# THIS PROSPECTUS IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

**If you are in doubt** as to any aspect of this prospectus 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.

Dealings in the Shares and the Rights Shares in their nil-paid and fully-paid forms may be settled through CCASS. You should consult your licensed securities dealer, bank manager, solicitor, professional accountant or other professional advisers for details of the settlement arrangements and how such arrangements may affect your rights and interests.

A copy of each of the Prospectus Documents, together with copies of the documents specified in the paragraph headed "Documents delivered to the Registrar of Companies" in Appendix IV to this prospectus, have been registered with the Registrar of Companies in Hong Kong as required by section 38D of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong). The Registrar of Companies in Hong Kong takes no responsibility as to the contents of any these documents.



Subject to the granting of the listing of, and permission to deal in, the Rights Shares on the Stock Exchange, the Rights Shares in both their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time.

# 九龍建業有限公司
# KOWLOON DEVELOPMENT COMPANY LIMITED

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 34)**

## Rights Issue of 383,560,425 Rights Shares at HK$13.80 per Rights Share in the proportion of one Rights Share for every two Shares held

**Underwriter**

## Intellinsight Holdings Limited

**Financial adviser to Kowloon Development Company Limited**

## SOMERLEY LIMITED

**The latest time for acceptance of and payment for the Rights Shares is 4:00 p.m. on Monday, 5 February 2007. The procedures for acceptance and transfer of the Rights Shares are set out on pages 14 to 15 of this prospectus.**

**The Shareholders should note that the Underwriting Agreement contains provisions which entitle the Underwriter to terminate the Underwriting Agreement by notice in writing to the Company at any time prior to the Settlement Time (which is expected to be 4:00 p.m. on Wednesday, 7 February 2007) if there occurs: (a) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or (b) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not ejusdem generis with any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or (c) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out; and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue.**

**In addition, if any of the following matter or event occurs at or prior to 4:00 p.m. on the Settlement Date following the Acceptance Date, the Underwriter shall be entitled (but not bound) by notice in writing to the Company to elect to treat such matter or event as releasing and discharging the Underwriter from its obligations under the Underwriting Agreement: (i) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or (ii) the Underwriter shall receive notification pursuant to the Underwriting Agreement of, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or (iii) the Company shall, after any matter or event comes to the attention of the Company as a result of which any representation or warranty, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any material respect or which would or might render any statement untrue, inaccurate in any material respect or misleading, whether of fact or opinion, contained in the Prospectus Documents if the same were issued immediately after such occurrence has occurred or come to the Underwriter's attention, fails promptly to send out any announcement or circular (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents) as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.**

**If the Underwriter terminates the Underwriting Agreement or elect to release and discharge itself from its obligations thereunder in accordance with the terms of the Underwriting Agreement, the Rights Issue will not proceed.**

**In addition, the Underwriting Agreement is conditional upon the fulfilment of all conditions set out on page 20 of this prospectus being fulfilled. If such conditions have not been fulfilled at or before 4:00 p.m. on the Settlement Date, or such later date or dates as the Underwriter and the Company may agree in writing, the Underwriting Agreement shall terminate and the Rights Issue will not proceed.**

**The Shareholders should note that the Shares have been dealt in on an ex-rights basis since Friday, 12 January 2007. The Rights Shares will be dealt in their nil-paid form from Tuesday, 23 January 2007 to Wednesday, 31 January 2007 (both dates inclusive). If the Underwriter terminates the Underwriting Agreement, or the conditions of the Rights Issue have not been fulfilled, the Rights Issue will not proceed. Any Shareholder or other persons contemplating selling or purchasing the Shares and/or the Rights Shares in their nil-paid form from Tuesday, 23 January 2007 to Wednesday, 31 January 2007 who is in any doubt about his position is recommended to consult his independent professional adviser. Any Shareholder or other persons contemplating selling or purchasing the Shares and/or the Rights Shares in their nil-paid form up to the Settlement Time will accordingly bear the risk that the Rights Issue could not become unconditional and may not proceed.**

19 January 2007

# CONTENTS

# DEFINITIONS

*In this prospectus, unless the context requires otherwise, the following terms have the following meanings:*

| | |
|---|---|
| "Acceptance Date" | 5 February 2007, being the last date for acceptance of, and payment for the Rights Shares and for application and payment for excess Rights Shares |
| "Agreement" | the cooperation agreement dated 13 December 2006 entered into between the Company and the Partner in relation to the Investment |
| "Announcement" | the announcement of the Company dated 19 December 2006 in relation to, among other things, the Rights Issue |
| "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 |
| "Capital Increase" | the proposed increase in authorised share capital of the Company from HK$100 million to HK$500 million by the creation of 4,000,000,000 new Shares |
| "CCASS" | the Central Clearing and Settlement System established and operated by HKSCC |
| "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 |
| "EAF" | the excess application forms being issued to the Qualifying Shareholders in respect of applications for excess Rights Shares pursuant to the Rights Issue |
| "EGM" | an extraordinary general meeting of the Company held on 18 January 2007 at which the Capital Increase had been approved |

| | |
|---|---|
| "Enlarged Group" | the Group and the Project Co |
| "Excluded Shareholders" | Overseas Shareholders 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 |
| "HKSCC" | Hong Kong Securities Clearing Company Limited |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "Intellinsight" or "Underwriter" | 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 |
| "Interested Directors" | 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, being Directors and are interested in aggregate 2,422,000 Shares (without taking into account the Shares directly held by Intellinsight and the effect of the Rights Issue), representing approximately 0.32% of the existing issued share capital of the Company and who have undertaken to subscribe or procure the subscription of their assured entitlements under the Rights Issue in full, being in aggregate 1,211,000 Rights Shares |
| "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 prospectus for the purpose of ascertaining certain information for inclusion in this prospectus |
| "Last Trading Date" | 13 December 2006, being the last date on which trading took place in the Shares before suspension of trading prior to the Announcement |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Loan" | the outstanding amount of the loan of approximately HK$2,256 million owed by the Company to Polytec Holdings as at 14 December 2006 |
| "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 |
| "Overseas Shareholders" | the Shareholders whose addresses on the register of members of the Company on the Record Date are outside Hong Kong |
| "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 |
| "PAL(s)" | the provisional allotment letter(s) being issued to the Qualifying Shareholders in respect of their assured entitlements under the Rights Issue |
| "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 is ultimately wholly-owned by the Or Family Trust |
| "PRC" | the People's Republic of China (for the purpose of this prospectus, 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 |
| "Prospectus Documents" | the prospectus, the PAL and the EAF to be issued by the Company to the Qualifying Shareholders in relation to the Rights Issue |
| "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 entitlement under the Rights Issue was determined |
| "Rights Issue" | the proposed offer by way of the rights issue of 383,560,425 Rights Shares to the Qualifying Shareholders on the terms set out in this prospectus |
| "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 |
| "Registrar" | Computershare Hong Kong Investor Services Limited |
| "Settlement Date" | 7 February 2007, being the second Business Day following the Acceptance Date |
| "Settlement Time" | 4:00 p.m. on the Settlement Date |
| "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 |
| "Subscription Price" | the subscription price of HK$13.80 per Rights Share pursuant to the Rights Issue |
| "Underwriting Agreement" | the underwriting agreement entered into among the Underwriter, the Company and the Interested Directors dated 19 December 2006 in relation to the subscription of, and the underwriting of, the Rights Shares under the Rights Issue |
| "Underwritten Shares" | 158,230,384 Rights Shares, being all the Rights Shares to be issued under the Rights Issue (on the basis of the issued share capital of the Company as at the date of the Underwriting Agreement) less the Rights Shares to be provisionally allotted to Intellinsight and the Interested Directors |
| "US$" | 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*

## TERMINATION OF THE UNDERWRITING AGREEMENT

**It should be noted that the Underwriter may terminate the Underwriting Agreement by notice in writing to the Company at any time prior to the Settlement Time (which is expected to be 4:00 p.m. on Wednesday, 7 February 2007) if there occurs:**

**(a) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or**

**(b) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not ejusdem generis with any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or**

**(c) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;**

**and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue.**

**In addition, if any of the following matters or events occur at or prior to 4:00 p.m. on the Settlement Date following the Acceptance Date, the Underwriter shall be entitled (but not bound) by notice in writing to the Company to elect to treat such matter or event as releasing and discharging the Underwriter from its obligations under the Underwriting Agreement:**

**(i) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or**

**(ii) the Underwriter shall receive notification pursuant to the Underwriting Agreement of, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or**

**(iii) the Company shall, after any matter or event comes to the attention of the Company as a result of which any representation or warranty, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any material respect or which would or might render any statement untrue, inaccurate in any material respect or misleading, whether of fact or opinion, contained in the Prospectus Documents if the same were issued immediately after such occurrence has occurred or come to the Underwriter's attention, fail promptly to send out any announcement or circular (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents) as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.**

**If the Underwriter terminates the Underwriting Agreement or elect to release and discharge itself from its obligations thereunder in accordance with the terms of the Underwriting Agreement, the Rights Issue will not proceed.**

**In addition, the Underwriting Agreement is conditional on all conditions set out in the sub-section headed "Conditions of the Underwriting Agreement" in the section headed "Underwriting Agreement" in the letter from the Board contained in this prospectus being fulfilled. If such conditions have not been fulfilled at or before 4:00 p.m. on the Settlement Date, or such other date or dates as the Underwriter and the Company may agree in writing, the Underwriting Agreement shall terminate and the Rights Issue will not proceed.**

## EXPECTED TIMETABLE

*2007*

| | |
|---|---|
| Register of members closed on | Tuesday, 16 January to Thursday, 18 January (both dates inclusive) |
| Record Date | Thursday, 18 January |
| Despatch of Prospectus Documents | Friday, 19 January |
| Register of members re-opens | Friday, 19 January |
| First day of dealings in nil-paid Rights Shares | Tuesday, 23 January |
| Latest time for splitting nil-paid Rights Shares | 4:00 p.m. on Friday, 26 January |
| **Last day of dealings in nil-paid Rights Shares** | **Wednesday, 31 January** |
| **Latest time for acceptance of and payment for the Rights Shares and for application and payment for excess Rights Shares** | **4:00 p.m. on Monday, 5 February** |
| Underwriting Agreement becomes unconditional | 4:00 p.m. on Thursday, 8 February |
| Announcement of results of the Rights Issue expected to be made on newspaper | Monday, 12 February |
| Refund cheques in respect of wholly or partially unsuccessful applications for excess Rights Shares expected to be posted on or before | Monday, 12 February |
| Share certificate(s) for the Rights Shares to be despatched on or before | Monday, 12 February |

*Notes:*

(i) Dealings in the fully-paid Rights Shares will commence as soon as the Qualified Shareholders receive the share certificate(s) for the Rights Shares.

(ii) All times in this prospectus refer to Hong Kong time.

(iii) Effect of bad weather on the latest time for acceptance of and payment for Rights Shares:

The latest time for acceptance of and payment for Rights Shares will not take effect if there is a tropical cyclone warning signal number 8 or above, or a "black" rainstorm warning:

(a) in force in Hong Kong at any local time before 12:00 noon but no longer in force after 12:00 noon on 5 February 2007. Instead the latest time for acceptance of and payment for the Rights Shares will be extended to 5:00 p.m. on the same business day; or

(b) in force in Hong Kong at any local time between 12:00 noon and 4:00 p.m. on 5 February 2007. Instead the latest time for acceptance of and payment for the Rights Shares will be rescheduled to 4:00 p.m. on the following business day which does not have either of those warnings in force at any time between 9:00 a.m. and 4:00 p.m..

If the latest time for acceptance of and payment for the Rights Shares does not take effect on 5 February 2007, the dates mentioned in this section may be affected. A press announcement will be made by the Company in such event.

The expected timetable for events referred to in the above are indicative only and may be extended or varied by agreement between the Company and the Underwriter. Any changes to the expected timetable for the Rights Issue will be announced as and when appropriate.

