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If you are in doubt as to any aspect of this circular or as to the action you should take, you should consult your licensed securities dealer or registered institution in securities, 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 to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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This circular is for information purpose only and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares or other securities in Kowloon Development Company Limited.



九龍建業有限公司
KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 34)

MAJOR TRANSACTION

IN RELATION TO
PROPOSED INVESTMENT IN A DEVELOPMENT SITE
IN TIANJIN BY A JOINT VENTURE COMPANY

Financial adviser to Kowloon Development Company Limited



SOMERLEY LIMITED

CONTENTS

	<i>Page</i>
Definitions	1
Letter from the Board	
Introduction	5
The Agreement	6
Reasons for the Investment	10
Rights Issue	11
Strategic Investors	11
Financial impact of the Investment	12
Financial and trading prospects of the Enlarged Group	12
Listing Rules implications	15
Additional information	15
Appendix I — Financial information on the Group	I-1
Appendix II — Pro forma financial information of the Enlarged Group	II-1
Appendix III — Property valuation on the Property	III-1
Appendix IV — General information	IV-1

DEFINITIONS

In this circular, unless the context requires otherwise, the following terms shall have the following meanings:

“Agreement”	the cooperation agreement dated 13 December 2006 entered into between the Company and the Partner in relation to the Investment
“Board”	the board of Directors
“Business Day”	any day (other than a Saturday and Sunday) on which licensed banks are open for business in Hong Kong
“Company”	Kowloon Development Company Limited, a company incorporated in Hong Kong with its Shares listed on the Stock Exchange
“connected persons”	has the meaning ascribed thereto under the Listing Rules
“Consideration”	the aggregate consideration of RMB3,500 million (equivalent to approximately HK\$3,465 million) payable to the Partner in relation to the Investment pursuant to the Agreement
“Directors”	directors of the Company
“Enlarged Group”	the Group and the Project Co
“Excluded Shareholders”	the Shareholders whose addresses on the register of members of the Company on the Record Date are outside Hong Kong whom the Directors, after making relevant enquiry pursuant to Rule 13.36(2)(a) of the Listing Rules, consider it necessary or expedient to exclude from the Rights Issue on account either of the legal restrictions under the laws of the relevant place in which they had registered their addresses or the requirements of any relevant regulatory body or stock exchange in that place
“GFA”	gross floor area
“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong dollar, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Intellinsight”	Intellinsight Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, a controlling Shareholder and which is wholly-owned by Polytec Holdings
“Investment”	the proposed investment by the Company in the Project Co pursuant to the Agreement
“Land Grant Contract”	a contract dated 29 September 2006 between the Partner and the Tianjin State-owned Land Resources and Housing Administration Bureau relating to the transfer of the land use rights for the Property
“Latest Practicable Date”	16 January 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information referred to in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the PRC
“Mr. Or”	Mr. Or Wai Sheun, the Chairman of the Company
“Or Family Trust”	the discretionary family trust of which Mr. Or, Ms. Ng Chi Man (Mr. Or’s wife and an executive Director), Mr. Or Pui Kwan (son of Mr. Or and Ms. Ng Chi Man and an executive Director) and their family members are beneficiaries
“PAH”	Polytec Asset Holdings Limited, a company incorporated in the Cayman Islands with its shares listed on the Stock Exchange, and a subsidiary of the Company
“PAH Group”	PAH and its subsidiaries
“Partner”	Tianjin Binhai Mass Transit Development Co., Ltd. (天津濱海快速交通發展有限公司), a domestic company incorporated in the PRC
“Polytec Holdings”	Polytec Holdings International Limited, a company incorporated in the British Virgin Islands with limited liability which holds the entire issued share capital of Intellinsight and which in turn is ultimately wholly-owned by the Or Family Trust

DEFINITIONS

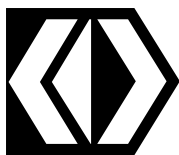
“PRC”	the People’s Republic of China (for the purpose of this circular, excludes Hong Kong, Taiwan, and Macau)
“Project Co”	a sino-foreign equity joint venture enterprise to be established in the PRC to acquire the Property pursuant to the Agreement
“Property”	the composite property development site located in the intersection of Shiyijing Road and Liuwei Road, Hedong District, Tianjin, the PRC
“Qualifying Shareholder(s)”	the Shareholder(s) who, at the close of business on the Record Date, have their names on the register of members of the Company, other than the Excluded Shareholders
“Record Date”	18 January 2007, being the date by reference to which entitlements to the Rights Issue was determined
“Rights Issue”	the proposed offer by way of the rights issue of the Rights Shares to the Qualifying Shareholders, particulars of which have been summarised in the announcements of the Company dated 19 December 2006 and 29 December 2006 and the prospectus of the Company dated 19 January 2007
“Rights Share(s)”	383,560,425 new Share(s) proposed to be issued under the Rights Issue
“RMB”	Renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Share(s)”	share(s) of HK\$0.10 each in the capital of the Company
“Shareholder(s)”	holder(s) of the Shares
“sqft”	square feet(s)
“sqm”	square metre(s)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Underwriting Agreement”	the underwriting agreement dated 19 December 2006 entered into among Intellinsight, the Company, Mr. Or, Mr. Or Pui Kwan, Mr. Tam Hee Chung, Mr. Lai Ka Fai, Mr. Lok Kung Chin, Hardy, Mr. Keith Alan Holman and Mr. Yeung Kwok Kwong in relation to be subscription of, and the underwriting of, the Rights Shares under the Rights Issue
“US\$”	United States dollar, the lawful currency of the United States of America
“%”	per cent.

For illustration purpose only, amounts denominated in RMB have been converted into HK\$ at a rate of RMB1.01 = HK\$1 and amounts denominated in US\$ have been converted into HK\$ at a rate of US\$1 = HK\$7.8

LETTER FROM THE BOARD



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

19 January 2007

To the Shareholders

Dear Sir or Madam

MAJOR TRANSACTION

**IN RELATION TO
PROPOSED INVESTMENT IN A DEVELOPMENT SITE
IN TIANJIN BY A JOINT VENTURE COMPANY**

INTRODUCTION

On 19 December 2006, the Company announced, among other things, that on 13 December 2006 the Company entered into the Agreement with the Partner in relation to the acquisition of the Property through the formation of the Project Co with an aggregate consideration of RMB3,500 million (equivalent to approximately HK\$3,465 million).

LETTER FROM THE BOARD

The Investment constitutes a major transaction of the Company under the Listing Rules. Accordingly, the Investment is subject to the approval of the Shareholders. A written certificate has been obtained from Intellinsight who in aggregate owns 448,238,083 Shares, representing approximately 58.43% of the issued share capital of the Company (without taking into account the effect of the Rights Issue) as at the Latest Practicable Date, consenting to the entering of the Agreement.

The purpose of this circular is to provide you with information in respect of, among other things, the Investment.

THE AGREEMENT

- Date: 13 December 2006
- Parties: (a) the Company; and
- (b) Tianjin Binhai Mass Transit Development Co., Ltd. (天津濱海快速交通發展有限公司).
- Purpose: Sets out the terms and conditions pursuant to which the Company and the Partner agree to cooperate with each other in respect of the development of a composite property site located in the central business district of the Hedong District, fronting onto Haihe, Tianjin, the PRC.
- Guarantee: Polytec Holdings guaranteed the obligations of the Company and its representations, undertakings and warranties made under the Agreement.

The Partner is principally engaged in construction of the light railway network between the urban area and the new coastal area of Tianjin and the provision of light railway service of such light railway network. The Partner is a company incorporated in the PRC with a registered capital of approximately RMB2,813 million. The Partner currently owns and operates a 46 kilometres long light railway network in Tianjin, the PRC. It is also developing four large-scale properties projects in Tianjin, the PRC. To the best of the knowledge, information and belief of the Directors and having made all reasonable enquiries, the Partner and its ultimate beneficial owners are third parties independent of the Company and its connected persons.

Cooperation arrangement

The Company and the Partner will form the Project Co in which the Company will hold a 90% interest and the Partner will hold the remaining 10% interest. The initial registered capital of Project Co will be RMB10 million, of which the Company will contribute an amount of RMB9 million and the Partner will contribute an amount of RMB1 million in cash. As at the Latest Practicable Date, neither the Company nor the Partner are committed to contribute any further investment in the Project Co.

LETTER FROM THE BOARD

Subsequent to the formation of the Project Co, the Partner will transfer its title to the Property to the Project Co. Accordingly, the principal asset of the Project Co will be the Property, being a composite property development site located in the central business district of the Hedong District fronting onto Haihe in Tianjin, within the proximity of the Tianjin Railway Station. The land use rights of the Property is currently granted to the Partner pursuant to the Land Grant Contract.

The Partner will:

- (i) deliver the physical possession of the Property to the Company in two stages. Approximately 50,000 sqm of the Property will be delivered to the Company within 6 months of the formation of the Project Co while the remaining portion of the Property of approximately 90,000 sqm will be delivered to the Company within 30 months of the formation of the Project Co;
- (ii) assist the Company to obtain the Certificate of the State-owned Land Use Rights, and other legal documents required for the development of the Property; and
- (iii) plan to extend the light railway network to cover the site area of the Property.

The Company will be responsible for:

- (i) the handling of the relevant procedures in setting up the Project Co; and
- (ii) the planning, design, development, operation and management of and source funding for the Property under the Project Co.

Term

The Project Co is initially expected to be formed within 10 business days from the date of the Agreement. As at the Latest Practicable Date, the Project Co has not yet been formed as the Company is in discussion with a number of potential strategic investors and both the Company and the Partner would like to form the Project Co only after the arrangements with the potential strategic investors are finalised. Details of the potential strategic investors are disclosed in the section headed “Strategic Investors” in this letter. The cooperation arrangement in relation to the formation of the Project Co will be completed when the last instalment of the Consideration is paid by the Company to the Partner and the entire Property is transferred by the Partner to the Project Co.

Profit sharing

The Company will be entitled to all profits generated by and bear all losses incurred by the Project Co.

LETTER FROM THE BOARD

The Property

The Property has a total site area of approximately 137,940 sqm. The Property is planned by the Company to be developed into a composite residential and commercial complex comprising serviced apartments, office towers and a commercial podium with a total GFA of approximately 930,000 sqm. The Directors expect that the capital expenditure for the development of the Property will be financed by bank borrowings by the Project Co. The project will be developed in phases and the entire project is expected to complete in seven years.

Currently, there are existing structures on the Property. Subsequent to the demolition of those existing structures, the Partner will transfer its interest in the Property to the Project Co. Pursuant to the Agreement, at the date of the Agreement, demolition work for approximately 50,000 sqm of the Property has been completed. Accordingly, the Partner will initially transfer its interest in the Property of approximately 50,000 sqm to the Project Co. Pursuant to the Agreement, the remaining portion of the Property of approximately 90,000 sqm will be delivered to the Project Co. within 30 months of the formation of the Project Co upon completion of the demolition of the remaining structures.

The Partner has been granted the land use rights of the Property by the Tianjin State-owned Land Resources and Housing Administration Bureau pursuant to the Land Grant Contract. The Company has been advised by its PRC legal counsel that pursuant to the terms and conditions of the Land Grant Contract, subject to the payment of consideration in full by the Partner to the Tianjin State-owned Land Resources and Housing Administration Bureau for the grant of the land use rights, the Partner will be entitled to obtain the Certificate of the State-owned Land Use Rights for the Property.

According to the Land Grant Contract dated 29 September 2006, the Partner is required to pay the land premium within 60 days from the date of the Land Grant Contract (the "Expected Payment Date"). In addition, pursuant to the Land Grant Contract, Tianjin State-owned Land Resources and Housing Administration Bureau does not have the right to rescind the Land Grant Contract merely because the Partner does not pay the land premium before the Expected Payment Date, but has such right if the delay of the payment of the land premium is more than 6 months after the Expected Payment Date, which will be 28 May 2007 (the "Deadline"). Pursuant to the Land Grant Contract, if the Partner delays in the payment of the land premium beyond the Expected Payment Date, the Partner is subject to a daily penalty of 0.03% on the land premium outstanding.

The Directors have been confirmed by the Partner that up to the Latest Practicable Date, the land premium has not been paid entirely by the Partner.

The Directors are advised by the PRC legal adviser of the Company that there is no breach of the Land Grant Contract on the part of the Partner if the Partner pays the land premium to the Tianjin State-owned Land Resources and Housing Administration Bureau after the Expected Payment Date but before the Deadline and therefore there is no legitimate reason to doubt that

LETTER FROM THE BOARD

the Certificate of the State-owned Land Use Rights will not be issued. The Directors concur with the view of the PRC legal adviser of the Company and expect that the Certificate of the State-owned Land Use Rights will be issued on or before mid 2007 if the payment of the land premium is made prior to the Deadline.

The Directors have performed legal due diligence on the Property, consulted its PRC legal advisers and reviewed the terms of the Land Grant Contract and considered that the documentation on the Property is in order. Furthermore, the payment of part of the Consideration to the Partner is a means to secure the right to purchase the Property. Accordingly, the Directors do not consider that the payment of part of the Consideration before the Partner obtains the Certificate of the State-owned Land Use Rights to be unusual.

In assessing the financial standing of the Partner, the management of the Company have reviewed the background of the Partner, the current operations of the Partner and the registered capital of the Partner and considered that the financial capability of the Partner is secure.

Consideration

The Consideration amounted to RMB3,500 million (equivalent to approximately HK\$3,465 million) and is determined based on an arm's length negotiations between the Company and the Partner with reference to the (i) recent transaction prices for parcels of land in Tianjin; (ii) development potential of Tianjin; (iii) premium town planning of Hedong District of Tianjin; and (iv) prospect of the PRC's economy.

The Consideration will be financed as to approximately (i) HK\$1,100 million from the net proceeds from the Rights Issue; and (ii) the remaining HK\$2,365 million from internal resources of the Group and future bank financing. The Consideration will be satisfied in cash and payable in eleven instalments in the following manner:

- (i) a sum of RMB500 million (equivalent to approximately HK\$495 million) shall be payable within 15 days from the date of the Agreement; and
- (ii) the remaining balance of RMB3,000 million (equivalent to approximately HK\$2,970 million) shall be payable in 10 equal instalments of RMB300 million (equivalent to approximately HK\$297 million) each every six months, and the initial instalment is due before 1 June 2007.

