HK$5,053 million were pledged to banks to secure general banking facilities or as margin deposits for investments in securities.

Contingent Liabilities

As at 31 March 2006, guarantees amounted to approximately HK$8 million had been given by the KDC Group to insurance companies in respect of performance bonds entered into by certain associated companies.

IV. WORKING CAPITAL SUFFICIENCY

The Directors, after due and careful consideration, are of the opinion that in the absence of unforeseen circumstances and based on the expected cash flows, expected proceeds from new issue of shares, the undertaking given by the Vendor for granting financial assistance to the KDC Group to fund the Projects, available and unutilised banking facilities and internal resources of the Enlarged Group, the Enlarged Group will have sufficient working capital for its present requirements for at least the next twelve months following the date of this circular.

V. MATERIAL CHANGES

As at the Latest Practicable Date, the Directors are not aware of any material change in the financial and trading position of the KDC Group since 31 December 2005, the date to which the latest audited consolidated financial statements of the KDC Group were made up.

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

Introduction

The accompanying unaudited Pro Forma Financial Information of the Enlarged Group (as defined herein) is prepared based upon the audited historical financial information of Kowloon Development Company Limited ("the Company") and its subsidiaries ("the Group") as set out in Appendix III and the audited historical financial information of New Bedford Properties Limited ("the Target") as set out in Appendix II (collectively termed as "the Enlarged Group") after giving effect to the pro forma adjustments described in the accompanying notes. A narrative description of the pro forma adjustments of the Acquisition that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, are summarized in the accompanying notes.

The unaudited Pro Forma Financial Information of the Enlarged Group should be read in conjunction with the financial information of the Group as set out in Appendix III, the financial information of the Target as set out in Appendix II and other financial information included elsewhere in this circular.

The unaudited pro forma consolidated balance sheet of the Enlarged Group is prepared based on the audited consolidated balance sheet of the Group as at 31 December 2005, as set out in Appendix III of this circular, and the audited balance sheet of the Target as at 31 March 2006 as extracted from Appendix II of this circular as if the Acquisition has been completed on 31 December 2005.

The unaudited pro forma income statement and cash flow statement of the Enlarged Group are prepared based on the audited consolidated income statement and consolidated cash flow statement of the Group for the year ended 31 December 2005, as set out in Appendix III of this circular and the audited income statement and cash flow statement of the Target for the period from 9 March to 31 March 2006 as extracted from Appendix II of this circular as if the Acquisition has been completed on 1 January 2005.

The unaudited Pro Forma Financial Information is prepared to provide information on the Enlarged Group as a result of the completion of the Acquisition. It is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position or results of the Enlarged Group on the completion of the Acquisition.

Notes:

(1) The adjustment is to record the acquisition of the entire issued share capital of the Target ("the Acquisition") through its 56.84% owned subsidiary, Polytec Asset Holdings Limited ("PAH") from its ultimate holding company ("the Vendor").

The consideration for the Acquisition of HK$8,448 million ("the Consideration") was based on the fair value of interest in three property development projects held by the Target. The fair value of interest in the three property development projects was determined by reference to a valuation report dated 31 March 2006 prepared by DTZ Debenham Tie Leung Limited, an independent firm of professional valuers, on a market basis.

Pursuant to the Acquisition Agreement entered into on 8 April 2006 between the Group and the Vendor, the Consideration will be settled by the Group in the following manner:

(i) Upon signing of the Acquisition Agreement, the Group shall pay a HK$200 million deposit in cash to the Vendor; and

(ii) The remaining balance of the Consideration of HK$8,248 million will be settled either at completion of the Acquisition or at a date agreed by both parties. If the Group elects to pay the Consideration after completion, interest of HIBOR plus 0.5% per annum will be charged on the outstanding consideration until payment.

Not taken into account the financial impact of the PAH Subscription and the Company's New Share Issue (as defined in note 4 (ii)), purchase deposit of HK$200 million was paid by PAH to the Vendor, which was financed by loan from the Company. The Company obtained such funding through bank borrowings. Interest on bank loan and deferred consideration payable to the Vendor are charged at HIBOR plus 0.5% per annum. The bank loan is not repayable within one year. The deferred consideration payable to the Vendor is not expected to be settled within one year.

No adjustment is made to the pro forma cash flow statement in relation to the Consideration balance of HK$8,248 million as the payment will be deferred.

(2) The adjustment is to record the interest expenses for bank borrowings and deferred consideration payable to the Vendor as stated in note (1) and the related tax effect assuming the Acquisition is completed on 1 January 2005 and before taken into account the financial impact of the PAH Subscription and the Company's New Share Issue.

(3) The adjustment is to record the estimated expenses related to the Acquisition, among others, the preparation of this circular of the Acquisition, at approximately HK$2.5 million.

(4) Taken into account the financial impact of the PAH Subscription and the Company's New Share Issue, the Consideration will be settled by the Group in the following manner:

(i) For the HK$200 million deposit paid upon signing of the Acquisition Agreement

Upon the signing of the Acquisition Agreement, the Group will pay a HK$200 million deposit in cash to the Vendor, which will be financed by bank borrowings. The Group will then immediately repay such bank borrowings using the proceeds from the PAH Subscription as defined in note 4(ii) below.