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

*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

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

19 January 2007

*To the Shareholders*

Dear Sir or Madam

## RIGHTS ISSUE OF 383,560,425 RIGHTS SHARES AT HK$13.80 PER RIGHTS SHARE IN THE PROPORTION OF ONE RIGHTS SHARE FOR EVERY TWO SHARES HELD

### INTRODUCTION

On 19 December 2006, the Company announced, among other things, the Rights Issue and the Capital Increase. The Rights Issue is subject to, amongst others, the Underwriting Agreement becoming unconditional and not being terminated on the occurrence of certain events including force majeure.

The purpose of this prospectus is to provide you with details about the Rights Issue, including information on dealings in and transfers and acceptances of the Rights Shares, and certain financial and other information of the Group.

**RIGHTS ISSUE**

**Issue statistics**

| | | |
|---|---|---|
| Basis of the Rights Issue | — | 1 Rights Share for every 2 Shares held on the Record Date |
| Issued share capital of the Company | — | 767,120,850 Shares |
| Number of Rights Shares | — | 383,560,425 Rights Shares |
| Subscription Price | — | HK$13.80 per Rights Share |
| Underwriter | — | Intellinsight |

Under the Rights Issue, 383,560,425 nil-paid Rights Shares are provisionally issued and allotted, and represent:

(a) 50.0% of the existing issued share capital of the Company; and

(b) approximately 33.3% of the issued share capital of the Company as enlarged by the issue of the Rights Shares.

As at the Latest Practicable Date, the Company had no outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into the Shares.

**Qualifying Shareholders**

The Company has provisionally allotted the Rights Shares, and will send the Prospectus Documents to the Qualifying Shareholders only.

Only Shareholders having their addresses in Hong Kong on the register of members of the Company at the close of business on the Record Date are qualified for the Rights Issue. The Excluded Shareholders are not qualified for the Rights Issue.

**Rights of the Excluded Shareholders**

The Prospectus Documents has not been or will not be registered and/or filed under the securities or equivalent legislation of any jurisdiction other than the applicable laws in Hong Kong. Based on the register of members of the Company as at the Latest Practicable Date, there were 30 Overseas Shareholders holding 1,637,550 Shares in aggregate, whose registered addresses as shown in the register of members of the Company are outside of Hong Kong in Australia, Canada, the PRC, Singapore and the United States of America. The Company has made enquiries with foreign legal advisers in Australia, Canada, the PRC, Singapore and the United States of America regarding the legality and feasibility of extending the Rights Issue to such Overseas Shareholders and whether this would contravene the applicable securities legislation or the requirements of the relevant regulatory body or stock exchange without having the Prospectus Documents registered or filed in each of the respective jurisdictions. After making such enquiries, the Directors consider that it would not be expedient for the Company to offer the Rights Shares to the Overseas Shareholders in accordance with the relevant laws and regulations in the respective jurisdiction. Accordingly, the Rights Issue will not be extended to the Overseas Shareholders whose registered addresses are in Australia, Canada, the PRC, Singapore and the United States of America, no provisional allotment of nil-paid Rights Shares or allotment of fully-paid Rights Shares will be made to such Overseas Shareholders. This prospectus will be sent to the Excluded Shareholders for their information only, but no PAL or EAF will be sent to the Excluded Shareholders.

Arrangements will be made for the Rights Shares which would otherwise have been provisionally allotted to the Excluded Shareholders to be sold in the market in their nil-paid form as soon as practicable after dealings in the nil-paid Rights Shares commence on the Stock Exchange and in any event before the last date for dealings in nil-paid Rights Shares, if a premium (net of expenses) can be obtained. Proceeds of each sale, less expenses and stamp duty, of HK$100 or more will be paid to the Excluded Shareholders in Hong Kong dollars. The Company will retain individual amounts of less than HK$100 for the benefit of the Company.

**Fractional entitlements**

Fractional entitlements to the Rights Shares will not be issued but will be aggregated and, if possible, sold and the proceeds thereof will be retained for the benefit of the Company.

**Subscription Price**

The Subscription Price of HK$13.80 per Rights Share is payable in full when a Qualifying Shareholder accepts the provisional allotment of Rights Shares or applies for excess Rights Shares or when a transferee of nil-paid Rights Shares accepts the provisional allotment of the relevant Rights Shares.

The Subscription Price represents:

(i) a discount of approximately 16.57% to the closing price of HK$16.54 per Share as at the Latest Practicable Date;

(ii) a discount of approximately 14.07% to the closing price of HK$16.06 per Share as at the Last Trading Date;

(iii) a discount of approximately 9.86% to the theoretical ex-rights price of approximately HK$15.31 per Share as at the Last Trading Date;

(iv) a discount of approximately 14.39% to the average of the closing prices of approximately HK$16.12 per Share for the 10 trading days ended on the Last Trading Date; and

(v) a premium of approximately 41.98% over the unaudited consolidated net assets per Share of approximately HK$9.72 as at 30 June 2006.

The Subscription Price was agreed based on arm's length negotiations between the Company and the Underwriter. Further, as the Rights Shares are offered to all the Qualifying Shareholders, the Directors would like to set the Subscription Price at a level that could attract the Qualifying Shareholders to participate in the Rights Issue. The Directors consider the terms of the Rights Issue are fair and reasonable so far as the Shareholders are concerned.

**Basis of provisional allotment**

One Rights Share in nil-paid form for every two Shares held by a Qualifying Shareholder on the Record Date has been provisionally allotted to the Qualifying Shareholders. Acceptance of all or any part of a Qualifying Shareholder's provisional allotment should be made by completing the PAL and lodging the same with a remittance for the Rights Shares being accepted.

**Status of the Rights Shares**

When issued and fully paid, the Rights Shares will rank pari passu in all respects with the Shares in issue. Holders of fully-paid Rights Shares will be entitled to receive all dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares in their fully-paid form.

**Share certificates**

Subject to the fulfilment of the conditions of the Rights Issue, share certificates for all fully-paid Rights Shares are expected to be posted to those entitled thereto by ordinary post at their own risk on or before Monday, 12 February 2007.

**Procedures for acceptance and transfer**

A PAL is enclosed with this prospectus which entitles the Qualifying Shareholders to whom it is addressed to subscribe for the number of Rights Shares shown therein. If a Qualifying Shareholder wishes to accept all Rights Shares provisionally allotted to him as specified in the PAL, they must lodge the PAL in accordance with the instructions printed thereon, together with a remittance for the full amount payable on acceptance, with the Registrar, by no later than 4:00 p.m. on Monday, 5 February 2007. All remittances must be made in Hong Kong dollars and cheques must be drawn on a bank account with, or cashier orders must be issued by, a licensed bank in Hong Kong and made payable to "**Kowloon Development Company Limited — PAL**" and crossed "Account Payee Only".

It should be noted that unless the PAL, together with the appropriate remittance, has been lodged with the Registrar by 4:00 p.m. on Monday, 5 February 2007, whether by the original allottee or any person in whose favour the rights have been validly transferred, that provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If the Qualifying Shareholders wish to accept only part of their provisional allotment or transfer a part of their rights to subscribe for the Rights Shares provisionally allotted to them, the original PAL must be surrendered and lodged for cancellation by no later than 4:00 p.m. on Friday, 26 January 2007 with the Registrar, who will cancel the original PAL and issue new PALs in the denominations required, which will be available for collection at the Registrar after 9:00 a.m. on the second business day after the surrender of the original PAL. The PAL contains full information regarding the procedures to be followed if the Qualifying Shareholders wish to accept only part of their provisional allotment or transfer a part of their rights to subscribe for the Rights Shares provisionally alloted to them.

All cheques or cashier orders will be presented for payment immediately upon receipt and all interest earned on such monies will be retained for the benefit of the Company. Any PAL in respect of which the cheque or cashier order is dishonoured on first presentation is liable to be rejected, and in that event the provisional allotment and all rights thereunder will be deemed to have been declined and will be cancelled.

If the Underwriter exercises the right to terminate or rescind the Underwriting Agreement or if the conditions of the Rights Issue have not been fulfilled, the monies received in respect of acceptances of the Rights Shares will be refunded to the Qualifying Shareholders or such other persons to whom the Rights Shares in their nil-paid form have been validly transferred or, in the case of joint acceptances, to the first-named person, without interest, by means of cheques despatched by ordinary post at the risk of such Qualifying Shareholders to the registered addresses or such other persons on or before Monday, 12 February 2007.

**Application for excess Rights Shares**

The Qualifying Shareholders will be given the right to apply for the unsold entitlements of Excluded Shareholders and any Rights Shares provisionally allotted but not accepted by the Qualifying Shareholders or otherwise subscribed for by transferees of nil-paid Rights Shares.

Application can be made by completing the EAF and lodging the same with appropriate remittance for the excess Rights Shares being applied for with the Registrar, by no later than 4:00 p.m. on Monday, 5 February 2007. All remittances must be made in Hong Kong dollars and cheques must be drawn on a bank account with, or cashier orders must be issued by, a licensed bank in Hong Kong and made payable to "**Kowloon Development Company Limited — EAF**" and crossed "Account Payee Only". The Directors will allocate the excess Rights Shares at their discretion on a fair and equitable basis and will give preference to topping up odd lots to whole board lots.

The Shareholders with their Shares held by a nominee company should note that the Directors will regard the nominee company as a single Shareholder according to the register of members of the Company. Accordingly, such Shareholders should note that the above arrangement in relation to allocation of the excess Rights Shares will not be extended to beneficial owners individually.

If no excess Rights Shares are allotted to a Qualifying Shareholder, the amount tendered on application is expected to be returned to that Qualifying Shareholder in full by ordinary post and at his own risk on or before Monday, 12 February 2007. If the number of excess Rights Shares allotted to a Qualifying Shareholder is less than that applied for, the surplus application monies are also expected to be returned to that Qualifying Shareholder by ordinary post and at his own risk on or before Monday, 12 February 2007.

All cheques or cashier orders will be presented for payment immediately upon receipt and all interest earned on such monies will be retained for the benefit of the Company. Any EAF in respect of which a cheque or cashier order is dishonoured on first presentation is liable to be rejected.

The EAF is for use only by person(s) to whom it is addressed and is not transferable. All documents, including cheques or cashier orders for amounts due, will be sent at the risk of the persons entitled thereto to their registered addresses by the Registrar.

If the Underwriter exercises the right to terminate or rescind the Underwriting Agreement or if the conditions of the Rights Issue have not been fulfilled, the monies received in respect of applications for excess Rights Shares will be refunded to the Qualifying Shareholders or, in the case of joint applications, to the first-named person, without interest, by means of cheques despatched by ordinary post at the risk of such Qualifying Shareholders to the registered addresses on or before Monday, 12 February 2007.

**Application for listing**

The Company has applied to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Rights Shares in both nil-paid and fully-paid forms. It is expected that dealings in Rights Shares in their nil-paid form will commence on Tuesday, 23 January 2007 and will end on Wednesday, 31 January 2007 (both dates inclusive).

Subject to the granting of the listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange, the Rights Shares in their nil-paid and fully-paid forms will be accepted as eligible securities by HKSCC for deposit, clearance and settlement in CCASS with effect from the respective commencement dates of dealings in the Rights Shares in their nil-paid and fully-paid forms on the Stock Exchange or such other dates as determined by HKSCC. Settlement of transactions between participants of the Stock Exchange on any trading day is required to take place in CCASS on the second trading day thereafter. All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time.

The Rights Shares both in their nil-paid and fully-paid forms will be traded in the same board lot size of 1,000 as the Shares.

As at the Latest Practicable Date, no part of the share capital of the Company was listed or dealt in on any other stock exchange and no application has been made or was proposed to be sought on any other stock exchange.

**Stamp duty and any other applicable fees and charges**

Dealings in the Rights Shares in both their nil-paid and fully-paid forms will be subject to the payment of stamp duty and any other applicable fees and charges in Hong Kong.