The Partner has agreed to transfer the Property to the Project Co and the Company has agreed that prior to the satisfaction of the Consideration in full, the Partner will hold a 10% interest in the Project Co. Upon the payment of the final instalment by the Company, the Partner shall transfer its 10% interest in the Project Co to the Company.

As at the Latest Practicable Date, the first instalment of the Consideration has been paid by the Company to the Partner. The final instalment is expected to be paid by the Company on or before 1 December 2011. The 10% interest in the Project Co initially retained by the Partner represents a term for the protection of the Partner's interest as payment of the Consideration by the Company will only be made on a deferred basis as detailed above.

LETTER FROM THE BOARD

In the event that an instalment is not paid by the Company in accordance with the above time schedule, the Partner is entitled to a compensation calculated at a rate of 0.05% per day on the amount overdue.

On the other hand, if there is a delay for the Partner to effect the transfer of the Property to the Project Co in accordance with the above time schedule and the terms of the Agreement, or that the development process of the Property is disrupted as a result of delay in payment of the land purchase cost of the Property pursuant to the Land Grant Contract by the Partner to Tianjin State-owned Land Resources and Housing Administration Bureau, the Company has the right to defer payment and is also entitled to a compensation calculated at a rate of 0.05% per day on the amount of the Consideration payable by the Company during the relevant period. In the event that there is a delay of more than 6 months for the delivery of the physical possession of the Property to the Project Co, the Company is entitled to rescind the Agreement with a refund of all instalments paid to date and in addition, the Partner shall pay a compensation of RMB20 million (equivalent to approximately HK\$20 million) to the Company.

Pledge of interest in the Project Co

Before the Consideration has been fully paid by the Company, the Company will (i) pledge its entire interest in the Project Co in favour of the Partner; and (ii) execute a share pledge agreement within 7 working days after the date of incorporation of the Project Co.

Transfer of the interest in the Project Co

The Company cannot dispose of (in whole or in part) its interest in the Project Co and/or the Property to any other parties without the prior consent of the Partner.

Guarantee

Polytec Holdings has executed a guarantee in favour of the Partner to guarantee the due performance of the obligations of the Company under the Agreement. Under the guarantee, Polytec Holdings has undertaken to the Partner that it will not dispose of its controlling interest in the Company to any third party before the Consideration has been fully paid by the Company.

REASONS FOR THE INVESTMENT

The Investment is part of the Group's development plan to expand its property investment and development activities in the PRC. It is the Group's strategic objective to increase its land bank for development in the future and secure sites with prime location and growth potential. The Investment represents an opportunity for the Group to acquire a parcel of land with prime location in the centre of Tianjin. Tianjin is strategically located in the Bohai Rim Region in Northern China. The Directors expect that construction of a new railway network connecting

LETTER FROM THE BOARD

Tianjin and Beijing will complete on or before 2008. Upon the commencement of the operation of the new high speed train network, the travel time from Tianjin to Beijing will be reduced to about 30 minutes, thus potentially stimulating economic growth in the region. In recent years, Tianjin has attracted many multinational corporations to set up operations there and as a result, the Directors consider that there are potential prospects for quality residential and commercial property in Tianjin. The Directors consider the Investment to be in the best interest of the Company and the Shareholders as a whole.

RIGHTS ISSUE

The Company proposes to raise approximately HK\$5,293 million of gross proceeds by issuing 383,560,425 Rights Shares at a price of HK\$13.80 per Rights Share. The Qualifying Shareholders will be offered 1 Rights Share for every 2 Shares held on the Record Date.

The Company has loans in the amount of approximately HK\$2,256 million (the “Loan”) outstanding due to Polytec Holdings as at 14 December 2006. The Loan will be settled by setting off an equivalent amount of the subscription price to be paid by Intellinsight for subscribing for its entitlement to the Rights Shares.

Net proceeds from the Rights Issue, after deduction of expenses and setting off the Loan, are expected to amount to approximately HK\$3,003 million which is intended to be applied as to approximately (i) HK\$1,100 million to satisfy part of the Consideration; and (ii) HK\$1,903 million for investments and further acquisition of property projects in the PRC and as general working capital.

Particulars of the details of the Rights Issue are set out in the announcements of the Company dated 19 December 2006 and 29 December 2006 and prospectus of the Company dated 19 January 2007.

STRATEGIC INVESTORS

The Directors are currently in discussion with a number of potential strategic investors in relation to their potential participation in the development of the Property. Participation by such potential strategic investors may involve a dilution of the Group’s interest in the Project Co. Since the publication of the announcement dated 19 December 2006 in relation to, among other things, the Investment, the Directors are currently in negotiation with the strategic investors identified and are in advanced stage of negotiations. However, no agreement has been reached up to the Latest Practicable Date. The Directors aim to reach agreement(s) with the strategic investors (if agreed) within a month from the date of this circular. Nevertheless, no indicative timetable can be made at this stage. Further announcement will be made if the Company reaches any agreement with such potential strategic investors as required by the Listing Rules.

LETTER FROM THE BOARD

The Directors consider that with the introduction of the strategic investors (if agreed), a slight delay in the formation of the Project Co is fair and reasonable as the relevant regulatory documentation will be prepared on the basis of the final capital structure of Project Co and that would simplify the process of application of necessary regulatory licenses, consents and approvals.

As discussed above, the Partner is required to transfer the physical possession of approximately 50,000 sqm of the Property to the Project Co within 6 months from the date of the formation of the Project Co, and the remaining 90,000 sqm of the Property to the Project Co within 30 months from the date of the formation of the Project Co. The delay in the formation of the Project Co will affect the aforesaid timetable, in particular, the transfer of the Property by the Partner to the Project Co. However, there will be no effect on the Company's entitlement to the compensation, if any, from the Partner.

The Directors expect to proceed with the formation of the Project Co with the Partner no later than 18 February 2007, being a month from the date of this circular if no agreement can be formed with any strategic investors. The Directors are of the view that the Group has sufficient resources to finance the Investment by the Group itself without any material adverse effect to the Group's financial position.

FINANCIAL IMPACT OF THE INVESTMENT

Set out in Appendix II to this circular is the unaudited pro forma financial information of the Enlarged Group which illustrates the financial impact of the Investment and the Rights Issue on the assets and liabilities of the Group, assuming the Investment and the Rights Issue had been completed on 30 June 2006. Save for the incidental costs of the Investment, the effect of the Investment will be neutral on the net assets of the Group initially.

Upon formation of the Project Co, the Project Co will become a wholly-owned subsidiary of the Company, the results of which will be consolidated into the Group's financial statements. The Directors consider that the Investment will enlarge the earnings base of the Group but the magnitude of such impact will depend on the future performance of the Project Co.

FINANCIAL AND TRADING PROSPECTS OF THE ENLARGED GROUP

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

The Group is pursuing a three-tier development strategy, aiming to expand its exposure in the three markets of the Greater China region, namely Hong Kong, Macau and the PRC.

LETTER FROM THE BOARD

While the Company will concentrate on its principal activities in Hong Kong, it also acts as a holding company for the Group's interest in Macau and the PRC. PAH, a subsidiary of the Company, is the Group's business flagship in the Macau market. It is proposed that the Group will acquire a controlling stake in Shenzhen Properties Development & Resources (Group) Limited, the completion of which is subject to the final approval from the relevant authorities in the PRC. Shenzhen Properties Development & Resources (Group) Limited is a joint stock company incorporated in the PRC and is listed on the Shenzhen Stock Exchange. It is intended that, after completion of such acquisition, Shenzhen Properties Development & Resources (Group) Limited will operate as the development platform of the Group in the PRC.

In June 2006, through a public bidding process, the Group acquired the development right of a plot of land with a site area of approximately 1.45 million sqm in the west of Daba Road in Dong Ning District of Shenyang, the PRC for an aggregate cash consideration of RMB830 million (equivalent to approximately HK\$822 million). The project has a planned aggregate GFA of approximately 2.9 million sqm and it has been approved by the Shenyang municipal government for residential and commercial development purposes.

In September 2006, the Company and CITIC South China (Group) Co., Ltd. ("CITIC South China") jointly acquired seven parcels of land (the "Lands") with a site area of approximately 4 million sqm located in Foshan, the PRC in an auction for an aggregate cash consideration of RMB3,030 million (equivalent to approximately HK\$3,000 million). The Company and CITIC South China have also formed an equity joint venture company to take up the land use rights of the Lands.

Despite the high oil prices and interest rates in 2006, it is expected that the growth in the PRC's economy will remain strong in 2007. Declining unemployment and modest rise in income is expected to improve consumers' confidence. The Board considers that interest rate has reached its peak level and with abundant liquidity in the market, the Board holds 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 in Macau 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 Group's development projects both in Hong Kong and Macau are achieving good progress.

In Hong Kong, the Group has projects under development and held for development of more than 220,000 sqm GFA. Mount Davis 33, a joint venture residential project with the Urban Renewal Authority was released to the market and the residential units were all successfully sold before the end of 2006 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 at an appropriate time to take advantage of the

LETTER FROM THE BOARD

market conditions. Completion of the 35 Clear Water Bay Road project in Kowloon East, a comprehensive residential development with retail and community facilities comprising approximately 196,400 sqm GFA, is planned to be in 2009 or 2010.

In Macau, La Baie Du Noble, one of the most prestigious residential and commercial property developments in town which the Group owns an 80% interest, 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 first half of 2007. Pacifica Garden, a residential and commercial project in Taipa has since the beginning of 2006 undergone site formation works and the sales of residential units have received encouraging responses in the market. The project is scheduled to be completed by 2008.

In April 2006, the Group entered into an agreement with Polytec Holdings to acquire New Bedford Properties Limited, which has an 80% interest in three property development projects in Macau (the “Macau Acquisition”) with an aggregate GFA of approximately 978,000 sqm at an aggregate cash consideration of HK\$8,448 million. The Macau Acquisition was completed in June 2006. No remuneration and benefits in kind was paid to and received by the directors of New Bedford Properties Limited before and after the Macau Acquisition.

The Group is one of the leading property development and investment groups in Macau, and has property trading, development and investment projects in Macau comprising more than 1.2 million sqm GFA of residential and commercial properties and approximately 6,100 car parking spaces. Both projects under development and projects held for development are planned to be developed by phases starting from the second half of 2006 through to 2012.

The broad-based improvement in the Group’s rental income in 2006 is expected to continue in 2007, in particular with respect of the Group’s interest in Macau Square, a commercial property with GFA of approximately 37,000 sqm, situated at Av. Do Infante D. Henrique in Macau, which renovation programs are being completed in phases and has been launched to the market for leasing. With the completion of the 35 Clear Water Bay Road project in 2009 or 2010, 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 Group.

The Group will continue to focus on pursuing and maintaining a dynamic earnings growth in the long term and achieve the best return from its business.

LETTER FROM THE BOARD

LISTING RULES IMPLICATIONS

The Investment constitutes a major transaction of the Company under the Listing Rules. Pursuant to the Listing Rules, the Investment is conditional on the approval by the Shareholders. Further, under Rule 14.44 of the Listing Rules, in the event that (i) a written Shareholder's approval has been obtained from a Shareholder who holds more than 50% in the issued share capital of the Company; and (ii) no Shareholder is required to abstain from voting at the general meeting of the Company to approve the Investment, a written Shareholder's approval can be accepted in lieu of holding a general meeting of the Company for Shareholders to approve the Investment. No Shareholder is required to abstain from voting in respect of any resolution that would be proposed to approve the Investment in general meeting. A written certificate has been obtained from Intellinsight, which holds 448,238,083 Shares, representing approximately 58.43% of the issued Shares (without taking account the effect of the Rights Issue) as at the Latest Practicable Date, approving the Investment. Accordingly, approval of the Investment has been obtained by way of the written approval in lieu of holding a general meeting.

ADDITIONAL INFORMATION

On the basis that the Project Co has not been established as at the Latest Practicable Date, no accountants' report on the Project Co has been prepared for incorporation in this circular.

Your attention is drawn to the financial information on the Group, the pro forma financial information of the Enlarged Group, property valuation on the Property and the general information set out in the appendices to this circular.

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

(1) SUMMARY OF CONSOLIDATED BALANCE SHEETS AND CONSOLIDATED INCOME STATEMENTS

An unqualified opinion in respect of the audit of the financial statements of the Group has been issued for five years ended 31 December 2005. The following information has been extracted from the audited consolidated accounts of the Group for each of the five years ended 31 December 2005.