(ii) Balance of the Consideration

(a) Part of the Consideration of HK$5,290 million will be satisfied by the proceeds from subscription of PAH's new shares. In May 2006, PAH entered into a number of agreements with the Company and other unconnected subscribers for a subscription of a total of 2,811,411,970 new PAH shares of HK$0.1 each, at HK$1.98 per share ("PAH Subscription"). Net expected proceeds from the PAH Subscription is approximately HK$5,523 million, of which approximately HK$5,290 million will be used to finance the Acquisition and approximately HK$200 million will be used for the repayment of bank borrowings as stated in note 4(i) above.

Pursuant to the PAH Subscription, the Company has agreed to subscribe for 1,598,000,000 new shares of PAH. The subscription consideration of HK$3,164 million will be financed by way of:

— the Company's issue of 113,353,000 new shares of HK$0.1 each, at HK$12.4 per share, to Intellinsight Holdings Limited ("IHL"), the immediate holding company of the Company. The net proceeds received from the Company's share issue is expected to be approximately HK$1,377 million, of which approximately HK$970 million will be used by the Company to fund the subscription of PAH shares; and

— loan amounting to HK$2,194 million from IHL. Interest will be charged at HIBOR plus 0.5% per annum. The loan is not expected to be settled within one year.

Upon completion of the PAH Subscription, the Company will maintain the same shareholding of 56.84% in PAH.

(b) The remaining balance of the Consideration of HK$2,958 million will be settled at a date to be agreed by PAH and the Vendor but is not expected to be settled within one year. Interest will be charged at HIBOR plus 0.5% per annum on the outstanding consideration until payment. No adjustment has been made to the pro forma consolidated cash flow statement in relation to the balance of consideration of HK$2,958 million as the payment will be deferred.

(5) The adjustment is to record the reduction in interest expenses for the payable due to the Vendor as stated in note 1(ii) as part of the Consideration is financed from the proceeds from the PAH Subscription as stated in note 4(ii)(a).

(6) The adjustment is to record the reduction in interest expenses for bank borrowings and the related tax effect as stated in note 2 as such borrowings will subsequently be repaid from the proceeds from the PAH Subscription as stated in note 4(i).

(7) The adjustment is to record the interest expenses for the loan from IHL as stated in note 4(ii)(a).

Pro Forma Consolidated Income Statement

	The Group for the year ended 31 Dec 2005	New Bedford Properties Ltd 9-31 Mar 2006	Unaudited Pro forma adjustments upon completion of the Acquisition but before completion of the PAH Subscription and the Company's New Share Issue	*Note*	Subtotal	Unaudited Pro forma adjustments upon completion of the Acquisition and after completion of the PAH Subscription and the Company's New Share Issue	*Note*	The Enlarged Group Pro Forma Total
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*		*HK$'000*
	(Audited)	(Audited)						(Unaudited)
Turnover	1,320,301	–			1,320,301			**1,320,301**
Other revenue	5,475	–			5,475			**5,475**
Depreciation and amortization	(1,304)	–			(1,304)			**(1,304)**
Staff costs	(51,845)	–			(51,845)			**(51,845)**
Cost of inventories	(567,785)	–			(567,785)			**(567,785)**
Fair value changes on investment properties	505,818	–			505,818			**505,818**
Other operating expenses	(28,955)	–	(2,500)	*3*	(31,455)			**(31,455)**
Profit from operations	1,181,705	–	(2,500)		1,179,205	–		**1,179,205**
Finance costs	(17,694)	–	(295,680)	*2*	(313,374)	185,134	*5*	**(198,031)**
						7,000	*6*	
						(76,791)	*7*	
Share of profits of associated companies	10,542	–			10,542			**10,542**
Share of profits of jointly controlled entities	7,331	–			7,331			**7,331**
Negative goodwill on acquisition of subsidiaries	26,482	–			26,482			**26,482**
Profit before taxation	1,208,366	–	(298,180)		910,186	115,343		**1,025,529**
Income tax	(144,962)	–	1,225	*2*	(143,737)	(1,225)	*6*	**(144,962)**
Profit for the year	1,063,404	–	(296,955)		766,449	114,118		**880,567**
Attributable to:								
Shareholders of the Company	1,059,153	–	(166,840)	*2*	890,460	105,230	*5*	**921,653**
			(1,853)	*3*		2,754	*6*	
						(76,791)	*7*	
Minority interests	4,251	–	(127,615)	*2*	(124,011)	79,904	*5*	**(41,086)**
			(647)	*3*		3,021	*6*	
	1,063,404	–	(296,955)		766,449	114,118		**880,567**