## UNDERWRITING AGREEMENT

**Undertaking by the controlling Shareholder and the Interested Directors**

Intellinsight held 448,238,083 Shares as at the Latest Practicable Date, representing approximately 58.43% of the total issued share capital of the Company of 767,120,850 Shares (without taking into account the effect of the Rights Issue) as at the Latest Practicable Date. Intellinsight has undertaken to the Company that it will subscribe or procure the subscription of the 224,119,041 Rights Shares that will be provisionally allotted to it under the Rights Issue (the "Controlling Shareholder Undertaking"). The Interested Directors, who in aggregate own 2,422,000 Shares, representing approximately 0.32% of the issued Shares (without taking into account the Shares directly held by Intellinsight and the effect of the Rights Issue) as at the Latest Practicable Date, have also undertaken to the Company and the Underwriter that they will subscribe or procure the subscription of the 1,211,000 Rights Shares that will be provisionally allotted to them under the Rights Issue. Intellinsight intends to hold the Rights Shares they will take up pursuant to their respective proportionate entitlement and under the Underwriting Agreement as long term investment.

**Principal terms of the Underwriting Agreement**

| | | |
|---|---|---|
| Date | — | 19 December 2006 |
| Underwriter | — | Intellinsight |
| Number of Underwritten Shares | — | 158,230,384 Rights Shares |
| Commission | — | 1.5% of the aggregate Subscription Price of the number of Rights Shares underwritten by the Underwriter |

Intellinsight is an investment holding company, the ordinary business of which does not include underwriting of securities.

The Rights Issue is conditional upon the Underwriting Agreement becoming unconditional and not being terminated by the Underwriter in accordance with its terms.

**Underwriting**

Subject to the fulfillment of the conditions contained in the Underwriting Agreement, the Underwriter has agreed to underwrite 158,230,384 Rights Shares and will receive an underwriting commission of 1.5% on the aggregate subscription price of the actual number of Rights Shares underwritten. The Underwriter is the controlling Shareholder of the Company and thus a connected person of the Company. The Underwriting Agreement constitutes a connected transaction for the Company which is exempted from reporting, announcement and independent Shareholders' approval requirement pursuant to Rule 14A.31(3)(c) of the Listing Rules. The Directors (including independent non-executive Directors) consider that the Underwriting Agreement is (i) on normal commercial terms; and (ii) fair and reasonable so far as the Shareholders are concerned.

**Termination of the Underwriting Agreement**

**The Underwriter may terminate the Underwriting Agreement by notice in writing to the Company at any time prior to the Settlement Time (which is expected to be 4:00 p.m. on Wednesday, 7 February 2007) if there occurs:**

**(a) an introduction of any new law or regulation or any change in existing law or regulation (or the judicial interpretation thereof); or**

**(b) any local, national or international event or change (whether or not forming part of a series of events or changes occurring or continuing before, and/or after the date of the Underwriting Agreement) of a political, military, financial, economic or currency (including a change in the system under which the value of the Hong Kong currency is linked to the currency of the United States of America) or other nature (whether or not ejusdem generis with any of the foregoing) or of the nature of any local, national or international outbreak or escalation of hostilities or armed conflict, or affecting local securities market; or**

**(c) any act of God, war, riot, public disorder, civil commotion, fire, flood, explosion, epidemic, terrorism, strike or lock-out;**

**and in the reasonable opinion of the Underwriter, such change would have a material and adverse effect on the business, financial or trading position or prospects of the Group as a whole or the success of the Rights Issue or make it inadvisable or inexpedient to proceed with the Rights Issue.**

**In addition, if any of the following matters or events occur at or prior to 4:00 p.m. on the Settlement Date following the Acceptance Date, the Underwriter shall be entitled (but not bound) by notice in writing to the Company to elect to treat such matter or event as releasing and discharging the Underwriter from its obligations under the Underwriting Agreement:**

**(i) the Company commits any material breach of or omits to observe any of the obligations or undertakings expressed to be assumed by it under the Underwriting Agreement which breach or omission will have a material and adverse effect on its business, financial or trading position; or**

**(ii) the Underwriter shall receive notification pursuant to the Underwriting Agreement of, or shall otherwise become aware of, the fact that any of the representations or warranties contained in the Underwriting Agreement was, when given, untrue or inaccurate or would be untrue or inaccurate if repeated as provided in the Underwriting Agreement, and the Underwriter shall, in its reasonable opinion, determine that any such untrue representation or warranty represents or is likely to represent a material adverse change in the business, financial or trading position or prospects of the Group taken as a whole or is otherwise likely to have a materially prejudicial effect on the Rights Issue; or**

**(iii) the Company shall, after any matter or event comes to the attention of the Company as a result of which any representation or warranty, if repeated immediately after the occurrence thereof, would be untrue or inaccurate in any material respect or which would or might render any statement untrue, inaccurate in any material respect or misleading, whether of fact or opinion, contained in the Prospectus Documents if the same were issued immediately after such occurrence has occurred or come to the Underwriter's attention, fail promptly to send out any announcement or circular (after the despatch of the Prospectus Documents), in such manner (and as appropriate with such contents) as the Underwriter may reasonably request for the purpose of preventing the creation of a false market in the securities of the Company.**

**If the Underwriter terminates the Underwriting Agreement or elect to release and discharge itself from its obligations thereunder in accordance with the terms of the Underwriting Agreement, the Rights Issue will not proceed.**

**Conditions of the Underwriting Agreement**

The Underwriting Agreement is conditional, among other things, on the following conditions being fulfilled:

(i) the passing by Shareholders of the necessary resolution(s) in general meeting to approve the Capital Increase on or before the date of despatch of the Prospectus Documents and all necessary approvals being obtained, if any;

(ii) the Listing Committee of the Stock Exchange agreeing to grant and not having withdrawn or revoked listing of, and permission to deal in, the Rights Shares in their nil-paid and fully-paid forms prior to the date on which the nil-paid Rights Shares commence trading; and

(iii) compliance with and performance of all the obligations of the Company as specified in the Underwriting Agreement.

If the above conditions are not satisfied and/or waived in whole or in part by the Underwriter on or before the time and dates as specified in the Underwriting Agreement (or such other date as the Company and the Underwriter may mutually agree) or if the Underwriting Agreement shall be terminated as described above, all obligations and liabilities of the parties hereto shall cease and determine. The Rights Issue is subject to the Underwriting Agreement becoming unconditional and not being terminated in accordance with its terms.

As at the Latest Practicable Date, none of the above conditions had been fulfilled.

## WARNING OF THE RISKS OF DEALING IN SHARES AND NIL-PAID RIGHTS SHARES

**The Rights Issue is conditional upon the fulfilment of all conditions set out in the Underwriting Agreement summarised in the section headed "Conditions of the Underwriting Agreement" above. The Rights Issue is also subject to the Underwriter not terminating the Underwriting Agreement in accordance with the terms detailed in the section headed "Termination of the Underwriting Agreement" above and accordingly, the Rights Issue may or may not proceed.**

**Shareholders should note that the Shares have been dealt in on an ex-rights basis since Friday, 12 January 2007. The Rights Shares in their nil-paid form will be dealt in from Tuesday, 23 January 2007 to Wednesday, 31 January 2007 (both dates inclusive).**

**Any dealing in the Shares and the Rights Shares in their nil-paid form from Tuesday, 23 January 2007 to Wednesday, 31 January 2007 (both dates inclusive) will bear the risk that the Rights Issue may not become unconditional or may not proceed. Any Shareholders or other persons contemplating any dealings in the Shares or Rights Shares in their nil-paid form are recommended to consult their own professional advisers.**

## SHAREHOLDING STRUCTURE OF THE COMPANY

The shareholding structure of the Company is as follows:

| | | | Shareholding upon completion of the Capital Increase and the Rights Issue | | | |
|---|---|---|---|---|---|---|
| | Shareholding as at the Latest Practicable Date *(Note 1)* | | Assuming no Qualifying Shareholders (except Intellinsight and the Interested Directors) subscribing for their respective entitlements under the Rights Issue | | Assuming all Qualifying Shareholders subscribing for their respective entitlements under the Rights Issue | |
| | *Shares* | *%* | *Shares* | *%* | *Shares* | *%* |
| **Intellinsight and parties acting in concert** | | | | | | |
| Intellinsight *(Note 2)* | 448,238,083 | 58.43 | 830,587,508 | 72.18 | 672,357,124 | 58.43 |
| Mr. Or | 185,000 | 0.02 | 277,500 | 0.02 | 277,500 | 0.02 |
| Mr. Or Pui Kwan | 7,000 | 0.00 | 10,500 | 0.00 | 10,500 | 0.00 |
| | 448,430,083 | 58.45 | 830,875,508 | 72.20 | 672,645,124 | 58.45 |
| Directors (other than Mr. Or and Mr. Or Pui Kwan) | 2,230,000 | 0.30 | 3,345,000 | 0.30 | 3,345,000 | 0.30 |
| Other Shareholders | 316,460,767 | 41.25 | 316,460,767 | 27.50 | 474,691,151 | 41.25 |
| **Total** | **767,120,850** | **100.00** | **1,150,681,275** | **100.00** | **1,150,681,275** | **100.00** |

*Notes:*

1. The shareholding structure of the Company as at the Latest Practicable Date does not take into account the effects of the Rights Issue.

2. Intellinsight is ultimately wholly-owned by the Or Family Trust.

## EQUITY FUND RAISING ACTIVITIES OF THE COMPANY IN THE TWELVE-MONTH PERIOD IMMEDIATELY BEFORE THE DATE OF THE ANNOUNCEMENT

The following summarises the fund raising activities of the Company in the twelve-month period immediately before the date of the Announcement:

| Date of announcement | Capital raising activities | Issuing price | Net proceeds *HK$* | Use of proceeds as set out in the announcement | Actual use of proceeds |
|---|---|---|---|---|---|
| 8 May 2006 | Top-up placing of 113,353,000 Shares | HK$12.40 per Share | Approximately 1,377 million | Net proceeds was to be used as to 70% to fund the subscription of the shares of PAH and 30% for business development and expansion. | Approximately HK$970 million was used to fund the subscription of shares in PAH, the details of which have been summarised in the Company's announcement dated 8 May 2006 and the Company's circular dated 23 May 2006.<br><br>The remainder of approximately HK$407 million was used for business development and expansion. |
| 15 September 2006 | Top-up placing of 87,000,000 Shares | HK$13.25 per Share | Approximately 1,133 million | Approximately HK$1,133 million for the expansion of its property investment and development business in the PRC. | For property investment and development business in the PRC. |

## REASONS FOR THE RIGHTS ISSUE AND USE OF THE NET PROCEEDS

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.

On 13 December 2006, the Company entered into the Agreement, pursuant to which the Company has conditionally agreed, among others, to acquire and the Partner has conditionally agreed to, among the others, sell the Property in Tianjin, which has a total site area of approximately 137,940 sqm at an aggregate consideration of RMB3,500 million (equivalent to approximately HK$3,465 million). 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. 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 Directors are of the view that 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 Tianjin and Beijing will complete on or before 2008. Upon the commencement of operation of the new high speed train network, the travel time from Tianjin to Beijing will be reduced to about 30 minutes, thus potentially stimulate 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 Group has also recently acquired significant development sites in other cities in the PRC as well as considering making further acquisitions. The Directors are of the view that the acquisition of the Property and other development sites represent the Group's strategy to diversify into major cities in the PRC in identifying property investment and development opportunities. Particulars of acquisition of the Property are set out in the Announcement and the circular of the Company dated 19 January 2007.