Consolidated Balance Sheet (HK\$ million)

	2005	2004	2003	2002	2001
Non-current assets	5,050	3,686	3,505	3,191	2,885
Current assets	<u>4,813</u>	<u>2,994</u>	<u>2,385</u>	<u>2,145</u>	<u>660</u>
Total assets	9,863	6,680	5,890	5,336	3,545
Current liabilities	(1,542)	(1,244)	(743)	(878)	(187)
Non-current liabilities	<u>(2,334)</u>	<u>(1,539)</u>	<u>(2,172)</u>	<u>(1,502)</u>	<u>(492)</u>
Net assets	<u>5,987</u>	<u>3,897</u>	<u>2,975</u>	<u>2,956</u>	<u>2,866</u>
Share capital	57	57	48	48	48
Reserves	<u>5,041</u>	<u>3,839</u>	<u>2,926</u>	<u>2,906</u>	<u>2,817</u>
Shareholders' equity	5,098	3,896	2,974	2,954	2,865
Minority interests	<u>889</u>	<u>1</u>	<u>1</u>	<u>2</u>	<u>1</u>
Total equity	<u>5,987</u>	<u>3,897</u>	<u>2,975</u>	<u>2,956</u>	<u>2,866</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****Consolidated Income Statement (HK\$ million)**

	2005	2004	2003	2002	2001
Turnover	1,320	773	674	591	398
Profit from operations	1,182	592	210	253	100
Finance costs	(18)	(6)	(11)	(8)	(10)
Profit attributable to Shareholders (<i>excluding revaluation of properties</i>)	638	303	201	156	1,058
Profit attributable to Shareholders	1,059	516	152	199	949
Dividends	255	181	154	121	1,461
— special interim	—	—	—	—	1,355
— interim	57	39	29	24	19
— final	198	142	125	97	87

(2) AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Set out below are the audited consolidated financial statements of the Group together with accompanying notes extracted from the annual report of the Company for the year ended 31 December 2005:

Consolidated Income Statement

For the year ended 31 December 2005

(Expressed in Hong Kong dollars)

		2005	2004
	<i>Note</i>	<i>\$'000</i>	<i>(restated)</i> <i>\$'000</i>
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		<u>1,063,404</u>	<u>515,296</u>
Attributable to:			
Shareholders of the Company	26	1,059,153	515,564
Minority interests	26	4,251	(268)
Profit for the year		<u>1,063,404</u>	<u>515,296</u>
Earnings per share — Basic	8	<u>\$1.87</u>	<u>\$0.92</u>
Dividend per share	9(a)	<u>\$0.45</u>	<u>\$0.32</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****Consolidated Balance Sheet***At 31 December 2005**(Expressed in Hong Kong dollars)*

		2005		2004 (restated)	
	Note	\$'000	\$'000	\$'000	\$'000
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

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

		2005		2004 (restated)	
	<i>Note</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
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	
		<u>1,542,487</u>		<u>1,244,352</u>	
Net current assets			<u>3,270,166</u>		<u>1,749,906</u>
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	
			<u>2,334,175</u>		<u>1,538,698</u>
NET ASSETS			<u>5,986,589</u>		<u>3,897,277</u>
CAPITAL AND RESERVES					
Share capital			56,677		56,677
Reserves			<u>5,040,735</u>		<u>3,839,392</u>
Total equity attributable to shareholders of the Company			5,097,412		3,896,069
Minority interests			<u>889,177</u>		<u>1,208</u>
TOTAL EQUITY	26		<u>5,986,589</u>		<u>3,897,277</u>

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****Balance Sheet***At 31 December 2005**(Expressed in Hong Kong dollars)*

		2005		2004 (restated)	
	Note	\$'000	\$'000	\$'000	\$'000
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			<u>3,745,527</u>		<u>3,509,007</u>
CAPITAL AND RESERVES					
Share capital			56,677		56,677
Reserves			3,688,850		3,452,330
TOTAL EQUITY	26		<u>3,745,527</u>		<u>3,509,007</u>

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

		2005		2004 (restated)	
	Note	\$'000	\$'000	\$'000	\$'000
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

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

		2005		2004 (restated)	
	Note	\$'000	\$'000	\$'000	\$'000
Net profit for the year					
As previously reported					
— Attributable to shareholders of the Company				303,096	
— Minority interests				(268)	
				<u>302,828</u>	
Prior year adjustments arising from changes in accounting policies	2(a)(iii)			212,468	
Net profit for the year (2004: as restated)	26		<u>1,063,404</u>	<u>515,296</u>	
Total net income recognized for the year (2004: as restated)			<u>1,231,121</u>	<u>529,514</u>	
Attributable to :					
Shareholders of the Company		1,226,870		529,782	
Minority interests		<u>4,251</u>		<u>(268)</u>	
		<u>1,231,121</u>		<u>529,514</u>	
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		<u>—</u>	<u>547,945</u>	
Total equity at 31 December			<u>5,986,589</u>	<u>3,897,277</u>	

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

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

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

		2005	2004
	<i>Note</i>	<i>\$'000</i>	<i>(restated)</i> <i>\$'000</i>
Net cash from operating activities	27(a)	<u>91,887</u>	<u>678,802</u>
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		<u>—</u>	<u>840</u>
Net cash used in investing activities		<u>(656,167)</u>	<u>(586,385)</u>
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	<u>26,625</u>	<u>—</u>
Net cash from/(used in) financing activities		<u>624,489</u>	<u>(56,809)</u>
Net increase in cash and cash equivalents		60,209	35,608
Cash and cash equivalents at 1 January		<u>44,497</u>	<u>8,889</u>
Cash and cash equivalents at 31 December		<u><u>104,706</u></u>	<u><u>44,497</u></u>

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 through 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

		Retained profits	Fair value reserve	Investment property revaluation reserve	Total equity
	<i>Note</i>	\$'000	\$'000	\$'000	\$'000
<i>Effect of new policy (increase/(decrease))</i>					
Prior year adjustments:					
<i>HKAS 17</i>					
Leasehold land	2(c)	(561)	—	—	(561)
<i>HKAS 40</i>					
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:					
<i>HKAS 39</i>					
Interest in property development	2(d)(ii)	—	172,842	—	172,842
Total effect at 1 January 2005		<u>1,683,059</u>	<u>172,842</u>	<u>(2,040,751)</u>	<u>(184,850)</u>

Company

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

(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

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

Company

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

- (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.

	Note	Group		Company	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<i>Effect of new policy (increase/(decrease))</i>					
<i>HKAS 17</i>					
Leasehold land	2(c)	—	(210)	—	—
<i>HKAS 39</i>					
Derivative financial instruments	2(d)(i)	13,141	—	—	—
<i>HKAS 40</i>					
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	—	—	—
<i>HKFRS 3</i>					
Negative goodwill	2(e)	26,482	—	—	—
Total effect for the year		<u>461,167</u>	<u>212,468</u>	<u>335,795</u>	<u>162,626</u>
Effect on earnings per share — basic		<u>\$0.81</u>	<u>\$0.38</u>		

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

- (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 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.

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

- (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.

	Note	Group		Company	
		2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'000
<i>Effect of new policy (increase/(decrease))</i>					
<i>HKAS 17</i>					
Leasehold land	2(c)	(561)	(561)	—	—
<i>HKAS 39</i>					
Derivative financial instruments	2(d)(i)	13,141	—	—	—
Interest in property development	2(d)(ii)	635,298	—	—	—
<i>HKAS 40</i>					
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	—	—	—
<i>HKFRS 3</i>					
Negative goodwill	2(e)	26,482	—	—	—
Total effect for the year		<u>232,954</u>	<u>(357,692)</u>	<u>(427,175)</u>	<u>(355,946)</u>

(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.

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP
(a) Business segments

	2005				
	Consolidated \$'000	Property development \$'000	Property investment \$'000	Financing and investments \$'000	Others \$'000
Turnover	1,320,301	531,249	212,083	566,717	10,252
Contribution from operations	714,163	400,749	185,525	124,112	3,777
Fair value changes on investment properties	505,818	—	505,818	—	—
Unallocated group expenses	(38,276)				
Profit from operations	1,181,705				
Finance costs	(17,694)				
Share of profits of associated companies	10,542	—	—	—	10,542
Share of profits of jointly controlled entities	7,331	—	7,331	—	—
Negative goodwill 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.

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	2004 (restated)				
	Consolidated \$'000	Property development \$'000	Property investment \$'000	Financing and investments \$'000	Others \$'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 (restated)
	\$'000	\$'000	\$'000	\$'000
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

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	Segment assets		Capital expenditure incurred during the year	
	2005	2004 (restated)	2005	2004 (restated)
	\$'000	\$'000	\$'000	\$'000
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	—	—
	<u>8,777,577</u>	<u>6,582,707</u>	<u>585,130</u>	<u>193,670</u>

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

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

(b) Other items

	2005	2004
	<i>\$'000</i>	<i>\$'000</i>
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				Total
	Directors' fees	Salaries and allowances	Performance related bonuses	Provident fund contributions	
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
<i>Executive directors:</i>					
Or Wai Sheun	—	—	—	—	—
Ng Chi Man	—	—	—	—	—
Lai Ka Fai	5	1,300	1,000	93	2,398
Or Pui Kwan (Note)	—	189	100	6	295
<i>Non-executive directors:</i>					
Keith Alan Holman	120	384	—	—	504
Tam Hee Chung	120	—	—	—	120
Yeung Kwok Kwong	120	150	—	11	281
<i>Independent non-executive directors:</i>					
Chau Cham Son	120	—	—	—	120
Li Kwok Sing, Aubrey	120	—	—	—	120
Lok Kung Chin, Hardy	120	—	—	—	120
Seto Gin Chung, John	120	—	—	—	120
	<u>845</u>	<u>2,023</u>	<u>1,100</u>	<u>110</u>	<u>4,078</u>

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

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

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

(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
	<u>5,811</u>	<u>5,639</u>

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	<u>4</u>	<u>4</u>

6. **Income tax in the consolidated income statement**

(a) Taxation in the consolidated income statement represents:

	2005	2004
	\$'000	(restated) \$'000
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)
	<u>62,018</u>	<u>33,742</u>
Deferred tax		
Origination and reversal of temporary differences	(5,574)	1,064
Change in fair value of investment properties	88,518	45,113
	<u>82,944</u>	<u>46,177</u>
	<u>144,962</u>	<u>79,919</u>

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

	2005	2004
	\$'000	(restated) \$'000
Profit before taxation	<u>1,208,366</u>	<u>595,215</u>
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	<u>144,962</u>	<u>79,919</u>

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 '000	2004 '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	<u>566,768</u>	<u>562,686</u>

9. Dividends**(a) Dividends attributable to the year**

	2005 \$'000	2004 \$'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	<u>198,369</u>	<u>141,692</u>
	<u>255,046</u>	<u>181,366</u>

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

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	—	—
	<u>44,814</u>	<u>24,677</u>	<u>2,847</u>	<u>5,363</u>

(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	Revaluation of properties	Accelerated depreciation allowances	General provision	Total
	\$'000	\$'000	\$'000	\$'000	\$'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)	<u>3,481</u>	<u>(424,236)</u>	<u>(21,306)</u>	<u>1,092</u>	<u>(440,969)</u>
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	<u>8,566</u>	<u>(640,334)</u>	<u>(27,700)</u>	<u>831</u>	<u>(658,637)</u>

Company	Revaluation	Accelerated	General	Total
	of properties	depreciation	provision	
	\$'000	\$'000	\$'000	\$'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)	<u>(355,946)</u>	<u>(16,292)</u>	<u>—</u>	<u>(372,238)</u>
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	<u>(427,175)</u>	<u>(18,977)</u>	<u>—</u>	<u>(446,152)</u>
	Group	Company		
	2005	2004	2005	2004
		(restated)		(restated)
	\$'000	\$'000	\$'000	\$'000
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)
	<u>(658,637)</u>	<u>(440,969)</u>	<u>(446,152)</u>	<u>(372,238)</u>

(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 \$'000	Leasehold land held for own use \$'000	Other property, plant and equipment		Total \$'000
			Buildings \$'000	Others \$'000	
Cost or valuation					
At 1 January 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	<u>3,461,940</u>	<u>6,446</u>	<u>1,820</u>	<u>31,392</u>	<u>3,501,598</u>
<i>Representing</i>					
Professional valuation	3,461,940	—	—	—	3,461,940
Cost	—	6,446	1,820	31,392	39,658
	<u>3,461,940</u>	<u>6,446</u>	<u>1,820</u>	<u>31,392</u>	<u>3,501,598</u>
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	<u>4,147,630</u>	<u>270,206</u>	<u>33,060</u>	<u>36,626</u>	<u>4,487,522</u>
<i>Representing</i>					
Professional valuation	4,147,630	—	—	—	4,147,630
Cost	—	270,206	33,060	36,626	339,892
	<u>4,147,630</u>	<u>270,206</u>	<u>33,060</u>	<u>36,626</u>	<u>4,487,522</u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	Investment properties \$'000	Leasehold land held for own use \$'000	Other property, plant and equipment		Total \$'000
			Buildings \$'000	Others \$'000	
Aggregate depreciation and amortization					
At 1 January 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 \$'000	Leasehold land held for own use \$'000	Other property, plant and equipment		Total \$'000
			Buildings \$'000	Others \$'000	
Cost or valuation					
At 1 January 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
<i>Representing</i>					
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
<i>Representing</i>					
Professional valuation	3,235,000	—	—	—	3,235,000
Cost	—	—	—	22,874	22,874
	3,235,000	—	—	22,874	3,257,874

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	Investment properties \$'000	Leasehold land held for own use \$'000	Other property, plant and equipment		Total \$'000
			Buildings \$'000	Others \$'000	
Aggregate depreciation and amortization					
At 1 January 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	<u>3,235,000</u>	<u>—</u>	<u>—</u>	<u>903</u>	<u>3,235,903</u>
At 31 December 2004	<u>2,800,000</u>	<u>—</u>	<u>—</u>	<u>553</u>	<u>2,800,553</u>

(c) Analysis of carrying value of properties

	Group		Company	
	2005 \$'000	2004 \$'000	2005 \$'000	2004 \$'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	—	—	—
	<u>4,147,630</u>	<u>3,461,940</u>	<u>3,235,000</u>	<u>2,800,000</u>
Other properties				
In Hong Kong				
— Long leases	991	1,000	—	—
— Medium-term leases	296,133	1,471	—	—
	<u>297,124</u>	<u>2,471</u>	<u>—</u>	<u>—</u>

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
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
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
	<u>295,548</u>	<u>305,294</u>	<u>239,692</u>	<u>244,204</u>

12. Interest in jointly controlled entities

	Group	
	2005	2004
	<i>\$'000</i>	<i>\$'000</i>
Share of net assets	394,507	—
Amounts due from jointly controlled entities	247,192	—
	<u>641,699</u>	<u>—</u>

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

APPENDIX I

FINANCIAL INFORMATION ON THE GROUP

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

14. Goodwill

	Group	
	2005	2004
	<i>\$'000</i>	<i>\$'000</i>
At 1 January	—	—
Through acquisition of subsidiaries	16,994	—
	<u>16,994</u>	<u>—</u>
At 31 December	<u>16,994</u>	<u>—</u>

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
	<i>\$'000</i>	<i>\$'000</i>
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)
	<u>2,698,153</u>	<u>2,317,774</u>

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
	<i>\$'000</i>	<i>\$'000</i>
Share of net assets	51,682	41,140
Loan to an associated company	4,886	4,886
	<u>56,568</u>	<u>46,026</u>

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.