Pro Forma Consolidated Balance Sheet

	The Group as at 31 Dec 2005	New Bedford Properties Ltd as at 31 Mar 2006	Unaudited Pro forma adjustments upon completion of the Acquisition but before completion of the PAH Subscription and the Company's New Share Issue	*Note*	Subtotal	Unaudited Pro forma adjustments upon completion of the Acquisition and after completion of the PAH Subscription and the Company's New Share Issue	*Note*	The Enlarged Group Pro Forma Total
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*		*HK$'000*
	(Audited)	(Audited)						(Unaudited)
Non-current assets								
Investment properties	4,147,630	–			4,147,630			**4,147,630**
Leasehold land held for own use	265,553	–			265,553			**265,553**
Other property, plant and equipment	39,503	–			39,503			**39,503**
Goodwill	16,994	–			16,994			**16,994**
Interest in jointly controlled entities	394,507	–			394,507			**394,507**
Interest in associated companies	56,568	–			56,568			**56,568**
Interest in property development	–	–	8,448,000	*1*	8,448,000			**8,448,000**
Investments in securities	65,220	–			65,220			**65,220**
Loans and advances	55,320	–			55,320			**55,320**
Deferred tax assets	9,303	–			9,303			**9,303**
	5,050,598	–	8,448,000		13,498,598	–		**13,498,598**
Current assets								
Interest in property development	575,298	–			575,298			**575,298**
Inventories	3,194,826	–			3,194,826			**3,194,826**
Trade and other receivables	320,440	–			320,440			**320,440**
Loans and advances	63,523	–			63,523			**63,523**
Amounts due from jointly controlled entities	247,192	–			247,192			**247,192**
Amount due from an associated company	207	–			207			**207**
Derivative financial instruments	25,811	–			25,811			**25,811**
Investments in securities	242,445	–			242,445			**242,445**
Time deposits (pledged)	38,205	–			38,205			**38,205**
Cash and cash equivalents	104,706	–			104,706	440,293	*4*	**544,999**
	4,812,653	–	–		4,812,653	440,293		**5,252,946**

	The Group as at 31 Dec 2005	New Bedford Properties Ltd as at 31 Mar 2006	Unaudited Pro forma adjustments upon completion of the Acquisition but before completion of the PAH Subscription and the Company's New Share Issue	*Note*	Subtotal	Unaudited Pro forma adjustments upon completion of the Acquisition and after completion of the PAH Subscription and the Company's New Share Issue	*Note*	The Enlarged Group Pro Forma Total
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*		*HK$'000*
	(Audited)	(Audited)						(Unaudited)
Current liabilities								
Trade and other payables	338,804	–			338,804			**338,804**
Amount due to a major shareholder	140,791	–			140,791			**140,791**
Amounts due to minority shareholders	31,924	–			31,924			**31,924**
Derivative financial instruments	7,741	–			7,741			**7,741**
Bank loans	978,413	–			978,413			**978,413**
Current taxation	44,814	–			44,814			**44,814**
	1,542,487	–	–		1,542,487	–		**1,542,487**
Net current assets	3,270,166	–	–		3,270,166	440,293	*4*	**3,710,459**
Total assets less current liabilities	8,320,764	–	8,448,000		16,768,764	440,293		**17,209,057**
Non-current liabilities								
Loan from ultimate holding company	2,635	–			2,635			**2,635**
Payable to ultimate holding company	–	–	8,248,000	*1*	8,248,000	(5,289,551)	*4*	**2,958,449**
Loan from immediate holding company	–	–			–	2,194,040	*4*	**2,194,040**
Bank loans	1,663,600	–	200,000	*1*	1,863,600	(200,000)	*4*	**1,663,600**
Deferred tax liabilities	667,940	–			667,940			**667,940**
	2,334,175	–	8,448,000		10,782,175	(3,295,511)		**7,486,664**
NET ASSETS	5,986,589	–	–		5,986,589	3,735,804		**9,722,393**
CAPITAL AND RESERVES								
Share capital	56,677	–			56,677	11,335	*4*	**68,012**
Reserves	5,040,735	–			5,040,735	1,365,958	*4*	**6,406,693**
Total equity attributable to the shareholders of the Company	5,097,412	–	–		5,097,412	1,377,293		**6,474,705**
Minority interests	889,177	–			889,177	2,358,511	*4*	**3,247,688**
TOTAL EQUITY	5,986,589	–	–		5,986,589	3,735,804		**9,722,393**

Pro Forma Consolidated Cash Flow Statement

	The Group for the year ended 31 Dec 2005	New Bedford Properties Ltd 9-31 Mar 2006	Unaudited Pro forma adjustments upon completion of the Acquisition but before completion of the PAH Subscription and the Company's New Share Issue	*Note*	Subtotal	Unaudited Pro forma adjustments upon completion of the Acquisition and after completion of the PAH Subscription and the Company's New Share Issue	*Note*	The Enlarged Group Pro Forma Total
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*		*HK$'000*
	(Audited)	(Audited)						(Unaudited)
Profit before taxation	1,208,366	—	(295,680)	2	910,186	185,134	5	**1,025,529**
		—	(2,500)	3		7,000	6	
						(76,791)	7	
Adjustments for:								
— Unclaimed dividend written back	(239)	—			(239)			**(239)**
— Profit on disposal of other fixed assets	(18)	—			(18)			**(18)**
— Share of profits of associated companies	(10,542)	—			(10,542)			**(10,542)**
— Share of profits of jointly controlled entities	(7,331)	—			(7,331)			**(7,331)**
— Negative goodwill on acquisition of subsidiaries	(26,482)	—			(26,482)			**(26,482)**
— Fair value changes on investment properties	(505,818)	—			(505,818)			**(505,818)**
— Fair value changes on derivative financial instruments	(17,762)	—			(17,762)			**(17,762)**
— Interest income	(1,526)	—			(1,526)			**(1,526)**
— Interest expenses	17,694	—	295,680	2	313,374	(185,134)	5	**198,031**
						(7,000)	6	
						76,791	7	
— Depreciation and amortization	1,304	—			1,304			**1,304**
Operating profit/(loss) before working capital changes	657,646	—	(2,500)		655,146	—		**655,146**
Decrease in interest in property development	177,727	—			177,727			**177,727**
Increase in inventories	(420,305)	—			(420,305)			**(420,305)**
Increase in trade and other receivables	(99,734)	—			(99,734)			**(99,734)**
Increase in time deposits (pledged)	(38,205)	—			(38,205)			**(38,205)**
Decrease in loans and advances	26,149	—			26,149			**26,149**
Increase in investments in securities	(10,589)	—			(10,589)			**(10,589)**
Increase in amounts due from jointly controlled entities	(5,889)	—			(5,889)			**(5,889)**
Increase in amount due from an associated company	(124)	—			(124)			**(124)**
Decrease in trade and other payables	(79,571)	—			(79,571)			**(79,571)**
Increase in amounts due to minority shareholders	49	—			49			**49**