The Directors believe that the acquisition of the Property and other corporate development activities of the Group requires significant financial resources. Accordingly, the Directors consider that it is desirable for the Group to strengthen its capital base and at the same time utilise equity capital in sourcing the necessary funding. The Directors consider that the Rights Issue will enable all Shareholders to participate in the fund raising by subscribing to the Rights Shares and at the same time give the Shareholders a choice of realising their nil-paid Rights Shares should they elect not to participate. The Company has a Loan of approximately HK$2,256 million outstanding due to Polytec Holdings as at 14 December 2006. The Loan was drawn mainly for (i) subscription of new shares of PAH in 2006; and (ii) general working capital purposes. The Loan bears interest with reference to Hong Kong inter-bank borrowing rates and without fixed terms of repayment. 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. Based on the total outstanding balance of the loan due to Polytec Holdings by the Company of approximately HK$2,402 million as at the Latest Practicable Date, the remaining outstanding balance of such loan would be approximately HK$146 million after the completion of the Rights Issue. The Directors are of the view that the repayment of the Loan is beneficial to the Company and the Shareholders as a whole on the basis that the repayment of the Loan can reduce the finance charges relating to the Loan. Particulars of subscription of new shares of PAH are set out in the announcement and the circular of the Company dated 8 May 2006 and 23 May 2006 respectively.

The expenses in relation to the Rights Issue, including the underwriting commission, advisory fee, printing, registration, translation, legal and accounting charges are estimated to be approximately HK$34 million and will be payable by the Company.

Net proceeds from the Rights Issue, after deduction of expenses of approximately HK$34 million and setting off of the Loan, are expected to amount to approximately HK$3,003 million and is intended to be applied as to approximately (i) HK$1,100 million to satisfy part of the consideration for the acquisition of the Property; and (ii) HK$1,903 million for investments and further acquisition of property projects in the PRC and general working capital.

**TREND OF THE BUSINESS AND FINANCIAL AND TRADING PROSPECTS OF THE 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.

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 acquistion, 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 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.

## FURTHER INFORMATION

Your attention is also drawn to the additional information set out in the appendices to this prospectus.

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

## (1) SUMMARY OF FINANCIAL INFORMATION

An unqualified opinion in respect of the audit of the financial statements of the Group has been issued for each of the three years ended 31 December 2005. A summary of the results, assets and liabilities of the Group as extracted from the annual and interim reports of the Company is set out below:

**Results**

| | (Audited) For the year ended 31 December | | | (Unaudited) Six months ended 30 June | |
|---|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2005** | **2006** |
| | (restated) | (restated) | | | |
| | *HK$ million* | *HK$ million* | *HK$ million* | *HK$ million* | *HK$ million* |
| Turnover | 674 | 773 | 1,320 | 484 | 1,312 |
| Profit before taxation | 208 | 595 | 1,208 | 361 | 373 |
| Income tax | (56) | (79) | (145) | (60) | (44) |
| Profit for the year/period | 152 | 516 | 1,063 | 301 | 329 |
| Minority interests | — | — | (4) | — | (11) |
| Profit attributable to Shareholder | 152 | 516 | 1,059 | 301 | 318 |
| Dividend per Share *(HK$)* | 0.28 | 0.32 | 0.45 | 0.10 | 0.13 |
| Basic earning per Share *(HK$)* | 0.32 | 0.92 | 1.87 | 0.53 | 0.53 |

**Assets and liabilites**

| | (Audited) As at 31 December | | | (Unaudited) As at 30 June |
|---|---|---|---|---|
| | **2003** | **2004** | **2005** | **2006** |
| | (restated) | (restated) | | |
| | *HK$ million* | *HK$ million* | *HK$ million* | *HK$ million* |
| Total assets | 5,890 | 6,680 | 9,863 | 20,134 |
| Total liabilites | (2,915) | (2,783) | (3,876) | (10,289) |
| Minority interest | (1) | (1) | (889) | (3,236) |
| Total equity attributable to Shareholder | 2,974 | 3,896 | 5,098 | 6,609 |

## (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)*

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

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

| | | 2005 | | 2004 (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 | |

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

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

| | | 2005 | | 2004 (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** | | | 3,745,527 | | 3,509,007 |
| **CAPITAL AND RESERVES** | | | | | |
| Share capital | | | 56,677 | | 56,677 |
| Reserves | | | 3,688,850 | | 3,452,330 |
| **TOTAL EQUITY** | *26* | | 3,745,527 | | 3,509,007 |

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

| | | 2005 | | 2004 (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 |

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

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

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

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

## Notes on the Accounts

*(Expressed in Hong Kong dollars)*

**1. Significant accounting policies**

***(a) Statement of compliance***

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

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

***(b) Measurement basis***

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

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

***(c) Basis of consolidation***

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

***(d) Goodwill***

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

Goodwill arising on the acquisition of associated companies or jointly controlled entities is included in the carrying amount of interest in the associated companies or jointly controlled entities. Any excess of the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired over the cost of acquisition is recognized immediately in the income statement.

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

***(e) Interest in subsidiaries***

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

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

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

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

***(f) Interest in associated companies***

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

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

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

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

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

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

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

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

***(h) Properties***

*(i) Investment properties*

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

*(ii) Land held for future development*

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

*(iii) Interest in property development*

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

*(iv) Properties under development*

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

*(v) Properties held for sale*

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

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

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

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

***(i) Trade and other receivables***

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

***(j) Financial instruments***

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

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

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

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

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

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

***(k) Trade and other payables***

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

***(l) Borrowings***

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

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

***(m) Depreciation and amortization***

*(i) Leasehold land and buildings*

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

*(ii) Other fixed assets*

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

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

***(n) Impairment of assets***

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

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

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

*(i) Investments in debt and equity securities*

— For unquoted equity securities, impairment loss is not reversed in subsequent periods.

— For financial assets carried at amortized cost, the impairment loss is reversed through the income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognized in prior years.

— For available-for-sale equity securities, an impairment loss is not reversed through the income statement. Any subsequent increase in the fair value of such assets is recognized directly in equity.

— For available-for-sale debt securities, reversal of an impairment loss is recognized in the income statement.

*(ii) Other assets*

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

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

***(o) Deferred taxation***

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

Movements in deferred tax assets and liabilities are recognized in the income statement except to the extent that they relate to items recognized directly in equity, in which case they are recognized in equity.

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

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

***(p) Recognition of revenue***

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

*(i) Rental income from operating leases*

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

*(ii) Sale of properties*

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

*(iii) Income from interest in property development*

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

*(iv) Sale of investments in securities*

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

*(v) Interest income*

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

***(q) Translation of foreign currencies***

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

***(r) Related parties***

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

***(s) Segment reporting***

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

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

**2. Changes in accounting policies**

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

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

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

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

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

**Group**

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

**Company**

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

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

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

**Group**

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

**Company**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***(c) Leasehold land (HKAS 17, Leases)***

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

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

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

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

*(i) Derivatives and hedging*

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

With effect from 1 January 2005 and in accordance with HKAS 39, all derivative financial instruments entered into by the Group are stated at fair value. Changes in the fair value of derivatives are generally recognized in the income statement unless the derivative financial instrument qualifies for hedge accounting. Where a derivative financial instrument qualifies for hedge accounting and is designated as a cash flow hedge, the effective part and the ineffective part of any unrealized gain or loss on the instrument is recognized directly in equity and in the income statement respectively. The cumulative gain or loss associated with the effective part of cash flow hedge is removed from equity and is generally recognized in the income statement in the same period or periods during which the gain or loss arising from the hedged transaction is recognized in the income statement.

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

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

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

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

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

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

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

In prior periods:

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

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

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

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

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

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

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

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

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

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

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

**3. Segment information**

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

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

*(a) Business segments*

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

In 2005, an asset amount of $225,743,000 represented the deposit paid for the acquisition of approximately 70.3% of the issued shares of Shenzhen Properties & Resources Development (Group) Limited ("Shenzhen Properties") was not allocated to business segments as the transaction was not yet completed.

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

***(b) Geographical segments***

| | Group turnover | | Group profit from operations | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** (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 |

| | 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 | — | — |
| | 8,777,577 | 6,582,707 | 585,130 | 193,670 |

***(c) Major customers and suppliers***

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

**4. Profit before taxation**

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

***(a) Finance costs***

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

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

*(b)* ***Other items***

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

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

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

**5. Directors' and management's emoluments**

*(a)* ***Directors' emoluments***

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

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

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

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

***(b) Individuals with highest emoluments***

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

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

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

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

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

(a) Taxation in the consolidated income statement represents:

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

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

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

**7. Profit attributable to shareholders**

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

## 8. Earnings per share

### *(a) Basic earnings per share*

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

### *(b) Diluted earnings per share*

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

### *(c) Number of shares*

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

## 9. Dividends

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

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

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

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

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

**10. Income tax in the balance sheets**

***(a) Current taxation in the balance sheets represents:***

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

***(b) Deferred taxation***

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

**Group**

| | **Future benefit of tax losses** | **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) | 3,481 | (424,236) | (21,306) | 1,092 | (440,969) |
| At 1 January 2005 (as restated) | 3,481 | (424,236) | (21,306) | 1,092 | (440,969) |
| Through acquisition of subsidiaries | — | (131,235) | (3,489) | — | (134,724) |
| Credited/(Charged) to income statement | 5,085 | (84,863) | (2,905) | (261) | (82,944) |
| At 31 December 2005 | 8,566 | (640,334) | (27,700) | 831 | (658,637) |

**Company**

| | Revaluation of properties | Accelerated depreciation allowances | General provision | Total |
|---|---|---|---|---|
| | *$'000* | *$'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) | (355,946) | (16,292) | — | (372,238) |
| At 1 January 2005 (as restated) | (355,946) | (16,292) | — | (372,238) |
| Charged to income statement | (71,229) | (2,685) | — | (73,914) |
| At 31 December 2005 | (427,175) | (18,977) | — | (446,152) |

| | Group | | Company | |
|---|---|---|---|---|
| | **2005** | **2004** | **2005** | **2004** |
| | | (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) |
| | (658,637) | (440,969) | (446,152) | (372,238) |

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

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

**11. Fixed assets**

***(a) Group***

| | Investment properties | Leasehold land held for own use | Other property, plant and equipment | | Total |
|---|---|---|---|---|---|
| | | | Buildings | Others | |
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| **Cost or valuation** | | | | | |
| At 1 January 2004 | 3,011,900 | 6,446 | 1,820 | 29,826 | 3,049,992 |
| Additions | 192,248 | — | — | 1,715 | 193,963 |
| Disposals | — | — | — | (149) | (149) |
| Revaluation surplus | 257,792 | — | — | — | 257,792 |
| At 31 December 2004 | 3,461,940 | 6,446 | 1,820 | 31,392 | 3,501,598 |
| *Representing* | | | | | |
| Professional valuation | 3,461,940 | — | — | — | 3,461,940 |
| Cost | — | 6,446 | 1,820 | 31,392 | 39,658 |
| | 3,461,940 | 6,446 | 1,820 | 31,392 | 3,501,598 |
| At 1 January 2005 | 3,461,940 | 6,446 | 1,820 | 31,392 | 3,501,598 |
| Additions | | | | | |
| — Through acquisition of subsidiaries | 150,000 | 263,760 | 31,240 | 5,857 | 450,857 |
| — Others | 29,872 | — | — | 898 | 30,770 |
| Disposals | — | — | — | (1,521) | (1,521) |
| Revaluation surplus | 505,818 | — | — | — | 505,818 |
| At 31 December 2005 | 4,147,630 | 270,206 | 33,060 | 36,626 | 4,487,522 |
| *Representing* | | | | | |
| Professional valuation | 4,147,630 | — | — | — | 4,147,630 |
| Cost | — | 270,206 | 33,060 | 36,626 | 339,892 |
| | 4,147,630 | 270,206 | 33,060 | 36,626 | 4,487,522 |

| | Investment properties | Leasehold land held for own use | Other property, plant and equipment: Buildings | Other property, plant and equipment: Others | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Aggregate depreciation and amortization** | | | | | |
| At 1 January 2004 | — | 818 | 400 | 29,064 | 30,282 |
| Charge for the year | — | 96 | 52 | 320 | 468 |
| Written back on disposals | — | — | — | (144) | (144) |
| Impairment losses | — | 3,472 | 957 | — | 4,429 |
| At 31 December 2004 | — | 4,386 | 1,409 | 29,240 | 35,035 |
| At 1 January 2005 | — | 4,386 | 1,409 | 29,240 | 35,035 |
| Charge for the year | — | 267 | 80 | 957 | 1,304 |
| Written back on disposals | — | — | — | (1,503) | (1,503) |
| At 31 December 2005 | — | 4,653 | 1,489 | 28,694 | 34,836 |
| **Carrying value** | | | | | |
| At 31 December 2005 | 4,147,630 | 265,553 | 31,571 | 7,932 | 4,452,686 |
| At 31 December 2004 | 3,461,940 | 2,060 | 411 | 2,152 | 3,466,563 |