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

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
	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>	<i>\$'000</i>
2005					
Aggregate on associated companies' accounts	777,652	531,989	245,663	764,333	49,756
Group's effective interest	<u>164,598</u>	<u>112,916</u>	<u>51,682</u>	<u>169,455</u>	<u>10,542</u>
2004					
Aggregate on associated companies' accounts	569,884	381,921	187,963	618,496	41,101
Group's effective interest	<u>120,995</u>	<u>79,855</u>	<u>41,140</u>	<u>133,941</u>	<u>9,554</u>

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
	<u>65,220</u>	<u>110,099</u>
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
	<u>242,445</u>	<u>129,251</u>
	<u>307,665</u>	<u>239,350</u>
Market value of investment securities		
— Listed in Hong Kong	128,634	199,864
— Listed outside Hong Kong	30,823	—
	<u>159,457</u>	<u>199,864</u>

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	—	—
	<u>25,811</u>	<u>7,741</u>	<u>—</u>	<u>—</u>

(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
		(restated)
	\$'000	\$'000
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
	<u>3,194,826</u>	<u>2,126,450</u>

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	<u>1,381,392</u>	<u>1,377,977</u>
	<u>1,902,309</u>	<u>1,790,049</u>
Outside Hong Kong		
— Freehold	<u>604,964</u>	<u>—</u>
	<u><u>2,507,273</u></u>	<u><u>1,790,049</u></u>

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	<u>3,330</u>	<u>—</u>
	<u><u>7,368</u></u>	<u><u>—</u></u>

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
	<u>320,440</u>	<u>209,143</u>	<u>11,201</u>	<u>7,267</u>

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	—	—
	<u>338,804</u>	<u>554,233</u>	<u>84,649</u>	<u>86,676</u>

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 \$'000	2004 \$'000	2005 \$'000	2004 \$'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
	<u>1,663,600</u>	<u>1,086,987</u>	<u>1,320,900</u>	<u>1,017,687</u>
	<u>2,642,013</u>	<u>1,752,429</u>	<u>1,538,187</u>	<u>1,157,987</u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

Bank loans were classified in the balance sheets as follows:

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

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

26. Total equity
(a) Group

	Attributable to shareholders of the Company							Minority interests	Total equity
	Share capital	Share premium	Capital reserve	Investment property revaluation reserve	Fair value reserves	Retained profits	Total		
Note	\$'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)	<u>56,677</u>	<u>557,916</u>	<u>2,154</u>	<u>—</u>	<u>(3,518)</u>	<u>3,282,840</u>	<u>3,896,069</u>	<u>1,208</u>	<u>3,897,277</u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	Attributable to shareholders of the Company									
	Investment property							Minority interests	Total equity	
	Share capital	Share premium	Capital reserve	revaluation reserve	Fair value reserves	Retained profits	Total			
Note	\$'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.

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP
(b) Company

	<i>Note</i>	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)						
		<u>56,677</u>	<u>557,916</u>	<u>—</u>	<u>2,894,414</u>	<u>3,509,007</u>
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						
		<u>56,677</u>	<u>557,916</u>	<u>—</u>	<u>3,130,934</u>	<u>3,745,527</u>

The Group's share of profits retained in the accounts of the associated companies at 31 December 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	<u>1,000,000,000</u>	<u>100,000</u>	<u>1,000,000,000</u>	<u>100,000</u>
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	<u>566,767,850</u>	<u>56,677</u>	<u>566,767,850</u>	<u>56,677</u>

On 19 January 2004, the Company issued and allotted 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	(restated) \$'000
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
<i>Net assets acquired:</i>	
Investment properties	150,000
Leasehold land held for own use	263,760
Other property, plant and equipment	37,097
Interest in jointly controlled entities	628,479
Goodwill	16,994
Investments in securities	70,192
Inventories	760,641
Other current assets	73,651
Bank loans	(88,800)
Amounts due to minority shareholders	(31,875)
Other current liabilities	(35,778)
Deferred taxation	(134,724)
Minority interests	(215,421)
	<hr/>
Net assets acquired	1,494,216
Negative goodwill arising on consolidation	(26,482)
Amount of net assets attributable to minority shareholders	(641,672)
	<hr/>
Cash consideration on acquisition of subsidiaries	826,062
Cash and bank balances acquired	(61,841)
Consideration outstanding to the major shareholder	(140,791)
	<hr/>
Cash outflow on acquisition of subsidiaries	<u>623,430</u>

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
<i>Net assets acquired:</i>	
Interest in property development	400,000
Shareholder's loan	(175,699)
	<hr/>
Cash consideration paid for net assets	224,301
Cash consideration paid for shareholder's loan	175,699
	<hr/>
Cash outflow on acquisition of subsidiaries	400,000
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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	—	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
	223,743	24,756	1,410	24,620
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Authorized but not contracted for				
— Investment properties	95,745	—	95,745	—
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			<i>Direct</i>	<i>Indirect</i>	
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

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
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.

(3) INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2006

Set out below are the unaudited consolidated financial statements of the Group for the six months ended 30 June 2006 together with the comparative figures for the corresponding period in the last financial year:

Consolidated Income Statement

(Expressed in Hong Kong dollars)

	<i>Note</i>	Six months ended 30 June	
		2006	2005
		(unaudited)	(unaudited)
		\$'000	\$'000
Turnover	2	1,312,418	483,940
Other revenue		7,151	1,284
Depreciation and amortization		(4,738)	(503)
Staff costs		(28,780)	(19,439)
Cost of inventories		(905,171)	(232,066)
Fair value changes on investment properties	8	72,210	143,436
Other operating expenses		(97,136)	(18,111)
Profit from operations	2	355,954	358,541
Finance costs	3(a)	(34,203)	(2,480)
Profit on disposal of an associated company		47,090	—
Share of profits of associated companies	3(c)	588	4,682
Share of profits of jointly controlled entities	3(d)	3,273	—
Profit before taxation	3	372,702	360,743
Income tax	4	(43,470)	(60,195)
Profit for the period		<u>329,232</u>	<u>300,548</u>
Attributable to:			
Shareholders of the Company	14(a)	317,835	300,510
Minority interests	14(a)	11,397	38
Profit for the period	14(a)	<u>329,232</u>	<u>300,548</u>
Earnings per share — Basic	6	<u>\$0.53</u>	<u>\$0.53</u>
Dividend per share	5(a)	<u>\$0.13</u>	<u>\$0.10</u>

Consolidated Balance Sheet*(Expressed in Hong Kong dollars)*

	<i>Note</i>	At 30 June 2006		At 31 December 2005	
		(unaudited) \$'000	(unaudited) \$'000	(audited) \$'000	(audited) \$'000
Non-current assets					
Fixed assets					
— Investment properties			4,220,630		4,147,630
— Leasehold land					
held for own use			262,288		265,553
— Other property, plant and equipment			38,310		39,503
			<u>4,521,228</u>		<u>4,452,686</u>
	8		16,994		16,994
Goodwill					
Interests in					
property development	9		8,448,000		—
Interest in jointly controlled entities			397,780		394,507
Interest in associated companies			12,091		56,568
Investments in securities			55,838		65,220
Loans and advances			46,025		55,320
Deferred tax assets			5,714		9,303
			<u>13,503,670</u>		<u>5,050,598</u>
Current assets					
Interest in					
property development	9	590,280		575,298	
Inventories	10	3,922,869		3,194,826	
Trade and other receivables	11	924,919		320,440	
Loans and advances		56,124		63,523	
Amounts due from					
jointly controlled entities		252,864		247,192	
Amount due from					
an associated company		191		207	
Derivative financial instruments		14,118		25,811	
Investments in securities		201,093		242,445	
Time deposit (pledged)		345,425		38,205	
Cash and cash equivalents		322,635		104,706	
			<u>6,630,518</u>		<u>4,812,653</u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	Note	At 30 June 2006		At 31 December 2005	
		(unaudited) \$'000	(unaudited) \$'000	(audited) \$'000	(audited) \$'000
Current liabilities					
Trade and other payables	12	1,087,867		338,804	
Amount due to ultimate holding company		5,435		—	
Amount due to a major shareholder		—		140,791	
Amounts due to minority shareholders		33,484		31,924	
Derivative financial instruments		61,073		7,741	
Bank loans		887,439		978,413	
Current taxation		66,348		44,814	
		<u>2,141,646</u>		<u>1,542,487</u>	
Net current assets			4,488,872		3,270,166
Total assets less current liabilities			17,992,542		8,320,764
Non-current liabilities					
Loan from ultimate holding company	13	2,742,040		2,635	
Amount payable to ultimate holding company	7	2,965,677		—	
Bank loans		1,765,200		1,663,600	
Deferred tax liabilities		674,494		667,940	
			<u>8,147,411</u>		<u>2,334,175</u>
Net assets			<u>9,845,131</u>		<u>5,986,589</u>
Capital and reserves					
Share capital	14(b)		68,012		56,677
Reserves			<u>6,540,752</u>		<u>5,040,735</u>
Total equity attributable to shareholders of the Company	14(a)		6,608,764		5,097,412
Minority interests	14(a)		<u>3,236,367</u>		<u>889,177</u>
Total equity	14(a)		<u>9,845,131</u>		<u>5,986,589</u>

Consolidated Statement of Changes in Equity*(Expressed in Hong Kong dollars)*

	<i>Note</i>	Six months ended		Six months ended	
		30 June 2006		30 June 2005	
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
		\$'000	\$'000	\$'000	\$'000
Total equity at 1 January			5,986,589		4,070,119
Net income for the period recognized directly in equity					
Changes in fair value of equity securities available-for-sale	14(a)	1,218		(5,726)	
Changes in fair value of interests in property development	14(a)	14,982		175,641	
Transfer to income statement upon disposal of equity securities available-for-sale	14(a)	<u>(1,871)</u>		<u>—</u>	
Net income for the period recognized directly in equity		14,329		169,915	
Net profit for the period	14(a)	<u>329,232</u>		<u>300,548</u>	
Total net income recognized for the period			343,561		470,463
Attributable to:					
Shareholders of the Company		332,164		470,425	
Minority interests		<u>11,397</u>		<u>38</u>	
		343,561		470,463	

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP**

		Six months ended 30 June 2006		Six months ended 30 June 2005	
	<i>Note</i>	(unaudited) \$'000	(unaudited) \$'000	(unaudited) \$'000	(unaudited) \$'000
Final dividend declared and paid	5(b)		(198,369)		(141,692)
Dividend paid to minority interests	14(a)		(23,833)		—
Loan from a minority shareholder	14(a)		1,114		—
Share issue of a subsidiary attributable to minority interests	14(a)		2,358,512		—
Issue of shares	14(a)		11,335		—
Net share premium received	14(a)		<u>1,366,222</u>		<u>—</u>
Total equity at 30 June			<u><u>9,845,131</u></u>		<u><u>4,398,890</u></u>

Condensed Consolidated Cash Flow Statement*(Expressed in Hong Kong dollars)*

	Six months ended 30 June	
	2006	2005
	(unaudited)	(unaudited)
	\$'000	\$'000
Net cash used in operating activities	(500,295)	(203,309)
Net cash used in investing activities	(3,212,431)	(23,852)
Net cash from financing activities	<u>3,930,655</u>	<u>209,736</u>
Net increase/(decrease) in cash and cash equivalents	217,929	(17,425)
Cash and cash equivalents at 1 January	<u>104,706</u>	<u>44,497</u>
Cash and cash equivalents at 30 June	<u><u>322,635</u></u>	<u><u>27,072</u></u>

Notes on the Unaudited Interim Financial Report

(Expressed in Hong Kong dollars)

1. Basis of preparation

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700, “Engagements to review interim financial reports”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). KPMG’s independent review report to the Board of Directors is included on page 29. In addition, this interim financial report has been reviewed by the Company’s Audit Committee.

The interim financial report has been prepared on a basis consistent with the accounting policies adopted in the 2005 annual financial statements except for the adoption of certain new standards, amendments and interpretations issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2006. The adoption of the new standards, amendments and interpretations had no material effect on the Group’s results of operation and financial position.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard 34, “Interim financial reporting”, issued by the HKICPA.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2005 annual financial statements.

The financial information relating to the financial year ended 31 December 2005 included in the condensed interim financial statements does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. The auditors have expressed an unqualified opinion on those financial statements in their report dated 30 March 2006.

2. Segment information

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

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

APPENDIX I**FINANCIAL INFORMATION ON THE GROUP****(a) Business segments**

	Six months ended 30 June 2006				
	Consolidated	Property	Property	Financing	Others
	\$'000	development	investment	and	\$'000
	\$'000	\$'000	\$'000	investments	\$'000
Turnover	1,312,418	597,841	107,931	579,270	27,376
Contribution from operations	304,371	172,324	97,088	27,558	7,401
Fair value changes on investment properties	72,210	—	72,210	—	—
Unallocated group expenses	(20,627)				
Profit from operations	355,954				
Finance costs	(34,203)				
Profit on disposal of an associated company	47,090				
Share of profits of associated companies	588	—	—	—	588
Share of profits of jointly controlled entities	3,273	—	3,273	—	—
Profit before taxation	372,702				
Income tax	(43,470)				
Profit for the period	329,232				
	Six months ended 30 June 2005				
	Consolidated	Property	Property	Financing	Others
	\$'000	development	investment	and	\$'000
	\$'000	\$'000	\$'000	investments	\$'000
Turnover	483,940	217,308	99,142	157,612	9,878
Contribution from operations	228,428	104,741	86,628	37,411	(352)
Fair value changes on investment properties	143,436	—	143,436	—	—
Unallocated group expenses	(13,323)				
Profit from operations	358,541				
Finance costs	(2,480)				
Share of profits of associated companies	4,682	—	—	—	4,682
Profit before taxation	360,743				
Income tax	(60,195)				
Profit for the period	300,548				

(b) Geographical segments

	Group turnover		Group profit from operations	
	Six months ended		Six months ended	
	30 June		30 June	
	2006	2005	2006	2005
	\$'000	\$'000	\$'000	\$'000
Hong Kong	1,154,139	476,626	310,058	352,563
People's Republic of China	132,000	—	29,835	—
Macau	12,409	—	822	—
North America	11,252	4,452	12,682	4,362
Others	2,618	2,862	2,557	1,616
	<u>1,312,418</u>	<u>483,940</u>	<u>355,954</u>	<u>358,541</u>

3. Profit before taxation

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

(a) Finance costs

	Six months ended	
	30 June	
	2006	2005
	\$'000	\$'000
Interest on bank loans and overdrafts	61,886	19,778
Interest on loan from ultimate holding company	12,717	61
<i>Less: Amount capitalized</i>	<u>(39,529)</u>	<u>(16,659)</u>
	35,074	3,180
<i>Less: Interest expense included as other operating expenses</i>	<u>(871)</u>	<u>(700)</u>
	<u>34,203</u>	<u>2,480</u>

Borrowing costs were capitalized at the prevailing market interest rates.