	The Group for the year ended 31 Dec 2005	New Bedford Properties Ltd 9-31 Mar 2006	Unaudited Pro forma adjustments upon completion of the Acquisition but before completion of the PAH Subscription and the Company's New Share Issue	Note	Subtotal	Unaudited Pro forma adjustments upon completion of the Acquisition and after completion of the PAH Subscription and the Company's New Share Issue	Note	The Enlarged Group Pro Forma Total
	HK$'000	*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*		*HK$'000*
	(Audited)	(Audited)						(Unaudited)
Cash generated from operations	207,154	–	(2,500)		204,654	–		**204,654**
Interest received	1,352	–			1,352			**1,352**
Interest paid	(66,902)	–	(7,000)	2	(73,902)	7,000	6	**(66,902)**
Profits tax paid	(49,765)	–	1,225	2	(48,540)	(1,225)	6	**(49,765)**
Profits tax refunded	48	–			48			**48**
Net cash from/(used in) operating activities	91,887	–	(8,275)		83,612	5,775		**89,387**
Investing activities								
Sale of other fixed assets	35	–			35			**35**
Additions to fixed assets and properties	(32,772)	–			(32,772)			**(32,772)**
Acquisition of subsidiaries	(623,430)	–	(200,000)	*1*	(823,430)	(5,289,551)	*4*	**(6,112,981)**
Net cash used in investing activities	(656,167)	–	(200,000)		(856,167)	(5,289,551)		**(6,145,718)**
Financing activities								
Net proceeds from share issued	–	–			–	3,735,804	*4*	**3,735,804**
Increase in bank loans	800,784	–	200,000	*1*	1,000,784	(200,000)	*4*	**800,784**
Decrease in loan from ultimate holding company	(4,884)	–			(4,884)			**(4,884)**
Increase in loan from immediate holding company	–	–			–	2,194,040	*4*	**2,194,040**
Dividend paid	(198,036)	–			(198,036)			**(198,036)**
Increase in loan from a minority shareholder	26,625	–			26,625			**26,625**
Net cash from financing activities	624,489	–	200,000		824,489	5,729,844		**6,554,333**
Net increase/(decrease) in cash and cash equivalents	60,209	–	(8,275)		51,934	446,068		**498,002**
Cash and cash equivalents at 1 January	44,497	–			44,497			**44,497**
Cash and cash equivalents at 31 December	104,706	–	(8,275)		96,431	446,068		**542,499**

The following is the text of a report, prepared for the sole purposes of incorporation in this circular, received from the independent reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong. As described under "Documents available for inspection" in Appendix VI, a copy of the following report is available for inspection.

KPMG

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

The Directors
Kowloon Development Company Limited

23 May 2006

Dear Sirs,

KOWLOON DEVELOPMENT COMPANY LIMITED ("THE COMPANY")

We report on the unaudited pro forma financial information (the "unaudited Pro Forma Financial Information") of Kowloon Development Company Limited and its subsidiaries (the "Group") set out on pages IV-1 to IV-8 in Appendix IV of the Company's circular dated 23 May 2006 (the "Circular") in connection with the acquisition of equity interests (the "Acquisition") in New Bedford Properties Limited (the "Target Company"), which has been prepared by the directors of the Company solely for illustrative purposes to provide information as to how the Acquisition might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out in the introduction and notes to the unaudited Pro Forma Financial Information of the Enlarged Group as set out in Appendix IV of the Circular.

RESPONSIBILITIES

It is the responsibility solely of the directors of the Company to prepare the unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

BASIS OF OPINION

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of:

- the financial position of the Group as at 31 December 2005 or any future date; or
- the results and cash flows of the Group for the year ended 31 December 2005 or any future periods.

OPINION

In our opinion:

(a) the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to Paragraph 4.29(1) of the Listing Rules.

Yours faithfully
KPMG
Certified Public Accountants
Hong Kong

1. RESPONSIBILITY STATEMENTS

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular (other than the information relating to the Vendor) and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

The directors of the Vendor accept full responsibility for the accuracy of the information contained in this circular relating to the Vendor and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts relating to the Vendor not contained in this circular, the omission of which would make any statement herein misleading.