***(b) Company***

| | Investment properties | Leasehold land held for own use | Other property, plant and equipment: Buildings | Other property, plant and equipment: Others | Total |
|---|---|---|---|---|---|
| | $'000 | $'000 | $'000 | $'000 | $'000 |
| **Cost or valuation** | | | | | |
| At 1 January 2004 | 2,570,000 | — | — | 23,554 | 2,593,554 |
| Additions | 32,878 | — | — | 294 | 33,172 |
| Disposals | — | — | — | (97) | (97) |
| Revaluation surplus | 197,122 | — | — | — | 197,122 |
| At 31 December 2004 | 2,800,000 | — | — | 23,751 | 2,823,751 |
| *Representing* | | | | | |
| Professional valuation | 2,800,000 | — | — | — | 2,800,000 |
| Cost | — | — | — | 23,751 | 23,751 |
| | 2,800,000 | — | — | 23,751 | 2,823,751 |
| At 1 January 2005 | 2,800,000 | — | — | 23,751 | 2,823,751 |
| Additions | 27,976 | — | — | 605 | 28,581 |
| Disposals | — | — | — | (1,482) | (1,482) |
| Revaluation surplus | 407,024 | — | — | — | 407,024 |
| At 31 December 2005 | 3,235,000 | — | — | 22,874 | 3,257,874 |
| *Representing* | | | | | |
| Professional valuation | 3,235,000 | — | — | — | 3,235,000 |
| Cost | — | — | — | 22,874 | 22,874 |
| | 3,235,000 | — | — | 22,874 | 3,257,874 |

| | Investment properties | Leasehold land held for own use | Other property, plant and equipment: Buildings | Other property, plant and equipment: Others | Total |
|---|---|---|---|---|---|
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| **Aggregate depreciation and amortization** | | | | | |
| At 1 January 2004 | — | — | — | 23,091 | 23,091 |
| Charge for the year | — | — | — | 200 | 200 |
| Written back on disposals | — | — | — | (93) | (93) |
| At 31 December 2004 | — | — | — | 23,198 | 23,198 |
| At 1 January 2005 | — | — | — | 23,198 | 23,198 |
| Charge for the year | — | — | — | 253 | 253 |
| Written back on disposals | — | — | — | (1,480) | (1,480) |
| At 31 December 2005 | — | — | — | 21,971 | 21,971 |
| **Carrying value** | | | | | |
| At 31 December 2005 | 3,235,000 | — | — | 903 | 3,235,903 |
| At 31 December 2004 | 2,800,000 | — | — | 553 | 2,800,553 |

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

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

The investment properties of the Group and of the Company were revalued at 31 December 2005 by Vigers Appraisal and Consulting Limited and DTZ Debenham Tie Leung Ltd, independent qualified professional valuers, who have appropriate qualifications and experiences in the valuation of similar properties in the relevant locations, on an open market value basis calculated by reference to net rental income allowing for reversionary income potential.

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

The Group leases out investment properties and certain furniture and fixtures under operating leases. The leases typically run for an initial period of several months to six years. Some leases have provision of option to renew by which time all terms are renegotiated. Some leases have provision of turnover rent. Turnover rent of $408,818 was received in 2005 (2004: $73,221).

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

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

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

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

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

**12. Interest in jointly controlled entities**

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

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

Details of the jointly controlled entities are as follows:

| Jointly controlled entity | Business structure | Place of incorporation and operation | Percentage of equity attributable to the Group | Principal activities |
|---|---|---|---|---|
| Eastford Development Limited | Corporate | Hong Kong | 27.28% | Property development |
| South Bay Centre Company Limited | Corporate | Macau | 28.42% | Property investment and trading |

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

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

***South Bay Centre Company Limited***

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

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

**13. Jointly controlled assets**

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

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

**14. Goodwill**

| | Group 2005 $'000 | Group 2004 $'000 |
|---|---|---|
| At 1 January | — | — |
| Through acquisition of subsidiaries | 16,994 | — |
| At 31 December | 16,994 | — |

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

**15. Interest in subsidiaries**

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

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

Details of the principal subsidiaries are shown in note 31.

**16. Interest in associated companies**

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

Loan to an associated company is unsecured, interest bearing at prevailing prime rate and subject to any repayment to shareholders on a pro-rata basis. Prior to 1 July 2004, loan to an associated company was interest free.

Details of the associated companies are shown as follows:

| Associated company | Place of incorporation/ operation | Proportion of nominal value of ordinary shares indirectly held | Principal activities |
|---|---|---|---|
| Easy Living Property Management Limited | Hong Kong | 49% | Property management and security services |
| Sheen Choice Limited | Hong Kong | 49% | Investment holding |
| Jeeves (HK) Limited | Hong Kong | 43.125% | Dry cleaning and laundry services |
| Asiasoft Hong Kong Limited | Hong Kong/ Asia | 25.97% | Provision of information system products and services |
| Modern Living Property Management Limited | Hong Kong | 24.01% | Property management and security services |
| Southern Success Corporation | Cayman Islands/ Asia | 20% | Distribution and sales of footwear |

Summary of financial information on significant associated companies:

| | Assets | Liabilities | Equity | Revenue | Profit |
|---|---|---|---|---|---|
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'000* |
| **2005** | | | | | |
| Aggregate on associated companies' accounts | 777,652 | 531,989 | 245,663 | 764,333 | 49,756 |
| Group's effective interest | 164,598 | 112,916 | 51,682 | 169,455 | 10,542 |
| **2004** | | | | | |
| Aggregate on associated companies' accounts | 569,884 | 381,921 | 187,963 | 618,496 | 41,101 |
| Group's effective interest | 120,995 | 79,855 | 41,140 | 133,941 | 9,554 |

**17. Investments in securities**

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

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

**18. Derivative financial instruments**

| | Group | | | |
|---|---|---|---|---|
| | **2005** | | **2004** | |
| | **Assets** | **Liabilities** | **Assets** | **Liabilities** |
| | *$'000* | *$'000* | *$'000* | *$'000* |
| Over-the-counter contingent forward transactions | 7,619 | — | — | — |
| Interest rate swaps | | | | |
| — Hong Kong Dollars | 18,192 | — | — | — |
| — US Dollars | — | 7,741 | — | — |
| | 25,811 | 7,741 | — | — |

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

The Group has entered into several forward agreements to purchase certain listed equity securities at a fixed price over a 52-week period from the date of the agreements. According to the agreements, the purchase commitments of the Group will be terminated when the market price of the equity securities rises to a pre-determined price level. As at the balance sheet date, the aggregated purchase commitments of the Group under the agreements were $342,623,770 of which $323,176,850 will not be crystallized. The market price of the underlying equity securities has reached the pre-determined price level and all the agreements were terminated subsequently after the balance sheet date.

***(b) Interest rate swaps***

*(i) Hong Kong Dollar Swap*

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

*(ii) US Dollar Swap*

As at 31 December 2005, the Group had three US Dollar interest rate swap agreements outstanding with a total notional amount of USD65 million. The swap agreements are callable by the counterparties. According to the agreements, the Group will pay at a floating interest rate based on US LIBOR and receive at a fixed rate subject to certain conditions. Subsequent to the balance sheet date, all swap agreements were called and terminated by the counterparties and the Group received net interest according to the terms stipulated in the agreements.

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

**19. Interest in property development**

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

**20. Inventories**

| | **Group** | |
|---|---|---|
| | **2005** | **2004** |
| | | (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 |
| | 3,194,826 | 2,126,450 |

Included in properties under development is an amount of $1,459,138,520 (2004 (restated): $1,328,250,578), which represents the Group's interest in the development of a property in Ngau Chi Wan. The Group has been granted the exclusive right for the development by The Little Sisters of the Poor ("The Little Sisters"). Pursuant to the development agreement with The Little Sisters, the Group is responsible for bearing all costs and expenses of carrying out the development and in return, the Group is entitled to all sales proceeds derived from the completed development. As at 31 December 2005, the Group had an outstanding payable to The Little Sisters under the development agreement of approximately $129 million (2004: $162 million).

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

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

The amount of properties for future development and under development expected to be recovered after more than one year is $611,519,074 and $2,051,956,273 respectively (2004: $8,939,114 and $1,991,537,354 respectively). All of the other inventories are expected to be recovered within one year.

The Group leases certain of its properties held for sale under operating lease arrangements with lease terms of less than three years. As at 31 December 2005, total future minimum lease payments under non-cancellable operating leases are as follows:

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

**21. Trade and other receivables**

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

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

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

In 2005, prepayments of the Group of an amount of $225,743,000 represents deposit paid for the acquisition of approximately 70.3% of the issued shares of Shenzhen Properties. The acquisition was approved by the shareholders of the Company on 20 July 2005 and the completion of the acquisition is subject to the approval by the relevant regulatory authorities in the People's Republic of China.

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

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

**22. Trade and other payables**

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

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

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

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

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

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

**23. Loan from ultimate holding company**

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

**24. Amounts due to minority shareholders**

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

**25. Bank loans**

At 31 December, bank loans were repayable as follows:

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

Bank loans were classified in the balance sheets as follows:

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

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

**26. Total equity**

***(a) Group***

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

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

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

*(b) Company*

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

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

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

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

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

***(c) Share capital***

| | **2005** | | **2004** | |
|---|---|---|---|---|
| | **No. of shares of $0.1 each** | *$'000* | **No. of shares of $0.1 each** | *$'000* |
| **Authorized** | | | | |
| At 1 January and 31 December | 1,000,000,000 | 100,000 | 1,000,000,000 | 100,000 |
| **Issued and fully paid** | | | | |
| At 1 January | 566,767,850 | 56,677 | 483,767,850 | 48,377 |
| Issue of shares | — | — | 83,000,000 | 8,300 |
| At 31 December | 566,767,850 | 56,677 | 566,767,850 | 56,677 |

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

**27. Notes to consolidated cash flow statement**

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

| | **2005** | **2004** |
|---|---|---|
| | | (restated) |
| | *$'000* | *$'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* |
| *Net assets acquired:* | |
| Investment properties | 150,000 |
| Leasehold land held for own use | 263,760 |
| Other property, plant and equipment | 37,097 |
| Interest in jointly controlled entities | 628,479 |
| Goodwill | 16,994 |
| Investments in securities | 70,192 |
| Inventories | 760,641 |
| Other current assets | 73,651 |
| Bank loans | (88,800) |
| Amounts due to minority shareholders | (31,875) |
| Other current liabilities | (35,778) |
| Deferred taxation | (134,724) |
| Minority interests | (215,421) |
| Net assets acquired | 1,494,216 |
| Negative goodwill arising on consolidation | (26,482) |
| Amount of net assets attributable to minority shareholders | (641,672) |
| Cash consideration on acquisition of subsidiaries | 826,062 |
| Cash and bank balances acquired | (61,841) |
| Consideration outstanding to the major shareholder | (140,791) |
| Cash outflow on acquisition of subsidiaries | 623,430 |

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

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

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

**28. Capital commitments**

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

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

**29. Contingent liabilities**

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

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

**30. Pledge of assets**

At 31 December 2005, properties and securities of the Group with an aggregate carrying value of approximately $4,983,376,000 (2004: $3,960,362,000) and time deposits of $38,205,000 (2004: $Nil) were pledged to banks under fixed charges to secure general banking facilities granted to the Group or as margin deposits for the Group's investments in securities.