(b) Other items

	Six months ended	
	30 June	
	2006	2005
	\$'000	\$'000
Rentals receivable under operating leases less outgoings	(95,573)	(85,768)
Rental income	(107,931)	(99,142)
<i>Less: Outgoings</i>	<u>12,358</u>	<u>13,374</u>
	(191,146)	(171,536)
Income from listed investments	(2,221)	(3,383)
Income from unlisted investments	<u>(25,267)</u>	<u>(10,182)</u>

- (c) The Group's share of profits of the associated companies for the period, after minority interests and taxation, attributable to shareholders of the Company was \$587,620 (six months ended 30 June 2005: \$4,682,342).
- (d) The Group's share of profits of the jointly controlled entities for the period, after minority interests and taxation, attributable to shareholders of the Company was \$1,860,540 (six months ended 30 June 2005: \$Nil).

4. Income tax in the consolidated income statement

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2006 \$'000	2005 \$'000
Current tax		
Provision for profits tax		
— Hong Kong	35,156	34,250
— Overseas	1,505	—
(Over)/Under provision in respect of prior years	(3,333)	810
	33,328	35,060
Deferred tax	10,142	25,135
	43,470	60,195

Hong Kong profits tax is calculated at 17.5% (six months ended 30 June 2005: 17.5%) on the estimated assessable profits of the period. Overseas tax is calculated at the applicable tax rates ruling in the respective jurisdictions.

5. Dividends

- (a) *Dividends attributable to the interim period*

	Six months ended 30 June	
	2006 \$'000	2005 \$'000
Interim dividend declared after the interim period of \$0.13 (2005: \$0.10) per share	88,416	56,677

The interim dividend declared after the interim period end has not been recognized as a liability at the interim period end date.

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

	Six months ended	
	30 June	
	2006	2005
	\$'000	\$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of \$0.35 (2005: \$0.25) per share	198,369	141,692

6. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of \$317,834,816 (six months ended 30 June 2005: \$300,509,526) and weighted average number of ordinary shares of 595,575,795 (2005: number of 566,767,850 ordinary shares) in issue during the period.

No diluted earnings per share for the six months ended 30 June 2005 and 2006 has been presented as the Company had no dilutive potential ordinary shares for both periods.

7. Acquisition of a subsidiary

During the period, the Group acquired from its ultimate holding company, Polytec Holdings International Limited ("Polytec Holdings"), the entire issued share capital of one of Polytec Holdings' wholly-owned subsidiary. The acquired company had entered into co-investment agreements with other wholly-owned subsidiaries of Polytec Holdings in property projects in Macau. The consideration of the acquisition was \$8,448,000,000. As at 30 June 2006, balance of the consideration of \$2,958,450,000 has been deferred as elected in accordance with the sale and purchase agreement. The balance is unsecured and interest bearing with interest charged with reference to bank lending rates. The deferred payment and the accrued interest thereon are not expected to be settled within one year.

\$'000

Fair value of assets of the subsidiary acquired:

Interests in property development	8,448,000
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Satisfied by:

Loan from ultimate holding company	2,194,040
Amount payable to ultimate holding company	2,958,450
Cash paid	3,295,510

8,448,000

8. Fixed assets

The investment properties of the Group were revalued at 30 June 2006 by Vigers Appraisal and Consulting Limited and DTZ Debenham Tie Leung Ltd, independent qualified professional valuers, who have appropriate qualifications and experiences in the valuation of similar properties in the relevant locations, on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. A revaluation gain of \$72,209,983 (six months ended 30 June 2005: \$143,435,752) and deferred tax thereon of \$12,636,747 (six months ended 30 June 2005: \$25,101,257) have been included in the consolidated income statement.

9. Interests in property development

Interests in property development represent the Group's interests in the development of various properties at Macau under the co-investment agreements with wholly-owned subsidiaries of Polytec Holdings.

10. Inventories

	At 30 June 2006 \$'000	At 31 December 2005 \$'000
Land held for future development	994,045	611,519
Properties under development	2,546,119	2,242,381
Properties held for sale	381,986	339,776
Trading goods	719	1,150
	<u>3,922,869</u>	<u>3,194,826</u>

Included in properties under development is an amount of \$1,484,722,215 (at 31 December 2005: \$1,459,138,520), 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 30 June 2006, the Group had an outstanding payable to The Little Sisters under the development agreement of approximately \$121 million (at 31 December 2005: \$129 million).

11. Trade and other receivables

The following is an ageing analysis of trade receivables:

	At 30 June 2006 \$'000	At 31 December 2005 \$'000
Current and 0 — 90 days	511,166	54,498
91 — 180 days	1,533	1,614
Over 180 days	9,376	9,466
	<hr/>	<hr/>
Trade receivables	522,075	65,578
Utility and other deposits	4,397	3,656
Other receivables and prepayments	398,447	251,206
	<hr/>	<hr/>
	924,919	320,440
	<hr/> <hr/>	<hr/> <hr/>

Trade and other receivables of the Group of \$5,665,930 (at 31 December 2005: \$5,264,761) are expected to be recovered after more than one year.

Prepayments of the Group of an amount of \$345,743,000 (at 31 December 2005: \$225,743,000) represent the deposit paid for the acquisition of approximately 70.3% of the issued shares and the general offer for the acquisition of the remaining shares of Shenzhen Properties & Resources Development (Group) Limited.

The Group maintains a defined credit policy. An ageing analysis of trade receivables is prepared on a regular basis and is closely monitored to minimize any credit risk associated with receivables.

12. Trade and other payables

The following is an ageing analysis of trade payables:

	At 30 June 2006 \$'000	At 31 December 2005 \$'000
Not yet due or on demand	640,077	46,612
0 — 90 days	2,397	20,047
91 — 180 days	7	137
Over 180 days	40	52
	<hr/>	<hr/>
Trade payables	642,521	66,848
Rental and other deposits	51,279	51,070
Deposits received on sale of properties	156,496	22,715
Other payables and accrued expenses	237,571	198,171
	<hr/>	<hr/>
	1,087,867	338,804
	<hr/> <hr/>	<hr/> <hr/>

Trade and other payables of the Group of \$58,953,930 (at 31 December 2005: \$83,115,340) are expected to be refunded/settled after more than one year.

At 30 June 2006, trade payables of the Group of an amount of \$415,832,000 represent outstanding consideration for the acquisition of a piece of land in Shenyang of People's Republic of China, the payment of which is not yet due and is payable within one year.

13. Loan from ultimate holding company

Loan from ultimate holding company is unsecured, interest bearing and has no fixed terms of repayment. Interest is charged with reference to bank lending rates.

14. Total equity**(a) Total equity**

	Attributable to shareholders of the Company						Minority interests	Total equity
	Share capital	Share premium	Capital reserve	Fair value reserves	Retained profits	Total		
Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2005	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	—	—	—	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	—	—	—	—	—	—	857,093	857,093
Final dividend declared and paid	5(b)	—	—	—	(141,692)	(141,692)	—	(141,692)
Interim dividend declared and paid	5(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	<u>56,677</u>	<u>557,916</u>	<u>2,154</u>	<u>337,041</u>	<u>4,143,624</u>	<u>5,097,412</u>	<u>889,177</u>	<u>5,986,589</u>

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	Attributable to shareholders of the Company							Minority interests	Total equity
	Share capital	Share premium	Capital reserve	Fair value reserves	Retained profits	Total			
	Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000		
At 1 January 2006		56,677	557,916	2,154	337,041	4,143,624	5,097,412	889,177	5,986,589
Issue of shares		11,335	—	—	—	—	11,335	—	11,335
Premium on issue of shares		—	1,394,242	—	—	—	1,394,242	—	1,394,242
Expenses on issue of shares		—	(28,020)	—	—	—	(28,020)	—	(28,020)
Share issue of a subsidiary attributable to minority interests		—	—	—	—	—	—	2,358,512	2,358,512
Changes in fair value of equity securities available-for-sale		—	—	—	1,218	—	1,218	—	1,218
Changes in fair value of interests in property development		—	—	—	14,982	—	14,982	—	14,982
Transfer to income statement upon disposal of equity securities available-for-sale		—	—	—	(1,871)	—	(1,871)	—	(1,871)
Loan from a minority shareholder		—	—	—	—	—	—	1,114	1,114
Dividend paid to minority interests		—	—	—	—	—	—	(23,833)	(23,833)
Final dividend declared and paid	5(b)	—	—	—	—	(198,369)	(198,369)	—	(198,369)
Profit for the period		—	—	—	—	317,835	317,835	11,397	329,232
At 30 June 2006		<u>68,012</u>	<u>1,924,138</u>	<u>2,154</u>	<u>351,370</u>	<u>4,263,090</u>	<u>6,608,764</u>	<u>3,236,367</u>	<u>9,845,131</u>

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

(b) Share capital

	At 30 June 2006		At 31 December 2005	
	No. of shares of \$0.1 each	Amount \$'000	No. of shares of \$0.1 each	Amount \$'000
Authorized	<u>1,000,000,000</u>	<u>100,000</u>	<u>1,000,000,000</u>	<u>100,000</u>
Issued and fully paid				
At 1 January	566,767,850	56,677	566,767,850	56,677
Issue of shares	<u>113,353,000</u>	<u>11,335</u>	<u>—</u>	<u>—</u>
At 30 June (2005: At 31 December)	<u>680,120,850</u>	<u>68,012</u>	<u>566,767,850</u>	<u>56,677</u>

On 16 May 2006, the Company issued and allotted 113,353,000 new shares to its major shareholder at a price of \$12.40 per share after the placement of 113,353,000 old shares by the major shareholder at a price of \$12.40 per share to independent third parties.

15. Capital commitments

Capital commitments outstanding at the balance sheet date not provided for in the accounts were as follows:

	At 30 June 2006 \$'000	At 31 December 2005 \$'000
Contracted for		
— Investment properties	1,474	1,410
— Acquisition of subsidiaries	664,783	222,333
	<u>666,257</u>	<u>223,743</u>
Authorized but not contracted for		
— Investment properties	<u>95,255</u>	<u>95,745</u>

16. Pledge of assets

At 30 June 2006, properties and securities of the Group with an aggregate carrying value of approximately \$4,731,612,000 (at 31 December 2005: \$4,983,376,000) and time deposits of \$345,425,000 (at 31 December 2005: \$38,205,000) were pledged to financial institutions to secure banking facilities granted to the Group or as margin deposits for the Group's investments in securities.

17. 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 10.
- (b) Details of the acquisition of a subsidiary from Polytec Holdings during the period was set out in note 7.
- (c) Loan amounting to \$2,194,040,000 has been obtained from Polytec Holdings during the period for the subscription payments of new shares issued by Polytec Asset Holdings Ltd ("Polytec Asset"), a listed subsidiary of the Company. The proceeds of the subscription payments were utilized by Polytec Asset to settle partially the consideration for the acquisition of the subsidiary as stated in note 7.
- (d) During the six months ended 30 June 2006, interest of \$12,716,696 was paid to Polytec Holdings.
- (e) During the six months ended 30 June 2006, arranger's fees of \$24,039,853 was paid to a related company for the placement and subscription of shares of the Company and Polytec Asset.
- (f) On 16 May 2006, the Company issued and allotted 113,353,000 new shares to its major shareholder at a price of \$12.40 per share after the placement of 113,353,000 old shares by the major shareholder at a price of \$12.40 per share to independent third parties.
- (g) At 30 June 2006, a director has granted a guarantee to a bank to secure the liabilities of the Group to the extent of \$22,000,000.
- (h) At 30 June 2006, the Group has given guarantees to insurance companies in respect of performance bonds entered into by certain associated companies to the extent of \$8,020,000.

(4) MANAGEMENT DISCUSSION AND ANALYSIS OF RESULTS OF THE GROUP

For the year ended 31 December 2003, the Group recorded a turnover of approximately HK\$673.8 million with profit attributable to the Shareholders amounted to approximately HK\$152.5 million. At the beginning of year 2003, the 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 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 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 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 calculated on the basis of bank borrowings to equity attributable to the Shareholders was 74.3%. All banking facilities were arranged on a floating rate basis. As at 31 December 2003, properties and securities of the 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 Group to grow rapidly while maintaining stability, the Group had issued 83,000,000 new Shares and raised approximately HK\$568.55 million in January 2004. Meanwhile, recognising the promising prospect of Macau's economy, the 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, in February 2004. In the first half of 2004, the Group also acquired two commercial properties in Tsim Sha Tsui East at a total consideration of approximately HK\$152 million to further strength the portfolio of investment properties and improve the recurrent income base.

For the year ended 31 December 2004, the Group recorded a turnover of approximately HK\$773.4 million with profit attributable to the Shareholders 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 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 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 was reduced to 45% as compared with that of 2003. All banking facilities were arranged on a floating basis. Properties and securities of the 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 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 Group recorded a turnover of approximately HK\$1,320.3 million with profit attributable to the Shareholders amounted to approximately HK\$1,059.2 million. Changes in fair value of investment properties amounted to approximately HK\$505.8 million. The 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 amounted

to approximately HK\$212 million. Excluding an 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 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 Group as at 31 December 2005 amounted to approximately HK\$2,642 million with approximately HK\$978 million repayable within one year. The gearing ratio, expressed as a percentage of the bank borrowings over the equity attributable to the Shareholders 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 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 Group's turnover for the six months ended 30 June 2006 amounted to HK\$1,312 million, an increase of 171% over the same period last year. The Group's unaudited profit attributable to the Shareholders for the period amounted to HK\$318 million. Excluding investment property revaluation gains net of deferred tax of HK\$60 million, underlying net profit rose to HK\$258 million, an increase of 42% over the same period last year. The turnover of property sales amounted to HK\$598 million, increased by 175% when compared with the same period last year. This was mainly contributed by the sales of Mount Davis 33, a joint-venture residential development project with Urban Renewal Authority in the western part of Hong Kong Island. The Group's gross rental income amounted to HK\$108 million, increased by 9% when compared with the same period in 2005. This is mainly contributed by the increase in occupancy rate of Pioneer Centre from 88% for the six months ended 30 June 2005 to 95% for the six months ended 30 June 2006. The occupancy rate for the Group's other investment properties in Hong Kong remained above 90%. As at 30 June 2005, the Group invested a total of approximately HK\$257 million in financial investments. For the period ended 30 June 2006, financing and investment activities combined contributed approximately HK\$28 million to the operating profits, a decreased of around 24% to that of the same period last year.