2. DISCLOSURE OF INTERESTS

(a) Disclosure of Interests by Directors

Save as disclosed below, as at the Latest Practicable Date none of the Directors and chief executive of the Company or their respective associates had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571)) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests and short positions which they are taken or deemed to have under such provisions of the Securities and Futures Ordinance); or (b) were required, pursuant to Section 352 of the Securities and Futures Ordinance, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange:

Interests in Shares, Underlying Shares and Debentures of Company

Name of Director	Nature of Interest	Number of Shares Long Position	Number of Shares Short Position	Approximate percentage of existing issued share capital of the Company *(Note 1)*
Or Wai Sheun	As Beneficiary *(Note 2)*	352,838,083	Nil	51.88%
	Corporate *(Note 3)*	185,000	Nil	0.03%
Ng Chi Man	As Beneficiary *(Note 4)*	352,838,083	Nil	51.88%
Or Pui Kwan	As Beneficiary *(Note 4)*	352,838,083	Nil	51.88%
	Personal	7,000	Nil	0.001%
Tam Hee Chung	Corporate *(Note 5)*	500,000	Nil	0.07%
Lai Ka Fai	Personal	282,000	Nil	0.04%
Lok Kung Chin, Hardy	Under Trust *(Note 6)*	200,000	Nil	0.03%
Keith Alan Holman	Personal	161,000	Nil	0.02%
Yeung Kwok Kwong	Personal	100,000	Nil	0.01%

Notes:

1. As at the Latest Practicable Date, the total number of issued shares of the Company was 680,120,850 Shares.

2. As founder and one of the beneficiaries of the Or Family Trust which ultimately owns such Shares.

3. By virtue of a 100% interest in China Dragon Limited which owns such Shares.

4. As a beneficiary under the Or Family Trust which ultimately owns such Shares.

5. By virtue of a 48% interest in Larry H. C. Tam & Associates Limited which owns such Shares.

6. As founder of a discretionary trust which owns such Shares.

Interests in Shares, Underlying Shares and Debentures of PAH

Name of Director	Nature of Interest	Number of Shares or Underlying Shares Long Position	Short Position	Approximate percentage of existing issued share capital of PAH *(Note 1)*
Or Wai Sheun	As Beneficiary *(Note 2)*	2,296,975,374	Nil	186.77% *(Note 5)*
	As Beneficiary *(Note 3)*	250,734,005	Nil	20.39%
Ng Chi Man	As Beneficiary *(Note 2)*	2,296,975,374	Nil	186.77% *(Note 5)*
	As Beneficiary *(Note 3)*	250,734,005	Nil	20.39%
Or Pui Kwan	As Beneficiary *(Note 2)*	2,296,975,374	Nil	186.77% *(Note 5)*
	As Beneficiary *(Note 3)*	250,734,005	Nil	20.39%
Yeung Kwok Kwong	Personal	1,600,000	Nil	0.13%
Tam Hee Chung	Corporate *(Note 4)*	1,000,000	Nil	0.08%
Keith Alan Holman	Personal	520,000	Nil	0.04%
Lai Ka Fai	Personal	300,000	Nil	0.02%

Notes:

1. As at the Latest Practicable Date, the total number of issued shares of PAH was 1,229,814,484 ordinary shares and 3,703,590,076 non-voting redeemable convertible preference shares convertible into 250,734,005 ordinary shares.

2. As beneficiary under the Or Family Trust which ultimately owns 352,838,083 Shares (51.88%) of the Company. The Company in turn holds 100% of Marble King International Limited which in turn holds the said 698,975,374 ordinary shares of PAH (56.84%).

3. As beneficiary under the Or Family Trust which ultimately owns 352,838,083 Shares (51.88%) of the Company. The Company in turn holds 100% of Marble King International Limited which in turn holds 3,703,590,076 non-voting redeemable convertible preference shares of PAH which are convertible into the said 250,734,005 underlying ordinary shares of PAH (20.39% of existing share capital).

4. By virtue of a 48% interest in Larry H. C. Tam & Associates Limited which owns such PAH shares.

5. KDC, which is ultimately and wholly-owned by the Or Family Trust of which Mr. Or Wai Sheun, Ms. Ng Chi Man and Mr. Or Pui Kwan are beneficiaries, has agreed to subscribe for 1,598,000,000 new shares in PAH at HK$1.98 per PAH share under the Connected PAH Agreement.

(b) Particulars of Directors' Interests in Company's Assets and Contracts

Save that (1) the Vendor is wholly owned by the Or Family Trust and (2) Target, the First Macau Company and the Second Macau Company are in turn wholly owned by the Vendor, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the KDC Group were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to, the Company or any of its subsidiaries.

Save that (1) the Vendor is wholly owned by the Or Family Trust and (2) Target, the First Macau Company and the Second Macau Company are in turn wholly owned by the Vendor, as at the Latest Practicable Date, none of the Directors is materially interested in any contract or arrangement entered into by the Company or any of its subsidiaries which contract or arrangement is subsisting at the Latest Practicable Date and which is significant in relation to the business of the KDC Group.

(c) Particulars of Directors' Service Contracts

As at the Latest Practicable Date, no Director had any existing or proposed service contract with any member of the KDC Group that is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

(d) Directors' Interests in Competing Businesses

As at the Latest Practicable Date, save as disclosed below, none of the Directors or any of their respective associates had any business or interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the KDC Group.