**31. Subsidiaries**

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

| Subsidiary | Place of incorporation/ operation | Nominal value of issued ordinary share capital | Proportion of nominal value of shares held | | Principal activities |
|---|---|---|---|---|---|
| | | | *Direct* | *Indirect* | |
| Atlantic Capital Limited | Hong Kong | $10,000 | 100% | — | Investment holding |
| Country House Property Management Limited | Hong Kong | $10,000 | — | 100% | Property management and security services |
| Elegant Florist Limited | British Virgin Islands | US$1 | 100% | — | Investment holding |
| Eversound Investments Limited | Hong Kong | $1,000,000 | — | 100% | Property investment |
| Future Star International Limited | British Virgin Islands | US$1 | 100% | — | Investment holding |
| Gargantuan Investment Limited | Hong Kong | $2 | 100% | — | Financial investment |
| Jumbo Power Enterprises Limited | Hong Kong | $2 | — | 100% | Property development |
| Jumbo Star Limited | British Virgin Islands | US$1 | 100% | — | Investment holding |
| King's City Holdings Limited | Hong Kong | $2 | — | 100% | Property development |
| Kowloon Development Engineering Limited | Hong Kong | $2 | 100% | — | Construction |
| Kowloon Development Finance Limited | Hong Kong | $2,000,000 | 100% | — | Financial services |
| Manor House Holdings Limited | Hong Kong | $264,529,125 | 100% | — | Investment holding |
| Marble King International Limited | British Virgin Islands | US$2 | 100% | — | Investment holding |
| Pak Hop Shing Company, Limited | Hong Kong | $2 | — | 100% | Property development |
| Roe Investment Limited | Hong Kong | $500,000 | 100% | — | Investment holding |
| Searson (Hong Kong) Limited | Hong Kong | $2 | 100% | — | Property development |

| Subsidiary | Place of incorporation/ operation | Nominal value of issued ordinary share capital | Proportion of nominal value of shares held *Direct* | *Indirect* | Principal activities |
|---|---|---|---|---|---|
| Spark Team Limited | Hong Kong | $2 | 100% | — | Retail |
| To Kwa Wan Properties Limited | Hong Kong | $2 | — | 100% | Property investment |
| Top Milestone Developments Limited | British Virgin Islands/ Macau | US$100 | — | 100% | Project and financial investment |
| Town House Development Limited | Hong Kong | $10,000 | 100% | — | Property investment |
| Tyleelord Development & Agency Company Limited | Hong Kong | $100,000 | — | 100% | Property investment |
| Un Chau Properties Limited | Hong Kong | $2 | — | 100% | Property investment |
| Units Properties Limited | Hong Kong | $2 | — | 100% | Property investment |
| Union Way Management Limited | Hong Kong | $2 | — | 100% | Investment holding |
| Wealrise Investments Limited | Hong Kong | $2 | — | 100% | Property development and investment |
| Brilliant Idea Investments Limited | British Virgin Islands/People's Republic of China | US$100 | 85% | — | Investment holding |
| Golden Princess Amusement Company Limited | Hong Kong | $100,000 | 85% | — | Film distribution |
| Cinema City Company Limited | Hong Kong | $1,000,000 | — | 85% | Film distribution |
| Cinema City (Film Production) Company Limited | Hong Kong | $5,000,000 | — | 85% | Film distribution |
| Golden Princess Film Production Limited | Hong Kong | $10,000 | — | 85% | Film distribution |
| Polytec Asset Holdings Limited | Cayman Islands/ Hong Kong and Macau | $122,981,448 | — | 56.84% | Investment holding |
| Genius Star Investments Limited | British Virgin Islands/ Macau | US$1 | — | 56.84% | Financial investment |

| Subsidiary | Place of incorporation/ operation | Nominal value of issued ordinary share capital | Proportion of nominal value of shares held | | 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)*

| | | Six months ended 30 June | |
|---|---|---|---|
| | | **2006** | **2005** |
| | | (unaudited) | (unaudited) |
| | *Note* | *$'000* | *$'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** | | 329,232 | 300,548 |
| **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)* | 329,232 | 300,548 |
| **Earnings per share — Basic** | *6* | $0.53 | $0.53 |
| **Dividend per share** | *5(a)* | $0.13 | $0.10 |

**Consolidated Balance Sheet**

*(Expressed in Hong Kong dollars)*

| | | At 30 June 2006 | | At 31 December 2005 | |
|---|---|---|---|---|---|
| | | (unaudited) | (unaudited) | (audited) | (audited) |
| | *Note* | *$'000* | *$'000* | *$'000* | *$'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 |
| | 8 | | 4,521,228 | | 4,452,686 |
| Goodwill | | | 16,994 | | 16,994 |
| 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 |
| | | | 13,503,670 | | 5,050,598 |
| **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 | |
| | | 6,630,518 | | 4,812,653 | |

| | | At 30 June 2006 | | At 31 December 2005 | |
|---|---|---|---|---|---|
| | | (unaudited) | (unaudited) | (audited) | (audited) |
| | *Note* | *$'000* | *$'000* | *$'000* | *$'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 | |
| | | 2,141,646 | | 1,542,487 | |
| **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 | |
| | | | 8,147,411 | | 2,334,175 |
| **Net assets** | | | 9,845,131 | | 5,986,589 |
| **Capital and reserves** | | | | | |
| Share capital | *14(b)* | | 68,012 | | 56,677 |
| Reserves | | | 6,540,752 | | 5,040,735 |
| **Total equity attributable to shareholders of the Company** | *14(a)* | | 6,608,764 | | 5,097,412 |
| Minority interests | *14(a)* | | 3,236,367 | | 889,177 |
| **Total equity** | *14(a)* | | 9,845,131 | | 5,986,589 |

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

| | Note | Six months ended 30 June 2006 | | Six months ended 30 June 2005 | |
|---|---|---|---|---|---|
| | | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| | *Note* | *$'000* | *$'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)* | (1,871) | | — | |
| Net income for the period recognized directly in equity | | 14,329 | | 169,915 | |
| **Net profit for the period** | *14(a)* | 329,232 | | 300,548 | |
| **Total net income recognized for the period** | | | 343,561 | | 470,463 |
| **Attributable to :** | | | | | |
| Shareholders of the Company | | 332,164 | | 470,425 | |
| Minority interests | | 11,397 | | 38 | |
| | | 343,561 | | 470,463 | |

| | | Six months ended 30 June 2006 | | Six months ended 30 June 2005 | |
|---|---|---|---|---|---|
| | | (unaudited) | (unaudited) | (unaudited) | (unaudited) |
| | *Note* | *$'000* | *$'000* | *$'000* | *$'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)* | | 1,366,222 | | — |
| **Total equity at 30 June** | | | 9,845,131 | | 4,398,890 |

**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** | 3,930,655 | 209,736 |
| **Net increase/(decrease) in cash and cash equivalents** | 217,929 | (17,425) |
| **Cash and cash equivalents at 1 January** | 104,706 | 44,497 |
| **Cash and cash equivalents at 30 June** | 322,635 | 27,072 |

## 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.

*(a) Business segments*

| | Six months ended 30 June 2006 | | | | |
|---|---|---|---|---|---|
| | **Consolidated** | **Property development** | **Property investment** | **Financing and investments** | **Others** |
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'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 development** | **Property investment** | **Financing and investments** | **Others** |
| | *$'000* | *$'000* | *$'000* | *$'000* | *$'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 Six months ended 30 June | | Group profit from operations Six months ended 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 |
| | 1,312,418 | 483,940 | 355,954 | 358,541 |

**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 |
| *Less:* Amount capitalized | (39,529) | (16,659) |
| | 35,074 | 3,180 |
| *Less:* Interest expense included as other operating expenses | (871) | (700) |
| | 34,203 | 2,480 |

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) |
| *Less:* Outgoings | 12,358 | 13,374 |
| Income from listed investments | (2,221) | (3,383) |
| Income from unlisted investments | (25,267) | (10,182) |

(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** | **2005** |
| | *$'000* | *$'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** | **2005** |
| | *$'000* | *$'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 |
| **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 |
| | 3,922,869 | 3,194,826 |

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

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 | At 31 December 2005 |
|---|---|---|
| | *$'000* | *$'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 |
| 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 |
| | 1,087,867 | 338,804 |

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 | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | Share premium | Capital reserve | Fair value reserves | Retained profits | Total | Minority interests | Total equity |
| | *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 | | 56,677 | 557,916 | 2,154 | 337,041 | 4,143,624 | 5,097,412 | 889,177 | 5,986,589 |

| | Note | Share capital $'000 | Share premium $'000 | Capital reserve $'000 | Fair value reserves $'000 | Retained profits $'000 | Total $'000 | Minority interests $'000 | Total equity $'000 |
|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to shareholders of the Company | | | | | | | |
| 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 | | 68,012 | 1,924,138 | 2,154 | 351,370 | 4,263,090 | 6,608,764 | 3,236,367 | 9,845,131 |

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

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 |
| | 666,257 | 223,743 |
| Authorized but not contracted for | | |
| — Investment properties | 95,255 | 95,745 |

**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 calaculated 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*

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

**STATEMENT OF CHANGES IN EQUITY**

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

**NOTES TO THE FINANCIAL INFORMATION**

**1. Basis of Presentation of Financial Information**

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

Target is inactive during the Relevant Period.

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

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

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

**2. Application of Hong Kong Financial Reporting Standards**

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

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

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

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

**3. Significant Accounting Policies**

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

***Financial instruments***

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

*Financial assets*

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

Loans and receivables

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

*Taxation*

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

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

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

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

*Foreign currencies*

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

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

**4. Directors' Emoluments**

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

**5. Taxation**

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

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

**6. Amount Due From Ultimate Holding Company**

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

**7. Share Capital**

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

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

**8. Subsequent Financial Statements**

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

**9. Subsequent Events**

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

Yours faithfully,
**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong

## (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 | New Bedford Properties Ltd 9-31 Mar 2006 | Unaudited Pro forma adjustments upon completion of the Acquisition but before completion of the PAH Subscription and the Company's New Share Issue | *Note* | Subtotal | Unaudited Pro forma adjustments upon completion of the Acquisition and after completion of the PAH Subscription and the Company's New Share Issue | *Note* | The Enlarged Group Pro Forma Total |
|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | | *HK$'000* | *HK$'000* | | *HK$'000* |
| | (Audited) | (Audited) | | | | | | (Unaudited) |
| **Turnover** | 1,320,301 | – | | | 1,320,301 | | | **1,320,301** |
| Other revenue | 5,475 | – | | | 5,475 | | | **5,475** |
| Depreciation and amortization | (1,304) | – | | | (1,304) | | | **(1,304)** |
| Staff costs | (51,845) | – | | | (51,845) | | | **(51,845)** |
| Cost of inventories | (567,785) | – | | | (567,785) | | | **(567,785)** |
| Fair value changes on investment properties | 505,818 | – | | | 505,818 | | | **505,818** |
| Other operating expenses | (28,955) | – | (2,500) | *3* | (31,455) | | | **(31,455)** |
| **Profit from operations** | 1,181,705 | – | (2,500) | | 1,179,205 | – | | **1,179,205** |
| Finance costs | (17,694) | – | (295,680) | *2* | (313,374) | 185,134 | *5* | **(198,031)** |
| | | | | | | 7,000 | *6* | |
| | | | | | | (76,791) | *7* | |
| Share of profits of associated companies | 10,542 | – | | | 10,542 | | | **10,542** |
| Share of profits of jointly controlled entities | 7,331 | – | | | 7,331 | | | **7,331** |
| Negative goodwill on acquisition of subsidiaries | 26,482 | – | | | 26,482 | | | **26,482** |
| **Profit before taxation** | 1,208,366 | – | (298,180) | | 910,186 | 115,343 | | **1,025,529** |
| Income tax | (144,962) | – | 1,225 | *2* | (143,737) | (1,225) | *6* | **(144,962)** |
| **Profit for the year** | 1,063,404 | – | (296,955) | | 766,449 | 114,118 | | **880,567** |
| **Attributable to:** | | | | | | | | |
| Shareholders of the Company | 1,059,153 | – | (166,840) | *2* | 890,460 | 105,230 | *5* | **921,653** |
| | | | (1,853) | *3* | | 2,754 | *6* | |
| | | | | | | (76,791) | *7* | |
| Minority interests | 4,251 | – | (127,615) | *2* | (124,011) | 79,904 | *5* | **(41,086)** |
| | | | (647) | *3* | | 3,021 | *6* | |
| | 1,063,404 | – | (296,955) | | 766,449 | 114,118 | | **880,567** |