The total bank borrowings of the Group as at 30 June 2006 amounted to approximately HK\$2,653 million with HK\$887 million repayable within one year. The gearing ratio, expressed as a percentage of the bank borrowings over total equity attributable to the Shareholders was 40%, down from 52% as at 31 December 2005 following the equity fund raising in May 2006. All banking facilities were arranged on a floating basis with HK\$700 million bank loans being hedged by structured swap. Properties and securities of the Group with an aggregate carrying value of approximately HK\$4,732 million and time deposits of approximately HK\$345 million were pledged to financial institutions to secure banking facilities granted to the Group or as margin deposits for the Group's investments in securities. Capital commitments in respect of acquisition of Shenzhen Properties and construction works amounted to approximately HK\$665 million and HK\$97 million respectively as at 30 June 2006.

In May 2006, the Group raised HK\$1.4 billion by issuing 113,353,000 new Shares. Taking into account of such dilution, interim earnings per Share excluding property revaluation were HK\$0.43, an increase of 34% over the corresponding period last year.

The 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 and 2004, the total number of employees (excluding associated companies) was around 135 to 155. As at 31 December 2005 and 30 June 2006, the total number of employees (including PAH Group but excluding associated companies) was about 250 and 300 respectively. The salary levels of the 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.

(5) ACCOUNTANTS' REPORT ON NEW BEDFORD PROPERTIES LIMITED

Set out below is the accountants' report on the New Bedford Properties Limited extracted from the circular of the Company dated 23 May 2006 according to Appendix 1B paragraph 31(3)(b) of the Listing Rules. Definitions and references used here in should be referred to such circular. The acquisition of New Bedford Properties Limited was completed on 15 June 2006.

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

	<i>Note</i>	<i>HK\$</i>
Current asset		
Amount due from ultimate holding company	6	8
		<u> 8</u>
Share capital	7	8
		<u> 8</u>

STATEMENT OF CHANGES IN EQUITY

	Share capital
	<i>HK\$</i>
Issue of share to the subscriber and subsequent allotment and balance at 31 March 2006	8
	<u> 8</u>

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 (<i>Note</i>) 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

(6) UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP AND NEW BEDFORD PROPERTIES LIMITED

Set out below is the unaudited pro forma financial information of the Group and New Bedford Properties Limited extracted from the circular of the Company dated 23 May 2006 according to Appendix 1B paragraph 31(3)(b) of the Listing Rules. Definitions and references used here in should be referred to such circular.

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 HK\$'000 (audited)	New Bedford Properties Ltd 9-31 Mar 2006 HK\$'000 (audited)	Unaudited Pro forma adjustments upon completion of the Acquisition but before completion of the PAH Subscription and the Company's New Share Issue HK\$'000	Note	Subtotal HK\$'000	Unaudited Pro forma adjustments upon completion of the Acquisition and after completion of the PAH Subscription and the Company's New Share Issue HK\$'000	Note	The Enlarged Group Pro Forma Total HK\$'000 (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 7,000 (76,791)	5 6 7	(198,031)
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) (1,853)	2 3	890,460	105,230 2,754 (76,791)	5 6 7	921,653
Minority interests	4,251	—	(127,615) (647)	2 3	(124,011)	79,904 3,021	5 6	(41,086)
	1,063,404	—	(296,955)		766,449	114,118		880,567

Pro Forma Consolidated Balance Sheet

	The Group as at 31 Dec 2005 HK\$'000 (audited)	New Bedford Properties Ltd 31 Mar 2006 HK\$'000 (audited)	Unaudited Pro forma adjustments upon completion of the Acquisition but before completion of the PAH Subscription and the Company's New Share Issue HK\$'000	Note	Subtotal HK\$'000	Unaudited Pro forma adjustments upon completion of the Acquisition and after completion of the PAH Subscription and the Company's New Share Issue HK\$'000	Note	The Enlarged Group Pro Forma Total HK\$'000 (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

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

		Unaudited Pro forma adjustments upon completion of the Acquisition but before New Bedford completion of the Properties Ltd PAH Subscription as at and the Company's 31 Mar 2006 New Share Issue				Unaudited Pro forma adjustments upon completion of the Acquisition and after completion of the PAH Subscription and the Company's New Share Issue			The Enlarged Group Pro Forma Total
	The Group as at 31 Dec 2005	Properties Ltd as at 31 Mar 2006	PAH Subscription New Share Issue	Note	Subtotal	New Share Issue	Note	Total	
	HK\$'000 (audited)	HK\$'000 (audited)	HK\$'000		HK\$'000	HK\$'000		HK\$'000 (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 HK\$'000 (audited)	New Bedford Properties Ltd 9-31 Mar 2006 HK\$'000 (audited)	Unaudited Pro forma adjustments upon completion of the Acquisition but before completion of the PAH Subscription and the Company's New Share Issue HK\$'000	Note	Subtotal HK\$'000	Unaudited Pro forma adjustments upon completion of the Acquisition and after completion of the PAH Subscription and the Company's New Share Issue HK\$'000	Note	The Enlarged Group Pro Forma Total HK\$'000 (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

APPENDIX I
FINANCIAL INFORMATION ON THE GROUP

	The Group for the year ended 31 Dec 2005 HK\$'000 (audited)	New Bedford Properties Ltd 9-31 Mar 2006 HK\$'000 (audited)	Unaudited Pro forma adjustments upon completion of the Acquisition but before completion of the PAH Subscription and the Company's New Share Issue HK\$'000	Note	Subtotal HK\$'000	Unaudited Pro forma adjustments upon completion of the Acquisition and after completion of the PAH Subscription and the Company's New Share Issue HK\$'000	Note	The Enlarged Group Pro Forma Total HK\$'000 (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	<u>91,887</u>	<u>—</u>	<u>(8,275)</u>		<u>83,612</u>	<u>5,775</u>		<u>89,387</u>
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	<u>(656,167)</u>	<u>—</u>	<u>(200,000)</u>		<u>(856,167)</u>	<u>(5,289,551)</u>		<u>(6,145,718)</u>
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	<u>624,489</u>	<u>—</u>	<u>200,000</u>		<u>824,489</u>	<u>5,729,844</u>		<u>6,554,333</u>
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	<u>44,497</u>	<u>—</u>	<u>—</u>		<u>44,497</u>	<u>—</u>		<u>44,497</u>
Cash and cash equivalents at 31 December	<u>104,706</u>	<u>—</u>	<u>(8,275)</u>		<u>96,431</u>	<u>446,068</u>		<u>542,499</u>

(7) MATERIAL ADVERSE CHANGE

The Directors are not aware of any material adverse change in the financial or trading position or prospects of the Group since 31 December 2005, the date to which the latest audited consolidated financial statements of the Group were made up.

(8) 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 the Rights Issue, 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.

(9) INDEBTEDNESS STATEMENT

Save as disclosed below and apart from intra-group liabilities and normal trade payables, the Group did not have, as at the close of business on 30 November 2006, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, 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 30 November 2006.

Borrowings

As at 30 November 2006, the Group had outstanding borrowings of approximately HK\$7,327 million. The borrowings comprised bank loans of approximately HK\$2,055 million, loan from and amount payable to ultimate holding company of approximately HK\$5,239 million and amounts due to minority shareholders of approximately HK\$33 million. The aggregate amount of borrowings at 30 November 2006 is as follows:

	<i>HK\$' million</i>
Secured bank loans	1,855
Unsecured bank loans	200
Unsecured loan from ultimate holding company	
— interest-bearing with no fixed terms of repayment	2,224
Unsecured amount payable to ultimate holding company	
— interest-bearing with no fixed terms of repayment	3,015
Unsecured amounts due to minority shareholders	
— interest-bearing with no fixed terms of repayment	25
— interest-free with no fixed terms of repayment	8
	<u>7,327</u>

Pledge of assets

As at 30 November 2006, certain properties, securities, cash and bank balances and receivables of the Group with aggregate carrying values of approximately HK\$6,083 million were pledged to banks to secure general banking facilities or as margin deposits for investments in securities.

For illustrative purpose only, set out below is the unaudited pro forma statement of assets and liabilities on the Enlarged Group after completion of the Agreement. The unaudited pro forma statement of assets and liabilities is prepared in accordance with Rule 4.29(1) and Rule 14.67(4)(a)(ii) of the Listing Rules to illustrate the effect of the Investment on the Group's assets and liabilities.

(A) UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES ON THE ENLARGED GROUP

Introduction

The accompanying unaudited Pro Forma Financial Information of the Enlarged Group (the Group (as defined herein) together with the Project Company (as defined herein)) is prepared based upon the latest published unaudited historical financial information of Kowloon Development Company Limited (“the Company”) and its subsidiaries (“the Group”) as set out in Appendix I after giving effect to the pro forma adjustments in respect of the proposed investment in a development site (“the Property”) in Tianjin (“the Investment”) by the formation of a project company (“the Project Company”) with Tianjin Binhai Mass Transit Development Co., Ltd. (“TBMT”) and the proposed rights issue on the basis of one rights share for every two shares held (“the Rights Issue”). A narrative description of the pro forma adjustments of the Investment and the Rights Issue that are (i) directly attributable to the transactions; (ii) expected to have a continuing impact on the Enlarged Group; and (iii) factually supportable, are summarised 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 I and pages 5 to 15 of the “Letter from the Board” in this circular.

The unaudited Pro Forma Statement of Assets and Liabilities on the Enlarged Group is prepared based on the unaudited consolidated balance sheet of the Group as at 30 June 2006, extracted from the published interim report of the Group as set out in Appendix I of this circular as if the Investment and the Rights Issue have been completed on 30 June 2006.

The unaudited Pro Forma Financial Information is prepared to provide information on the Enlarged Group as a result of the completion of the Investment and the Rights Issue. It is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group on the completion of the Investment and the Rights Issue.

APPENDIX II
**PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

	The Group as at 30 June 2006 HK\$'000 (unaudited)	Unaudited pro forma adjustments upon completion of the Investment but before completion of the Rights Issue HK\$'000	Note	Sub-total HK\$'000	Unaudited pro forma adjustments upon completion of the Investment and after completion of the Rights Issue HK\$'000	Note	The Enlarged Group pro forma total HK\$'000 (unaudited)
Non-current assets							
Fixed assets							
— Investment properties	4,220,630	—		4,220,630	—		4,220,630
— Leasehold land held for own use	262,288	—		262,288	—		262,288
— Other property, plant and equipment	38,310	—		38,310	—		38,310
	4,521,228	—		4,521,228	—		4,521,228
Goodwill	16,994	—		16,994	—		16,994
Interests in property development	8,448,000	—		8,448,000	—		8,448,000
Interest in jointly controlled entities	397,780	—		397,780	—		397,780
Interest in associated companies	12,091	—		12,091	—		12,091
Investments in securities	55,838	—		55,838	—		55,838
Loans and advances	46,025	—		46,025	—		46,025
Deferred tax assets	5,714	—		5,714	—		5,714
	13,503,670	—		13,503,670	—		13,503,670
Current assets							
Interest in property development	590,280	—		590,280	—		590,280
Inventories	3,922,869	3,465,347	1	7,388,216	—		7,388,216
Trade and other receivables	924,919	—		924,919	—		924,919
Loans and advances	56,124	—		56,124	—		56,124
Amounts due from jointly controlled entities	252,864	—		252,864	—		252,864
Amount due from an associated company	191	—		191	—		191
Derivative financial instruments	14,118	—		14,118	—		14,118
Investments in securities	201,093	—		201,093	—		201,093
Time deposit (pledged)	345,425	—		345,425	—		345,425
Cash and cash equivalents	322,635	(247,525)	1	76,100	247,525	2	2,226,689
		990	1		1,903,064	2	
	6,630,518	3,218,812		9,849,330	2,150,589		11,999,919
Current liabilities							
Trade and other payables	1,087,867	594,060	1	1,681,927	(594,060)	2	1,087,867
Amount due to ultimate holding company	5,435	—		5,435	—		5,435
Amounts due to minority shareholders	33,484	—		33,484	—		33,484
Derivative financial instruments	61,073	—		61,073	—		61,073
Bank loans	887,439	247,525	1	1,134,964	(247,525)	2	887,439
Current taxation	66,348	—		66,348	—		66,348
	2,141,646	841,585		2,983,231	(841,585)		2,141,646
Net current assets	4,488,872	2,377,227		6,866,099	2,992,174		9,858,273
Total assets less current liabilities	17,992,542	2,377,227		20,369,769	2,992,174		23,361,943

APPENDIX II
**PRO FORMA FINANCIAL INFORMATION
OF THE ENLARGED GROUP**

	The Group as at 30 June 2006 HK\$'000 (unaudited)	Unaudited pro forma adjustments upon completion of the Investment but before completion of the Rights Issue HK\$'000	Note	Sub-total HK\$'000	Unaudited pro forma adjustments upon completion of the Investment and after completion of the Rights Issue HK\$'000	Note	The Enlarged Group pro forma total HK\$'000 (unaudited)
Non-current liabilities							
Loan from ultimate holding company	2,742,040	—		2,742,040	(2,256,070)	2	485,970
Amount payable to ultimate holding company	2,965,677	—		2,965,677	—		2,965,677
Other payables	—	2,376,237	1	2,377,227	(10,890)	2	2,366,337
		990	1				
Bank loans	1,765,200	—		1,765,200	—		1,765,200
Deferred tax liabilities	674,494	—		674,494	—		674,494
	<u>8,147,411</u>	<u>2,377,227</u>		<u>10,524,638</u>	<u>(2,266,960)</u>		<u>8,257,678</u>
NET ASSETS	<u>9,845,131</u>	<u>—</u>		<u>9,845,131</u>	<u>5,259,134</u>		<u>15,104,265</u>
CAPITAL AND RESERVES							
Share capital	68,012	—		68,012	38,356	2	106,368
Reserves	6,540,752	—		6,540,752	5,220,778	2	11,761,530
Total equity attributable to shareholders of the Company	6,608,764	—		6,608,764	5,259,134		11,867,898
Minority interests	3,236,367	—		3,236,367	—		3,236,367
TOTAL EQUITY	<u>9,845,131</u>	<u>—</u>		<u>9,845,131</u>	<u>5,259,134</u>		<u>15,104,265</u>

Notes:

1. The adjustment is to record the impact of the Investment.

Pursuant to the agreement entered into on 13 December 2006 between the Company and TBMT (“the Agreement”):

- (i) the Company and TBMT will cooperate to develop a property site located in Tianjin. The Project Company will be formed in which the Company will hold 90% interest and TBMT will hold the remaining 10% interest. The initial registered capital of the Project Company is RMB10 million (equivalent to approximately HK\$9.90 million) and will be contributed as to RMB9 million (equivalent to approximately HK\$8.91 million) by the Company and RMB1 million (equivalent to approximately HK\$0.99 million) by TBMT in proportion to their respective interests in the Project Company in cash.
- (ii) the Company will pay TBMT a total consideration of RMB3,500 million (“the Consideration”, equivalent to approximately HK\$3,465 million) for the Investment. The title of the Property will be transferred to the Project Company subsequent to the formation of the Project Company. Accordingly, the principal asset of the Project Company will be the Property. The Company will be solely responsible for the development of the Property and bear all the risks and rewards associated with it.