Polytec Holdings International Limited ("PHIL"), a company ultimately and wholly-owned by a discretionary family trust of which Mr. Or, Ms. Ng Chi Man (an executive Director), Mr. Or Pui Kwan (an executive Director) and their family members are beneficiaries, is engaged in property investment and development in Macau and has interest in certain investment properties and properties held for development in Macau. As a result, Mr. Or, Ms. Ng Chi Man and Mr. Or Pui Kwan are considered to have interests in a business which competes, or is likely to compete, either directly or indirectly, with the business of the KDC Group. On 24 November 2005, PHIL had granted a right of first refusal in favour of the KDC Group in respect of properties or property projects that will be made available to it to acquire or participate in development in Macau.

3. SHAREHOLDERS WITH NOTIFIABLE INTERESTS

So far as the Directors are aware, there were as at the Latest Practicable Date, no shareholders, other than those disclosed below or those who are at the same time Directors or chief executive of the Company, who had any interests and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap 571)) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance; or (b) were required, pursuant to Section 336 of the Securities and Futures Ordinance, to be entered in the register referred to therein; or (c) represented interests, direct or indirect, in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meeting of any member of the KDC Group (including any options in respect of such capital):

(i) The Company

		Number of Shares		Approximate percentage of existing issued share capital of the Company
Name of Shareholder	**Nature of Interest**	**Long Position**	**Short Position**	*(Note 1)*
The Or Family Trustee Limited Inc.	Trust	352,838,083 *(Note 2)*	Nil	51.88%
HSBC International Trustee Limited	Trustee	353,186,083 *(Note 3)*	Nil	51.93%

Notes:

1. As at the Latest Practicable Date, the total number of issued shares of the Company was 680,120,850 Shares.

2. As trustee for The Or Unit Trust, owning all the shares of Polytec Holdings International Limited, which in turn owns all the shares of Intellinsight Holdings Limited, which in turn owns 352,838,083 Shares in the Company.

3. Out of which 352,838,083 Shares are attributable to a discretionary trust under which Mr. Or and his family members are beneficiaries and which owns all the units of The Or Unit Trust.

(ii) Other members of the KDC Group (excluding the PAH Group)

Name of subsidiary	Name of shareholder	Percentage of total issued shares
Brilliant Idea Investments Limited	Mr. Lau Wai Chi	15%
Golden Princess Amusement Company Limited	Mr. Fung Ping Chung	15%

(iii) the PAH Group

Name of subsidiary	Name of shareholder	Percentage of total issued shares
New Cosmos Holdings Limited	Sino-Asia Investment Limited	15.0%
	JHK International Limited	10.0%
	CSC Investment Company Limited	10.0%
Think Bright Limited	Mr. U Sio Man	29.5%

4. LITIGATION

As at the Latest Practicable Date, save as disclosed below, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

Relating to the PAH Group

On 10 September 2004, Success Ever Limited, a wholly-owned subsidiary of PAH, received a writ (the "Writ") dated 9 September 2004 issued by Mr. Ma Tak Yin ("Mr. Ma"), the plaintiff, who is a minority shareholder holding 20.05% interest in Sociedade de Investimento Predial Han Van San, Limitada, the vendor (the "Vendor Company") of certain property interests (the "Macao Property") at Han Van San Commercial Building. Success Ever Limited, together with the independent joint venture partner of the Macao Property of Success Ever Limited, the Vendor Company, and the two major shareholders both together holding totally 74.94% interest in the Vendor Company were named defendants in the Writ. Mr. Ma claimed in the Writ to (i) set aside the shareholders' resolutions of the Vendor Company passed and approved by all the shareholders (totally there are four shareholders only) other than Mr. Ma totally holding 79.95% interest in the meeting held on 12 April 2004, because it violates the provision of article 235, paragraph 2 of the Commercial Code, article 6, paragraph 2 of its articles of association and article 230 of the Commercial Code and, consequently, annul all the acts subsequent to those resolutions; (ii) concomitantly, taken into consideration that the aforesaid shareholders' resolution of the Vendor Company, which is the previously registered owner of the Macao Property having been set aside, to annul the sale and purchase agreement signed and executed on 24 March 2004, with all the legal consequences; and (iii) to grant a judgment that the court approves the claims therein mentioned. The status of the litigations set out above remains unchanged as stated in PAH's circular dated 27 January 2005.

5. QUALIFICATION AND CONSENT OF EXPERTS

The followings are the qualifications of the experts who have been named in this circular or have given opinions, letters or advice contained in this circular:

Name	Qualification
Access Capital	A corporation licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the Securities and Futures Ordinance (Cap 571).
KPMG	Certified Public Accountants
Deloitte Touche Tohmatsu	Certified Public Accountants
DTZ Debenham Tie Leung Limited	Registered professional surveyors, valuers and property advisers
Knight Frank Hong Kong Limited	Registered professional surveyors, valuers and property advisers
Vigers Appraisal & Consulting Limited	Registered professional surveyors, valuers and property advisers

Each of Access Capital, KPMG, Deloitte Touche Tohmatsu, DTZ Debenham Tie Leung Limited, Knight Frank Hong Kong Limited and Vigers Appraisal & Consulting Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion therein of its letter and/or references to its name, in the form and context in which it appears.