## Pro Forma Consolidated Balance Sheet

| | The Group as at 31 Dec 2005 | New Bedford Properties Ltd as at 31 Mar 2006 | Unaudited Pro forma adjustments upon completion of the Acquisition but before completion of the PAH Subscription and the Company's New Share Issue | Note | Subtotal | Unaudited Pro forma adjustments upon completion of the Acquisition and after completion of the PAH Subscription and the Company's New Share Issue | Note | The Enlarged Group Pro Forma Total |
|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | | *HK$'000* | *HK$'000* | | *HK$'000* |
| | (Audited) | (Audited) | | | | | | (Unaudited) |
| **Non-current assets** | | | | | | | | |
| Investment properties | 4,147,630 | – | | | 4,147,630 | | | **4,147,630** |
| Leasehold land held for own use | 265,553 | – | | | 265,553 | | | **265,553** |
| Other property, plant and equipment | 39,503 | – | | | 39,503 | | | **39,503** |
| Goodwill | 16,994 | – | | | 16,994 | | | **16,994** |
| Interest in jointly controlled entities | 394,507 | – | | | 394,507 | | | **394,507** |
| Interest in associated companies | 56,568 | – | | | 56,568 | | | **56,568** |
| Interest in property development | – | – | 8,448,000 | *1* | 8,448,000 | | | **8,448,000** |
| Investments in securities | 65,220 | – | | | 65,220 | | | **65,220** |
| Loans and advances | 55,320 | – | | | 55,320 | | | **55,320** |
| Deferred tax assets | 9,303 | – | | | 9,303 | | | **9,303** |
| | 5,050,598 | – | 8,448,000 | | 13,498,598 | – | | **13,498,598** |
| **Current assets** | | | | | | | | |
| Interest in property development | 575,298 | – | | | 575,298 | | | **575,298** |
| Inventories | 3,194,826 | – | | | 3,194,826 | | | **3,194,826** |
| Trade and other receivables | 320,440 | – | | | 320,440 | | | **320,440** |
| Loans and advances | 63,523 | – | | | 63,523 | | | **63,523** |
| Amounts due from jointly controlled entities | 247,192 | – | | | 247,192 | | | **247,192** |
| Amount due from an associated company | 207 | – | | | 207 | | | **207** |
| Derivative financial instruments | 25,811 | – | | | 25,811 | | | **25,811** |
| Investments in securities | 242,445 | – | | | 242,445 | | | **242,445** |
| Time deposits (pledged) | 38,205 | – | | | 38,205 | | | **38,205** |
| Cash and cash equivalents | 104,706 | – | | | 104,706 | 440,293 | *4* | **544,999** |
| | 4,812,653 | – | – | | 4,812,653 | 440,293 | | **5,252,946** |

| | The Group as at 31 Dec 2005 HK$'000 (Audited) | New Bedford Properties Ltd as at 31 Mar 2006 HK$'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) |
|---|---|---|---|---|---|---|---|---|
| **Current liabilities** | | | | | | | | |
| Trade and other payables | 338,804 | – | | | 338,804 | | | **338,804** |
| Amount due to a major shareholder | 140,791 | – | | | 140,791 | | | **140,791** |
| Amounts due to minority shareholders | 31,924 | – | | | 31,924 | | | **31,924** |
| Derivative financial instruments | 7,741 | – | | | 7,741 | | | **7,741** |
| Bank loans | 978,413 | – | | | 978,413 | | | **978,413** |
| Current taxation | 44,814 | – | | | 44,814 | | | **44,814** |
| | 1,542,487 | – | – | | 1,542,487 | – | | **1,542,487** |
| **Net current assets** | 3,270,166 | – | – | | 3,270,166 | 440,293 | *4* | **3,710,459** |
| **Total assets less current liabilities** | 8,320,764 | – | 8,448,000 | | 16,768,764 | 440,293 | | **17,209,057** |
| **Non-current liabilities** | | | | | | | | |
| Loan from ultimate holding company | 2,635 | – | | | 2,635 | | | **2,635** |
| Payable to ultimate holding company | – | – | 8,248,000 | *1* | 8,248,000 | (5,289,551) | *4* | **2,958,449** |
| Loan from immediate holding company | – | – | | | – | 2,194,040 | *4* | **2,194,040** |
| Bank loans | 1,663,600 | – | 200,000 | *1* | 1,863,600 | (200,000) | *4* | **1,663,600** |
| Deferred tax liabilities | 667,940 | – | | | 667,940 | | | **667,940** |
| | 2,334,175 | – | 8,448,000 | | 10,782,175 | (3,295,511) | | **7,486,664** |
| **NET ASSETS** | 5,986,589 | – | – | | 5,986,589 | 3,735,804 | | **9,722,393** |
| **CAPITAL AND RESERVES** | | | | | | | | |
| Share capital | 56,677 | – | | | 56,677 | 11,335 | *4* | **68,012** |
| Reserves | 5,040,735 | – | | | 5,040,735 | 1,365,958 | *4* | **6,406,693** |
| **Total equity attributable to the shareholders of the Company** | 5,097,412 | – | – | | 5,097,412 | 1,377,293 | | **6,474,705** |
| Minority interests | 889,177 | – | | | 889,177 | 2,358,511 | *4* | **3,247,688** |
| **TOTAL EQUITY** | 5,986,589 | – | – | | 5,986,589 | 3,735,804 | | **9,722,393** |

## Pro Forma Consolidated Cash Flow Statement

| | The Group for the year ended 31 Dec 2005 | New Bedford Properties Ltd 9-31 Mar 2006 | Unaudited Pro forma adjustments upon completion of the Acquisition but before completion of the PAH Subscription and the Company's New Share Issue | Note | Subtotal | Unaudited Pro forma adjustments upon completion of the Acquisition and after completion of the PAH Subscription and the Company's New Share Issue | Note | The Enlarged Group Pro Forma Total |
|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | | *HK$'000* | *HK$'000* | | *HK$'000* |
| | (Audited) | (Audited) | | | | | | (Unaudited) |
| **Profit before taxation** | 1,208,366 | – | (295,680) | *2* | 910,186 | 185,134 | *5* | **1,025,529** |
| | | – | (2,500) | *3* | | 7,000 | *6* | |
| | | | | | | (76,791) | *7* | |
| Adjustments for: | | | | | | | | |
| — Unclaimed dividend written back | (239) | – | | | (239) | | | **(239)** |
| — Profit on disposal of other fixed assets | (18) | – | | | (18) | | | **(18)** |
| — Share of profits of associated companies | (10,542) | – | | | (10,542) | | | **(10,542)** |
| — Share of profits of jointly controlled entities | (7,331) | – | | | (7,331) | | | **(7,331)** |
| — Negative goodwill on acquisition of subsidiaries | (26,482) | – | | | (26,482) | | | **(26,482)** |
| — Fair value changes on investment properties | (505,818) | – | | | (505,818) | | | **(505,818)** |
| — Fair value changes on derivative financial instruments | (17,762) | – | | | (17,762) | | | **(17,762)** |
| — Interest income | (1,526) | – | | | (1,526) | | | **(1,526)** |
| — Interest expenses | 17,694 | – | 295,680 | *2* | 313,374 | (185,134) | *5* | **198,031** |
| | | | | | | (7,000) | *6* | |
| | | | | | | 76,791 | *7* | |
| — Depreciation and amortization | 1,304 | – | | | 1,304 | | | **1,304** |
| Operating profit/(loss) before working capital changes | 657,646 | – | (2,500) | | 655,146 | – | | **655,146** |
| Decrease in interest in property development | 177,727 | – | | | 177,727 | | | **177,727** |
| Increase in inventories | (420,305) | – | | | (420,305) | | | **(420,305)** |
| Increase in trade and other receivables | (99,734) | – | | | (99,734) | | | **(99,734)** |
| Increase in time deposits (pledged) | (38,205) | – | | | (38,205) | | | **(38,205)** |
| Decrease in loans and advances | 26,149 | – | | | 26,149 | | | **26,149** |
| Increase in investments in securities | (10,589) | – | | | (10,589) | | | **(10,589)** |
| Increase in amounts due from jointly controlled entities | (5,889) | – | | | (5,889) | | | **(5,889)** |
| Increase in amount due from an associated company | (124) | – | | | (124) | | | **(124)** |
| Decrease in trade and other payables | (79,571) | – | | | (79,571) | | | **(79,571)** |
| Increase in amounts due to minority shareholders | 49 | – | | | 49 | | | **49** |

| | The Group for the year ended 31 Dec 2005 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** | 91,887 | – | (8,275) | | 83,612 | 5,775 | | **89,387** |
| **Investing activities** | | | | | | | | |
| Sale of other fixed assets | 35 | – | | | 35 | | | **35** |
| Additions to fixed assets and properties | (32,772) | – | | | (32,772) | | | **(32,772)** |
| Acquisition of subsidiaries | (623,430) | – | (200,000) | *1* | (823,430) | (5,289,551) | *4* | **(6,112,981)** |
| **Net cash used in investing activities** | (656,167) | – | (200,000) | | (856,167) | (5,289,551) | | **(6,145,718)** |
| **Financing activities** | | | | | | | | |
| Net proceeds from share issued | – | – | | | – | 3,735,804 | *4* | **3,735,804** |
| Increase in bank loans | 800,784 | – | 200,000 | *1* | 1,000,784 | (200,000) | *4* | **800,784** |
| Decrease in loan from ultimate holding company | (4,884) | – | | | (4,884) | | | **(4,884)** |
| Increase in loan from immediate holding company | – | – | | | – | 2,194,040 | *4* | **2,194,040** |
| Dividend paid | (198,036) | – | | | (198,036) | | | **(198,036)** |
| Increase in loan from a minority shareholder | 26,625 | – | | | 26,625 | | | **26,625** |
| **Net cash from financing activities** | 624,489 | – | 200,000 | | 824,489 | 5,729,844 | | **6,554,333** |
| **Net increase/(decrease) in cash and cash equivalents** | 60,209 | – | (8,275) | | 51,934 | 446,068 | | **498,002** |
| **Cash and cash equivalents at 1 January** | 44,497 | – | | | 44,497 | | | **44,497** |
| **Cash and cash equivalents at 31 December** | 104,706 | – | (8,275) | | 96,431 | 446,068 | | **542,499** |

## (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 financial statements of the Company were made up.

## (8) SHARE CAPITAL OF THE COMPANY

The authorised and issued share capital of the Company as at the Latest Practicable Date and immediately following completion of the Rights Issue and Capital Increase were and will be as follows:

**As at the Latest Practicable Date**

| | | |
|---|---|---|
| *Authorised:* | | *HK$* |
| 1,000,000,000 | Shares | 100,000,000 |
| *Issued and fully paid or credited as fully paid:* | | |
| 767,120,850 | Shares | 76,712,085 |

**Upon completion of the Rights Issue and increase in authorised share capital**

| | | |
|---|---|---|
| *Authorised:* | | *HK$* |
| 1,000,000,000 | Shares | 100,000,000 |
| 4,000,000,000 | Shares arising from the Capital Increase | 400,000,000 |
| 5,000,000,000 | Shares | 500,000,000 |
| *Issued and fully paid or credited as fully paid:* | | |
| 767,120,850 | Shares | 76,712,085 |
| 383,560,425 | Rights Shares | 38,356,043 |
| 1,150,681,275 | Shares | 115,068,128 |

When issued and fully paid, the Rights Shares will rank pari passu in all respects with the Shares in issue. Holders of fully-paid Rights Shares will be entitled to receive all dividends and distributions which are declared, made or paid after the date of allotment of the Rights Shares in their fully-paid form.