The Consideration will be settled by the Company in the following manner:

- (a) a sum of RMB500 million (equivalent to approximately HK\$495 million) shall be payable within 15 days from the date of the Agreement; and

- (b) the remaining balance of RMB3,000 million (equivalent to approximately HK\$2,970 million) shall be payable in 10 equal instalments of RMB300 million (equivalent to approximately HK\$297 million) each every six months. The initial instalment is due before 1 June 2007 and the final instalment is expected to be paid on or before 1 December 2011. The first two instalments amounting to RMB600 million (equivalent to approximately HK\$594 million) are payable within one year and are classified as current payables. The remaining eight instalments amounting to RMB2,400 million (equivalent to approximately HK\$2,376 million) are payable after one year and are classified as non-current payables.

Upon the full settlement of the Consideration, TBMT shall transfer its 10% interest in the Project Company to the Company and the Company will refund the capital injection of RMB1 million (equivalent to approximately HK\$0.99 million) to TBMT.

Under the current arrangement, the Project Company is assumed to be a wholly-owned subsidiary of the Company while the 10% interest held by TBMT is treated as a liability.

Without taking the financial impact of the Rights Issue into account, the initial instalment of RMB500 million is assumed to be financed as to RMB250 million (equivalent to approximately HK\$248 million) by internal resources of the Group and as to RMB250 million (equivalent to approximately HK\$248 million) by bank borrowings which is repayable within one year.

2. The adjustment is to record the impact of the Rights Issue. The Company proposes to raise approximately HK\$5,293 million of gross proceeds by issuing 383,560,425 rights share at a price of HK\$13.8 per rights share. The par value of the Company's share is HK\$0.1 each. The Rights Issue will lead to an increase in share capital of HK\$38 million and an increase in share premium of HK\$5,221 million (HK\$5,293 million of gross proceeds after deducting of approximately HK\$34 million expenses directly attributable to the Rights Issue and less HK\$38 million of increase in share capital). Net proceeds from the Rights Issue of approximately HK\$3,003 million (after setting off of approximately HK\$2,256 million of loan due to the ultimate holding company and deducting of approximately HK\$34 million expenses directly attributable to the Rights Issue) will be used as to approximately HK\$1,100 million for partial payment of the Consideration (approximately HK\$248 million is used to cover the internal resources and approximately HK\$248 million is used to repay the bank borrowings that were utilized to finance the initial instalment; approximately HK\$594 million is used to pay for the first two instalments amounting to RMB600 million (see note 1(ii)(b)) classified under current payables; and approximately HK\$10 million is used to pay for part of the remaining instalments classified under non-current payables), and approximately HK\$1,903 million for investments and further acquisition of property projects in the People's Republic of China and as general working capital.
3. The following events, which took place and announced subsequent to the interim period ended 30 June 2006, have not been adjusted for in the unaudited Pro Forma Financial Information as they are not considered to be directly attributable to the Investment nor the Rights Issue.
- (i) the subscription of 87,000,000 new shares of the Company, details of which are set out in the announcement of the Company dated 15 September 2006; and
- (ii) the formation of a joint venture company for acquisition of lands in Foshan, details of which are set out in the announcement of the Company dated 22 September 2006 and circular of the Company dated 13 October 2006 respectively.

The following is the text of a comfort letter, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong. As described in the section headed “Documents available for inspection” in Appendix IV, a copy of the following comfort letter is available for inspection.

(B) COMFORT LETTER ON THE UNAUDITED PRO FORMA STATEMENT OF ASSETS AND LIABILITIES ON THE ENLARGED GROUP



8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

The Directors
Kowloon Development Company Limited
23/F Pioneer Centre
750 Nathan Road
Kowloon
Hong Kong

19 January 2007

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, its subsidiaries and a project company to be formed by the Company and Tianjin Binhai Mass Transit Development Co., Ltd. (the “Enlarged Group”) set out on pages II-1 to II-4 in Appendix II of the Company’s circular dated 19 January 2007 (the “Circular”) in connection with the proposed investment in a development site in Tianjin by a joint venture company, which has been prepared by the directors of the Company solely for illustrative purposes to provide information as to how the transaction 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 Statement of Assets and Liabilities on the Enlarged Group as set out in Appendix II 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 30 June 2006 or any future date.

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

The following is the text of a letter and valuation certificate prepared for the purpose of incorporation in this circular received from DTZ Debenham Tie Leung Limited, an independent property valuer, in connection with its opinion of value of the property interest in the PRC as at 13 December 2006.



10th Floor
Jardine House
1 Connaught Place
Central
Hong Kong

19 January 2007

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

Dear Sirs,

Re: The composite property development site, Lot No. Jin Dong Liu 2004-066, located in the intersection of Shiyijing Road and Liuwei Road, Hedong District, Tianjin, the People's Republic of China

INSTRUCTIONS, PURPOSE & DATE OF VALUATION

We refer to your instruction for us to value the interest in the captioned Property in the People's Republic of China (the "PRC"). We confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing Kowloon Development Company Limited (referred to as the "Company") or its subsidiaries (together referred to as the "Group") with our opinion of the market value of the property interest as at 13 December 2006 (the "Date of Valuation").

BASIS OF VALUATION

Our valuation of the property interest is our opinion of the market value which in accordance with the Valuation Standard on Properties of Hong Kong Institute of Surveyors is defined as intended 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.

VALUATION ASSUMPTIONS

Our valuation 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.

We have relied on the information given by the Group and the opinion of its PRC legal adviser, Guangdong Yeasun Law Firm, regarding the title to the property interest in the PRC and the interest of the Group in the property in the PRC. The status of titles and grant of major approvals and licences, in accordance with the information provided by the Group and the PRC legal opinion are set out in the notes in the valuation certificate.

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

The property valuation complies with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Valuation Standards on Properties (First Edition 2005) of The Hong Kong Institute of Surveyors.

METHOD OF VALUATION

In valuing the property interest, we have adopted the direct comparison approach by making reference to comparable sales evidence as available in the relevant market. We have valued the property interest as a whole.

SOURCE OF INFORMATION

In the course of our valuation, we have relied to a very considerable extent on the information given by the Group and its legal adviser on PRC law and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of property, development schemes, site and floor areas and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificate are based on information provided to us and are therefore only approximations. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided.

TITLE INVESTIGATION

In respect of the property interest in the PRC, we have been provided with extracts of documents in relation to the title to the property interest. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

SITE INSPECTION

We have inspected the exterior and, wherever possible, the interior of the property interest. However, we have not carried out investigation on site to determine the suitability of the soil conditions and the services etc. for any development. Our valuation is prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the property and we have assumed that the areas shown on the documents handed to us are correct.

CURRENCY

Unless otherwise stated, all sums stated in our valuation certificate are in Renminbi, the official currency of the PRC.

The valuation certificate is attached.

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

Note: Mr. K.B. Wong is a Registered Professional Surveyor who has over 20 years of experience in the valuation of properties in the PRC.

VALUATION CERTIFICATE

Property interest held for future development in the PRC

Property	Description and tenure	Particular of occupancy	Capital value in existing state as at 13 December 2006
The composite property development site, Lot No. Jin Dong Liu 2004-066, located in the intersection of Shiyijing Road and Liuwei Road, Hedong District, Tianjin. (the "Property")	<p>The Property comprises a parcel of land with a site area of approximately 137,940.40 sqm (1,484,790 sqft).</p> <p>The Property is planned to be developed into a composite residential and commercial complex comprising serviced apartments, office towers and a commercial podium.</p> <p>The permitted total gross floor area is 930,000 sqm (10,010,520 sqft).</p> <p>The land use rights of the Property has been granted for a term of 50 years commencing from the engagement date of the Land Grant Contract for State-owned Land Use Rights for composite commercial use.</p>	<p>Currently, there are existing structures on the Property. Demolishment work for approximately 50,000 sqm of the Property has been completed. The demolition work of the remaining portion of the Property is expected to be completed within 30 months.</p>	<p>RMB3,500,000,000</p> <p>(Our valuation is prepared on the assumption that the Certificate of State-owned Land Use Rights for the Property has been obtained)</p>

Notes:

1. According to a Cooperation Agreement (the "Agreement") on 13 December 2006, the Company and Tianjin Binhai Mass Transit Development Co., Ltd. (天津濱海快速交通發展有限公司) (the "Grantee") will form a sino-foreign equity joint venture enterprise to be established in the PRC ("the Project Co") with details, inter alia, as follows:
 - (i) The Company will hold a 90% interest and the Grantee will hold the remaining 10% interest in the Project Co.
 - (ii) The Grantee will deliver the physical possession of the Property to the Company in two stages. Approximately 50,000 sqm of the Property will be delivered to the Project Co. within 6 months of the formation of the Project Co while the remaining portion of the Property of approximately 90,000 sqm will be delivered to the Project Co. within 30 months of the formation of the Project Co.
 - (iii) The Agreement in relation to the formation of Project Co will be completed when the last instalment of the consideration is paid by the Company to the Grantee and the entire Property is transferred by the Grantee to the Project Co.
 - (iv) The Company will pay a consideration of RMB3,500 million to the Grantee. The consideration shall be payable in eleven instalments. A sum of RMB500 million shall be payable within 15 days from the date of the Agreement. The remaining balance of RMB3,000 million shall be payable in 10 equal instalments of RMB300 million each every six months, and the initial instalment is due before 1 June 2007.
 - (v) Upon the payment of the final instalment by the Company, the Grantee shall transfer its 10% interest in the Project Co to the Company.

2. According to the Land Grant Contract for State-owned Land Use Rights (the “Land Grant Contract”) entered into between Tianjin State-owned Land Resources and Housing Administration Bureau (the “Grantor”) and the Grantee on 29 September 2006, the Grantor has agreed to grant the land use rights of the Property to the Grantee with details, inter alia, as follows:

- (i) Location : Interaction of Shiyijing Road and Liuwei Road, Hedong District
- (ii) Lot No. : Jin Dong Liu No. 2004-066
- (iii) Site Area : 137,940.40 sqm
- (iv) Usage : Composite commercial
- (v) Land Premium : RMB537,254,140
- (vi) Land Use Term : 50 years commencing from the engagement date of the subject contract
- (vii) Building Scale : 930,000 sqm (Luxury apartment(s) accounts for not exceeding 30% of the total gross floor area of the whole project)
- (viii) Building Covenant : Commencing the construction work before 29 September 2007

3. The PRC legal opinion states that:

- (i) The Land Grant Contract entered into between the Grantor and the Grantee on 29 September 2006 is legally valid. Pursuant to the Land Grant Contract, the Grantee shall register the land use rights, receive the Certificate of State-owned Land Use Rights and obtain the land use rights of the Property, within 30 days after paying up the land premium to the Grantor.
- (ii) The land premium is required to be paid up by the Grantee within 60 days from the date of the Land Grant Contract (the “Expected Payment Date”). If the Grantee delays in the payment of the land premium beyond the Expected Payment Date, the Grantee is subject to a daily penalty of 0.03% on the land premium outstanding; the Grantor has the right to rescind the Land Grant Contract if the delay of the payment of the land premium is more than 6 months after the Expected Payment Date.
- (iii) The Property has a total site area of approximately 137,940.40 sqm and the land use term is 50 years for composite commercial use.
- (iv) The Property is free from pledge and is not sealed up.
- (v) The Agreement entered into between the Company and the Grantee have taken effect. The Company and the Grantee will form the Project Co with an initial registered capital of RMB10,000,000 which shall be held 90% interest by the Company and 10% interest by the Grantee respectively. The Grantee shall hand over the Property to the Project Co in two stages within 30 months after the formation of the Project Co. The Project Co will obtain the Certificate of State-owned Land Use Rights. The Grantee shall transfer its 10% interest to the Company after the consideration of RMB3,500,000,000 is fully paid up by the Company.

- (vi) The Agreement is valid and is legally binding on both parties.
 - (vii) The Project Co will obtain the Certificate of State-owned Land Use Rights of the Property under its name without legal obstacle.
 - (viii) The Project Co shall be the only legal user of the Property and shall have rights to use, transfer, lease and mortgage the Property. Its rights are protected by the PRC laws.
4. The status of the title and grant of major approvals and licences in accordance with the information provided by the Company and the opinion of the PRC legal adviser are as follows:

Certificate of State-owned Land Use Rights	No
Land Grant Contract for State-owned Land Use Rights	Yes (currently in name of the Grantee)
Cooperation Agreement	Yes

1. RESPONSIBILITY STATEMENT

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, and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this circular misleading.