As at the Latest Practicable Date, each of Access Capital, KPMG, Deloitte Touche Tohmatsu, DTZ Debenham Tie Leung Limited, Knight Frank Hong Kong Limited and Vigers Appraisal & Consulting Limited is not beneficially interested in the share capital of any member of the KDC Group nor has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the KDC Group.

6. MATERIAL CONTRACTS

The following contracts, not being entered into in the ordinary course of business, were entered into by members of the KDC Group within the 2 years immediately preceding the Latest Practicable Date and are, or may be, material:

(a) an agreement dated 12 May 2004 entered into between Think Bright Limited and an independent third party in relation to the acquisition of certain properties at China Plaza, Yuet Lai and Luk Ieong in Macau for a consideration of approximately HK$120 million;

(b) an agreement dated 30 June 2004 entered into between Sinocharm Trading Limited and The Dairy Farm Company Limited in relation to the acquisition of the entire issued share capital of The Hong Kong Ice & Cold Storage Company Limited and all outstanding loans due from The Hong Kong Ice & Cold Storage Company Limited to The Dairy Farm Company Limited for a consideration of approximately HK$158.7 million;

(c) an agreement dated 2 July 2004 entered into between U Sio Man and Profit Sphere International Limited in relation to the acquisition of 70.5% of the issued share capital of Think Bright Limited and 70.5% of all outstanding loans due from Think Bright Limited to U Sio Man for a consideration of approximately HK$14.1 million;

(d) an agreement dated 10 September 2004 entered into between the Vendor and PAH in relation to the acquisition of the entire issued share capital of Sinocharm Trading Limited and all outstanding loans due from Sinocharm Trading Limited to the Vendor for a consideration of approximately HK$158 million;

(e) the conditional sale and purchase agreement dated 15 October 2004 among the Company, Town House Development Limited, Winsworld Properties Limited, All Victory Holdings Limited and Mexan Limited relating to the acquisition by Town House Development Limited of the entire issued share capital of Winsworld Properties Limited together with the shareholder's loan due by Winsworld Properties to Mexan Limited for an aggregate cash consideration of HK$1,342,000,000;

(f) an agreement dated 23 December 2004 entered into by Ho Ut Sim and Yip Fung Kuen Alias Joana Yip as vendors and JHK International Limited, CSC Investment Company Limited, Tsui Wai Kwan, Qualitec Construction and Investment Company Limited, Top Vision Assets Limited and Sino-Asia Investments Limited as purchasers in relation to the acquisition of the entire issued share capital of New Cosmos Holdings Limited and all outstanding loans due from New Cosmos

Holdings Limited to the vendors for a consideration of approximately HK$135 million;

(g) the conditional sale and purchase agreement dated 1 April 2005 between the Company, the Sellers and Brilliant Idea Investments Limited relating to the acquisition of an approximately 70.3% of the issued shares of Shenzhen Properties & Resources Development (Group) Limited, a joint stock limited company listed on the Shenzhen Stock Exchange, for an aggregate cash consideration of approximately HK$432,619,268;

(h) the conditional sale and purchase agreement dated 12 October 2005 between the Company and Mr. Or Wai Sheun ("Mr. Or") relating to approximately 56.8% interest in the issued share capital of PAH and all outstanding partly paid non-voting convertible redeemable preference shares of PAH through the acquisition of the entire issued share capital of Marble King International Limited ("Marble King") together with the shareholder's loan due by Marble King to Mr. Or for an aggregate cash consideration of HK$826,062,195;

(i) the sale and purchase agreement dated 31 March 2006 between Atlantic Captital Limited ("ACL"), a wholly-owned subsidiary of the Company, and Global Retail Incorporated ("GRI") to dispose of ACL's entire 20% equity interest in the issue share capital of Southern Success Corporation to GRI for a consideration of US$11,600,000 (equivalent to approximately HK$90,480,000);

(j) the Sale and Purchase Agreement; and

(k) the Connected PAH Agreement.

7. DOCUMENTS AVAILABLE FOR INSPECTION

This circular together with copies of the following documents will be available for inspection at 23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong during business hours on any weekday, except public holidays, from the date of this circular up to and including 12 June 2006:

(a) the memorandum and articles of association of the Company;

(b) the annual reports of the Company for each of the 3 years ended 31 December 2003, 31 December 2004 and 31 December 2005;

(c) the letter from the Independent Board Committee, the text of which is set out on pages 29 to 30 of this circular;

(d) the letter from Access Capital, the text of which is set out on pages 31 to 70 of this circular;

(e) the property valuation report from Vigers Appraisal & Consulting Limited, the text of which is set out in Appendix I to this circular;

(f) the property valuation report from Knight Frank Hong Kong Limited, the text of which is set out in Appendix I to this circular;

(g) the property valuation report from DTZ Debenham Tie Leung Limited, the text of which is set out in Appendix I to this circular;

(h) the accountants' report on Target, the text of which is set out in Appendix II to this circular;

(i) the pro forma financial information of the Enlarged Group, the text of which is set out in Appendix IV to this circular;

(j) the accountants' letter on the pro forma financial information of the Enlarged Group, the text of which is set out in Appendix V to this circular;

(k) the written consents referred to in the paragraph headed "Qualification and Consent of Experts" in this Appendix; and

(l) the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix.