2. DISCLOSURE OF INTERESTS**Directors' interests**

- (a) As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company or any of their respective associates in any Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which are required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Interests in Shares and underlying Shares

Name of Director	Nature of interest	Number of Shares		Approximate % of enlarged issued share capital of the Company (Note 1)
		Long position	Short position	
Mr. Or	As beneficiary (Notes 2, 7)	830,587,508	Nil	72.18%
	Corporate (Notes 3, 8)	277,500	Nil	0.02%
Ng Chi Man	As beneficiary (Notes 4, 7)	830,587,508	Nil	72.18%

Name of Director	Nature of interest	Number of Shares		Approximate % of enlarged issued share capital of the Company (Note 1)
		Long position	Short position	
Or Pui Kwan	As beneficiary (Notes 4, 7)	830,587,508	Nil	72.18%
	Personal (Note 8)	10,500	Nil	0.00%
Lok Kung Chin, Hardy	Under trust (Notes 5, 8)	1,425,000	Nil	0.12%
Tam Hee Chung	Corporate (Notes 6, 8)	750,000	Nil	0.07%
Keith Alan Holman	Personal (Note 8)	537,000	Nil	0.05%
Lai Ka Fai	Personal (Note 8)	468,000	Nil	0.04%
Yeung Kwok Kwong	Personal (Note 8)	165,000	Nil	0.01%

Notes:

- The percentage holding is calculated based on the number of shares interested or deemed to be interested over 1,150,681,275 Shares of the Company, being the enlarged issued share capital of the Company assuming the Rights Issue has been completed as at the Latest Practicable Date.
- As founder and one of the beneficiaries of the Or Family Trust which is ultimately interested in such Shares.
- By virtue of a 100% interest in China Dragon Limited which is interested in such Shares.
- As a beneficiary under the Or Family Trust which is ultimately interested in such Shares.
- As founder and as beneficiary of respective discretionary trusts which are interested in such Shares.
- By virtue of a 48% interest in Larry H. C. Tam & Associates Limited which is interested in such Shares.
- The Or Family Trust owns all the shares of Polytec Holdings, which in turn owns all the shares of Intellinsight, which in turn is interested in 830,587,508 Shares. Intellinsight has undertaken to the Company that it will subscribe or procure the subscription of 224,119,041 Shares that will be provisionally allotted to it under the Rights Issues. In addition, Intellinsight has conditionally agreed to underwrite 158,230,384 Shares pursuant to the Underwriting Agreement.
- Each of Mr. Or, Mr. Or Pui Kwan, Mr. Tam Hee Chung, Mr. Lai Ka Fai, Mr. Lok Kung Chin, Hardy, Mr. Keith Alan Holman and Mr. Yeung Kwok Kwong has undertaken to the Company that they will subscribe or procure the subscription of 92,500, 3,500, 250,000, 156,000, 475,000, 179,000 and 55,000 Shares that will be provisionally allotted to them under the Rights Issue respectively.

Interests in shares and underlying shares of PAH

Name of Director	Nature of interest	Number of Shares or Underlying Shares		Approximate % of existing issued share capital of PAH (Note 1)
		Long position	Short position	
Mr. Or	As beneficiary (Note 2)	2,572,167,275	Nil	59.59%
	As beneficiary (Note 3)	69,897,537	Nil	1.62%
Ng Chi Man	As beneficiary (Note 2)	2,572,167,275	Nil	59.59%
	As beneficiary (Note 3)	69,897,537	Nil	1.62%
Or Pui Kwan	As beneficiary (Note 2)	2,572,167,275	Nil	59.59%
	As beneficiary (Note 3)	69,897,537	Nil	1.62%
Yeung Kwok Kwong	Personal	1,700,000	Nil	0.04%
	Personal (Note 4)	160,000	Nil	0.00%
Tam Hee Chung	Corporate (Note 5)	1,000,000	Nil	0.02%
	Corporate (Note 6)	100,000	Nil	0.00%
Keith Alan Holman	Personal	530,000	Nil	0.01%
	Personal (Note 7)	52,000	Nil	0.00%
Lai Ka Fai	Personal	400,000	Nil	0.01%
	Personal (Note 8)	30,000	Nil	0.00%

Notes:

1. As at the Latest Practicable Date, the total number of issued shares of PAH was 4,316,425,295 ordinary shares.
2. As beneficiary under the Or Family Trust which is ultimately interested in 830,587,508 Shares, representing approximately 72.18% of the issued share capital of the Company assuming the Rights Issue has completed as at the Latest Practicable Date. The Company holds 100% of Marble King International Limited, an immediate holding company of PAH, which in turn holds the said 2,572,167,275 ordinary shares of PAH (59.59%).
3. As beneficiary under the Or Family Trust which is ultimately interested in 830,587,508 Shares, representing approximately 72.18% of the issued share capital of the Company assuming the Rights Issue has completed as at the Latest Practicable Date. The Company holds 100% of Marble King International Limited, an immediate holding company of PAH, which in turn holds 69,897,537 units of warrants which entitle it to subscribe for 69,897,537 ordinary shares of PAH upon full exercise of the rights under the warrants.
4. Mr. Yeung Kwok Kwong holds 160,000 units of warrants which entitle him to subscribe for 160,000 ordinary shares of PAH upon full exercise of the rights under the warrants.
5. By virtue of a 48% interest in Larry H. C. Tam & Associates Limited which owns such ordinary shares of PAH.
6. Larry H.C. Tam & Associates Limited holds 100,000 units of warrants which entitle it to subscribe for 100,000 ordinary shares of PAH upon full exercise of the rights under the warrants. As Mr. Tam Hee Chung holds a 48% interest in Larry H.C. Tam & Associates Limited, he is deemed to be interested in the warrants.
7. Mr. Keith Alan Holman holds 52,000 units of warrants which entitle him to subscribe for 52,000 ordinary shares of PAH upon full exercise of the rights under the warrants.
8. Mr. Lai Ka Fai holds 30,000 units of warrants which entitle him to subscribe for 30,000 ordinary shares of PAH upon full exercise of the rights under the warrants.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had any interest or short position in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required: (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV and the SFO (including interests or short positions which he is taken or deemed to have under such provisions of the SFO); (b) pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

- (b) As at the Latest Practicable Date, there is no existing or proposed service contract between any of the Directors and any member of the Group other than service contracts that are expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

- (c) 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 Group.

Polytec Holdings, a company ultimately and wholly-owned by the Or Family Trust in 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 business in Hong Kong, Macau and the PRC. As a result, Mr. Or, Ms. Ng Chi Man and Mr. Or Pui Kwan are considered to have interest in a business which competes, or is likely to compete, either directly or indirectly, with the business of the Group. Polytec Holdings had granted a right of first refusal in favour of the Group in respect of properties or property projects that will be made available to it to acquire or participate in development in Hong Kong, Macau and the PRC.

- (d) As at the Latest Practicable Date, other than Mr. Or and Ms. Ng Chi Man who are Directors and directors of Polytec Holdings and Intellinsight which are the Shareholders of 448,238,083 Shares (without taking into account the effect of the Rights Issue) and Mr. Lai Ka Fai who is a Director and a director of Intellinsight which is the Shareholder of 448,238,083 Shares (without taking into account the effect of the Rights Issue), none of the Directors and the chief executive of the Company is a director or employee of a company which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.
- (e) Save for the New Bedford Agreement (as defined below), as disclosed in the section headed “material contracts” in this appendix, and the Loan, in which Polytec Holdings is ultimately wholly owned by the Or Family Trust in which Mr. Or, Ms. Ng Chi Man (an executive Director), Mr. Or Pui Kwan (an executive Director) and their family members are beneficiaries, none of the Directors had any direct or indirect interest in any assets which were, since 31 December 2005 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group as at the Latest Practicable Date, and none of the Directors was materially interested in any contract or arrangement subsisting at the Latest Practicable Date which is significant in relation to the business of the Group.

3. SUBSTANTIAL SHAREHOLDERS

As at the Latest Practicable Date, according to the register of interests maintained by the Company pursuant to section 336 of the SFO and so far as is known to the Directors and the chief executive of the Company, the persons, other than Directors or the chief executive of the Company, who had an interest or a short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such persons' interest in such securities, together with any options in respect of such capital, were as follows:

Long positions in the Shares and underlying Shares

Name of Shareholder	Nature of interest	Number of Shares		Approximate % of enlarged issued share capital of the Company (Note 1)
		Long position	Short position	
HSBC International Trustee Limited	Trustee	831,120,508 (Note 2)	Nil	72.23%
The Or Family Trustee Limited Inc.	Trust	830,587,508 (Note 3)	Nil	72.18%

Notes:

1. The percentage holding is calculated based on the number of shares interested or deemed to be interested over 1,150,681,275 Shares, being the enlarged issued share capital of the Company assuming the Rights Issue has been completed as at the Latest Practicable Date.
2. Out of which 830,587,508 Shares are attributable to the Or Family Trust and which owns all the units of The Or Unit Trust.
3. As trustee for The Or Unit Trust, owning all the shares of Polytec Holdings, which in turn owns all the shares of Intellinsight, which in turn is interested in 830,587,508 Shares. Intellinsight has undertaken to the Company that it will subscribe or procure the subscription of 224,119,041 Shares that will be provisionally allotted to it under the Rights Issue. In addition, Intellinsight has conditionally agreed to underwrite 158,230,384 Shares pursuant to the Underwriting Agreement.

Subsidiaries (excluding the PAH Group)

Name of subsidiary	Name of shareholder	Approximate % of issued share capital of the subsidiary
Brilliant Idea Investments Limited	Mr. Lau Wai Chi	15.00
Golden Princess Amusement Company Limited	Variety Entertainment Company Limited	15.00

PAH Group

Name of subsidiary	Name of shareholder	Approximate % of issued share capital of the subsidiary
New Cosmos Holdings Limited	Sino-Asia Investments Limited	15.00
	JHK International Limited	10.00
	CSC Investment Company Limited	10.00
Think Bright Limited	Mr. U Sio Man	29.50

Save as disclosed above, as at the Latest Practicable Date, the Directors or the chief executive of the Company were not aware of any other persons or corporations (other than a Director or the chief executive of the Company and the respective companies controlled by them whose interests have been disclosed above) who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or in any options in respect of such capital.

4. LITIGATIONS

So far as the Directors are aware, as at the Latest Practicable Date, no member of the Group was engaged in any litigation or arbitration of material importance and there was no litigation or claim of material importance known to the Directors to be pending or threatened by or against any member of the Group.

5. EXPERTS AND CONSENTS

The following are the experts, and their qualifications, who have given advice or opinion contained in this circular:

Name	Qualification
廣東益商律師事務所 (Guangdong Yeasun Law Firm) ("Yeasun")	PRC legal advisers
KPMG	certified public accountants
DTZ Debenham Tie Leung Limited ("DTZ")	independent professional valuer
Deloitte Touche Tohmatsu ("Deloitte")	certified public accountants

Each of Yeasun, KPMG, DTZ and Deloitte has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter or report as set out in this circular and references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, none of Yeasun, KPMG, DTZ and Deloitte was beneficially interested in the share capital of any member of the Group, nor did it have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for any securities in any member of the Group, nor did it have any direct or indirect interest in any assets which were, since 31 December 2005 (being the date to which the latest published audited consolidated financial statements of the Group were made up), acquired or disposed of by or leased to, or were proposed to be acquired or disposed of by or leased to, any member of the Group.

6. MATERIAL CONTRACTS

The following contracts have been entered into by the Group (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the date of this circular and are or may be material:

- (a) the conditional sale and purchase agreement dated 1 April 2005 between Shenzhen Construction Investment Holdings and Shenzhen Investment Management Corporation as sellers, Brilliant Idea Investments Limited, a 85% owned subsidiary of the Company, as purchaser 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 RMB459 million (equivalent to approximately HK\$454 million);
- (b) the conditional sale and purchase agreement dated 12 October 2005 between the Company and 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;
- (c) the sale and purchase agreement dated 31 March 2006 between Atlantic Capital 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 issued share capital of Southern Success Corporation to GRI for a consideration of US\$11.6 million (equivalent to approximately HK\$90 million);
- (d) the sale and purchase agreement (the “New Bedford Agreement”) dated 8 April 2006 between Profit Sphere International Limited (“Profit Sphere”), a wholly-owned subsidiary of PAH, and Polytec Holdings relating to the acquisition of the entire issued share capital of New Bedford Properties Limited by Profit Sphere for a consideration of HK\$8,448 million;
- (e) the agreement dated 4 May 2006 between the Company and Intellinsight in respect of the issue and subscription of 113,353,000 new Shares at HK\$12.40 per Share;
- (f) 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;

- (g) the placing agreement dated 15 September 2006 among the Company, Intellinsight and Cazenove Asia Limited in respect of the placement of 87,000,000 existing Shares to independent investors at HK\$13.25 per Share;
- (h) the Agreement; and
- (i) the Underwriting Agreement.

7. MISCELLANEOUS

- (a) 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 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 shall prevail over the Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours (Saturdays and public holidays excepted) at the head office of the Company at 23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong up to and including 2 February 2007:

- (a) the Memorandum and Articles of Association of the Company;
- (b) the annual reports of the Company for the two years ended 31 December 2005 and the interim report of the Company for the six months ended 30 June 2006;
- (c) the accountants' report of New Bedford Properties Limited for the period from 9 March 2006 to 31 March 2006 dated 23 May 2006, the text of which is set out in Appendix I to this circular;
- (d) the pro forma financial information of the Group and New Bedford Properties Limited, the text of which is set out in Appendix I to this circular;

- (e) the unaudited pro forma financial information of the Enlarged Group and the comfort letter thereon from KPMG, the text of which is set out in Appendix II to this circular;
- (f) the property valuation report on the Property from DTZ Debenham Tie Leung Limited, the text of which is set out in Appendix III to this circular;
- (g) the written consents as referred to in the section headed “Experts and Consents” in this appendix;
- (h) the material contracts as referred to in the section headed “Material Contracts” in this appendix; and
- (i) a copy of each circular of the Company issued pursuant to the requirements set out in Chapters 14 and/or 14A of the Listing Rules since 31 December 2005 (being the date to which the latest published audited consolidated financial statements of the Group were made up).