8. PROCEDURES FOR DEMANDING A POLL

Article 75 of the articles of association of the Company provides that at any general meeting a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is (before or on the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll) demanded:

(a) by the chairman of the meeting; or

(b) by at least three members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy for the time being entitled to vote at the meeting; or

(c) by any member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and representing not less than one-tenth of the total voting rights of all the members having the right to vote at the meeting; or

(d) by a member or members present in person (or, in the case of a member being a corporation, by its duly authorised representative) or by proxy and holding shares in the Company conferring a right to vote at the meeting being shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the shares conferring that right.

Unless a poll be so demanded and not withdrawn, a declaration by the chairman that a resolution has on a show of hands been carried or carried unanimously, or by a particular majority, or lost, and an entry to that effect in the book containing the minutes of the proceedings of the Company shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

As stated in the letter from the Board in this circular, as the Acquisition constitutes a connected transaction for the Company under the Listing Rules where Mr. Or, Ms. Ng Chi Man, Mr. Or Pui Kwan, the Or Family Trust and their associates are required to abstain from voting, the ordinary resolutions to be proposed at the EGM to consider and, if thought fit, approve the Acquisition will be taken by poll. Accordingly, the chairman of the EGM will demand a poll at the EGM.

9. MISCELLANEOUS

(a) The registered office of the Company is situate at 23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong. The share registrar of the Company is Computershare Hong Kong Investor Services Limited, on 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(b) The qualified accountant and secretary of the Company is Ms. Wai Yuk Hing, Monica. 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.

(c) The English text of this circular and the accompanying form of proxy shall prevail over the Chinese text thereof in case of any inconsistency.

九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 34)

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of Kowloon Development Company Limited (the "Company") will be held at Crystal Ballroom, Basement 3, Holiday Inn Golden Mile Hong Kong, 50 Nathan Road, Kowloon, Hong Kong on Monday, 12 June 2006 at 2:00 p.m. for the purpose of considering and, if thought fit, passing the following resolutions as ordinary resolutions of the Company (with or without amendments):

ORDINARY RESOLUTIONS

1. "**THAT**:

(a) the agreement (the "Sale and Purchase Agreement") dated 8 April 2006 (a copy of which is tabled at the meeting and marked "A" and initialled by the chairman of the meeting for identification purpose) entered into between Profit Sphere International Limited and Polytec Holdings International Limited in respect of the acquisition by Profit Sphere International Limited of the entire issued share capital of New Bedford Properties Limited and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed;

(b) the provision of loans by New Bedford Properties Limited after it has become a subsidiary of the Company, to Polytex Corporation Limited under the terms of the First Co-Investment Agreement dated 8 April 2006 (a copy of which is tabled at the meeting and marked "B" and initialled by the chairman of the meeting for identification purpose) and to Fok Kiu — Properties Investment Company Limited under the terms of the Second Co-Investment Agreement dated 8 April 2006 (a copy of which is tabled at the meeting and marked "C" and initialled by the chairman of the meeting for identification purpose) and the other transactions contemplated under each of such agreements be and are hereby approved, ratified and confirmed; and

(c) any one director, or any two directors of the Company if the affixation of the common seal of the Company is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments and agreements and to do all such acts or things deemed by him/her/them to be incidental to, ancillary to or in connection with the matters contemplated in or relating to the Sale and Purchase Agreement and completion thereof and the other transactions contemplated under the First Co-Investment Agreement and the Second Co-Investment Agreement as he/she/they may consider necessary, desirable or expedient."

2. "**THAT**:

(a) the agreement (the "Connected PAH Agreement") dated 5 May 2006 (a copy of which is tabled at the meeting and marked "D" and initialled by the chairman of the meeting for identification purpose) entered into between the Company and Polytec Asset Holdings Limited in respect of the issue and subscription of 1,598,000,000 new shares of Polytec Asset Holdings Limited and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed; and

(b) any one director, or any two directors of the Company if the affixation of the common seal is necessary, be and is/are hereby authorised for and on behalf of the Company to execute all such other documents, instruments, agreements and to do all such acts and things deemed by him/her/them to be incidental to, ancillary to or in connection with the matters contemplated in or relating to the Connected PAH Agreement and completion thereof as he/she/they may consider necessary, desirable or expedient."

By Order of the Board
Kowloon Development Company Limited
Wai Yuk Hing, Monica
Company Secretary

Hong Kong, 23 May 2006

Notes:

1. Any member of the Company entitled to attend and vote at the meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.

2. A form of proxy for use at the meeting is enclosed. To be valid, the proxy form, together with any power of attorney or other authority (if any) under which it is signed, or a notarially certified copy of that power of attorney or authority, must be deposited at the share registrars of the Company, Computershare Hong Kong Investor Services Limited on 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time appointed for holding of the meeting or any adjournment of it.

3. Where there are joint holders of any share, any one of such holders may attend and vote at the meeting, either in person or by proxy, in respect of such share as if he were solely entitled to vote, but if more than one of such joint holders are present at the meeting in person or by proxy, the person so present whose name stands first in the register of members of the Company in respect of such share shall alone be entitled to vote in respect of it.

4. Completion and return of the form of proxy will not preclude a member from attending the meeting and voting in person at the meeting or any adjourned meeting if he so desires. If a member attends the meeting after having deposited the form of proxy, his form of proxy will be deemed to have been revoked.