As at the Latest Practicable Date, the Company or other members of the Group did not have any outstanding convertible securities, options or warrants in issue which confer any right to subscribe for, convert or exchange into the Shares. As at the Latest Practicable Date, no part of the share capital of the Company was listed or dealt in on any other stock exchange or on which listing or permission to deal was being or was proposed to be sought.

## (9) 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 Group, the Group will have sufficient working capital for its present requirements for at least the next twelve months following the date of this prospectus.

## (10) 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 prospectus, 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:

| | *HK$' million* |
|---|---|
| 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 |
| | 7,327 |

**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 adjusted consolidated net tangible assets of the Group after completion of the Rights Issue.*

## (A) UNAUDITED PRO FORMA STATEMENT OF ADJUSTED CONSOLIDATED NET TANGIBLE ASSETS OF THE GROUP

### Introduction

The unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets of the Group prepared in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited is set out below to illustrate the effect of the Rights Issue on the unaudited consolidated net tangible assets of the Group as if the Rights Issue had taken place on 30 June 2006.

The unaudited Pro Forma Financial Information is prepared for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Group following the Rights Issue.

The unaudited Pro Forma Statement of Adjusted Consolidated Net Tangible Assets of the Group is prepared based on the unaudited consolidated net assets 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 prospectus and the adjustments described below.

| | Consolidated net assets of the Group attributable to the Shareholders of the Company as at 30 June 2006 | Less: goodwill | Consolidated net tangible assets of the Group attributable to the Shareholders of the Company but before the Subscription | The Subscription | Consolidated net tangible assets of the Group attributable to the Shareholders of the Company after the Subscription | Estimated net proceeds from the Rights Issue but before offsetting loan from ultimate holding company | Pro forma adjusted consolidated net tangible assets of the Group attributable to the Shareholders of the Company |
|---|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| | (unaudited) | | (unaudited) | | (unaudited) | | (unaudited) |
| | | *Note 1* | | *Note 2* | | *Note 3* | |
| | 6,608,764 | (16,994) | 6,591,770 | 1,133,978 | 7,725,748 | 5,259,134 | 12,984,882 |

| | *HK$* |
|---|---|
| Unaudited consolidated net tangible assets per share after the Subscription but before the completion of the Rights Issue *(Note 4)* | 10.0711 |
| Unaudited pro forma adjusted consolidated net tangible assets per share after the Subscription and the completion of the Rights Issue *(Note 5)* | 11.2845 |

*Notes:*

(1) Goodwill, representing the only intangible asset of the Group is extracted from the unaudited interim report of the Group as at 30 June 2006.

(2) The adjustment is to record the net proceeds of approximately HK$1,134 million from the subscription of 87,000,000 new shares issued after 30 June 2006 as announced by the Company on 15 September 2006 ("the Subscription").

(3) The adjustment is to record the net proceeds of approximately HK$5,259 million from the Rights Issue which is based on 383,560,425 Rights Shares to be issued at a subscription price of HK$13.8 per Rights Share and after deduction of estimated related expenses of approximately HK$34 million.

(4) The number of shares used for the calculation is 767,120,850 which was the number of shares in issue after the completion of the Subscription but before the completion of the Rights Issue.

(5) The number of shares used for the calculation is 1,150,681,275 which was the number of shares in issue after the completion of the Subscription and the Rights Issue.

(6) No adjustment has been made to reflect any trading result or other transaction of the Group entered into subsequent to 30 June 2006, except for the Subscription.

*For illustrative purpose only, set out below is the unaudited pro forma statement of assets and liabilities on the Enlarged Group assuming completion of the Investment and the Rights Issue.*

## (B) 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 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 I and pages 10 to 26 of the "Letter from the Board" in this prospectus.

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 prospectus 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.

| | 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 |

| | 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 |
| | 8,147,411 | 2,377,227 | | 10,524,638 | (2,266,960) | | 8,257,678 |
| **NET ASSETS** | 9,845,131 | — | | 9,845,131 | 5,259,134 | | 15,104,265 |
| **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** | 9,845,131 | — | | 9,845,131 | 5,259,134 | | 15,104,265 |

*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 shares 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 prospectus, 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.*

## (C) COMFORT LETTER ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION

KPMG

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 statement of adjusted consolidated net tangible assets of Kowloon Development Company Limited and its subsidiaries (the "Group") and unaudited pro forma statement of assets and liabilities on the Group and the project company to be formed by the Company and Tianjin Binhai Mass Transit Development Co., Ltd. (together, the "Enlarged Group") (collectively, the "unaudited Pro Forma Financial Information") set out on pages II-1 to II-6 in Appendix II of the Company's prospectus dated 19 January 2007 (the "Prospectus") in connection with the proposed rights issue, which has been prepared by the directors of the Company solely for illustrative purposes to provide information as to how the proposed rights issue and the proposed investment in a development site in Tianjin might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out in the introduction and notes to the unaudited Pro Forma Financial Information of the Group as set out in Appendix II of the Prospectus.

**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 prospectus 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.*

DTZ Debenham Tie Leung
International Property Advisers
戴德梁行

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") | The Property comprises a parcel of land with a site area of approximately 137,940.40 sqm (1,484,790 sqft).<br><br>The Property is planned to be developed into a composite residential and commercial complex comprising serviced apartments, office towers and a commercial podium.<br><br>The permitted total gross floor area is 930,000 sqm (10,010,520 sqft).<br><br>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. | Currently, there are existing structures on the Property. Demolishment work for approximately 50,000 sqm of the Property has been completed. The demolishment work of the remaining portion of the Property is expected to be completed within 30 months. | RMB3,500,000,000<br><br>(Our valuation is prepared on the assumption that the Certificate of State-owned Land Use Rights for the Property has been obtained) |

*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 into 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 prospectus includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this prospectus, and confirm, having made all reasonable enquires, that to the best of their knowledge and belief, there are no other facts the omission of which would make any statement in this prospectus misleading.

## 2. PARTICULARS OF THE DIRECTORS

### Executive Directors

**Or Wai Sheun**, aged 55, is the Chairman of the Board. He was appointed as a Director in January 2002. Mr. Or is responsible for the development of corporate strategies, corporate planning and general management of the Company. He is the chairman of PAH, a listed subsidiary of the Company. In addition, he is also the chairman of Polytec Holdings and Intellinsight and a director of The Or Family Trustee Limited Inc., all the three companies being substantial Shareholders. Mr. Or has over 20 years' experience in property development and investment and textile and garment business in Hong Kong, Macau and the PRC. He is the husband of Ms. Ng Chi Man and the father of Mr. Or Pui Kwan, both are executive Directors.

**Ng Chi Man**, aged 54, was appointed as a Director in January 2002. Ms. Ng is responsible for the development of corporate strategies, corporate planning and general management of the Company. She is a director of Polytec Holdings and Intellinsight, both companies being substantial Shareholders. Ms. Ng has over 20 years' experience in property development and investment and textile and garment business in Hong Kong, Macau and the PRC. She is the wife of Mr. Or Wai Sheun, Chairman of the Company and the mother of Mr. Or Pui Kwan, an executive Director.

**Lai Ka Fai**, aged 42, was appointed as a Director in January 2002. Mr. Lai is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company. He is a director of Intellinsight, a substantial Shareholder, and a non-executive director of PAH. Mr. Lai has over 15 years' experience in finance, accounting, financial and operational management and corporate planning. He graduated from the University of East Anglia in the United Kingdom with a Bachelor's degree in Science. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.

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

**Non-executive Directors**

**Keith Alan Holman**, aged 61, is the Deputy Chairman of the Company. He was appointed as a Director in January 2002. He is a director of, inter alia, The Or Family Trustee Limited Inc., a substantial Shareholder, Landswell Limited, the holding company of a group of trading companies, and Arcanum Investment Management Limited, a fund manager. Mr. Holman has over 30 years' experience in corporate finance and investment banking. He graduated from Oxford University in the United Kingdom and has a professional qualification as a solicitor.

**Tam Hee Chung**, aged 62, is the managing director of Larry H C Tam & Associates Limited, a chartered surveyors, valuers and development consultants firm. Mr. Tam started his professional career in the Hong Kong Government's Crown Lands & Survey Office, where he reached the rank of acting government land agent/valuation, in charge of the Valuation Branch of the Crown Lands & Survey Office. He left the government in 1981 and joined a property company as the general manager, and later set up his own practice as Larry H C Tam & Associates Limited. Mr. Tam has extensive experience in all aspects of the land professional work both in government and in private practice. Since 1988, he has been a member of the Town Planning Board and the Building Committee of the Housing Authority. He is a fellow member of both the Royal Institution of Chartered Surveyors and the Hong Kong Institute of Surveyors. He is also a registered professional surveyor. He became a Director in January 2002.

**Yeung Kwok Kwong**, aged 48, is the managing director of PAH. Mr. Yeung has over 20 years' experience in finance, accounting, financial and operational management and corporate planning. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. He became a Director in January 2002.

**Independent non-executive Directors**

**Li Kwok Sing, Aubrey**, aged 56, is a director of Management Capital Limited, a Hong Kong-based financial advisory and direct investment firm, and has over 30 years' experience in merchant banking and commercial banking. He is also a non-executive director of ABC Communications (Holdings) Limited, The Bank of East Asia, Limited, Café de Coral Holdings Limited, China Everbright International Limited, CNPC (Hong Kong) Limited, Pokfulam Development Company Limited and Value Partners China Greenchip Fund Limited, and is the non-executive chairman of Atlantis Asian Recovery Fund plc. Mr. Li has a Master's degree in Business Administration from Columbia University and a Bachelor of Science degree in Civil Engineering from Brown University. He became a Director in January 2002.

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

**Seto Gin Chung, John**, aged 58, is an independent non-executive director of China Everbright Limited and Hop Hing Holdings Limited and a director of Pacific Eagle Asset Management Limited. He was a non-executive director of Hong Kong Exchanges and Clearing Limited and was the chief executive of HSBC Broking Services (Asia) Limited. Mr. Seto was a Council Member of The Stock Exchange of Hong Kong Limited from 1994 to 2000 and was the first vice chairman from 1997 to 2000. He was a director of Poly Investments Holdings Limited from 1993 to 2002, and was the chairman and a non-executive director of Stockmartnet Holdings Limited from 2001 to 2005. He holds a Master of Business Administration degree from New York University, US and has over 30 years of experience in the securities and futures industry. He became a Director in January 2002.

## 3. PARTIES INVOLVED IN THE RIGHTS ISSUE AND CORPORATE INFORMATION

| | |
|---|---|
| **Registered office** | 23rd Floor, Pioneer Centre<br>750 Nathan Road<br>Kowloon<br>Hong Kong |
| **Financial adviser** | Somerley Limited<br>10th Floor<br>The Hong Kong Club Building<br>3A Chater Road<br>Central<br>Hong Kong |
| **Underwriter** | Intellinsight Holdings Limited<br>P.O. Box 957<br>Offshore Incorporations Centre<br>Road Town<br>Tortola<br>British Virgin Islands |
| **Legal advisers** | Coudert Brothers in association with Orrick, Herrington & Sutcliffe LLP<br>39th Floor, Gloucester Tower, The Landmark<br>15 Queen's Road Central<br>Hong Kong |
| **Auditors** | KPMG<br>8th Floor, Prince's Building<br>10 Chater Road<br>Central<br>Hong Kong |

| | |
|---|---|
| **Principal bankers** | Bank of China (Hong Kong) Limited<br>1 Garden Road<br>Central<br>Hong Kong |
| | Hang Seng Bank Limited<br>83 Des Voeux Road Central<br>Hong Kong |
| | The Hongkong and Shanghai Banking Corporation Limited<br>1 Queen's Road Central<br>Hong Kong |
| | Wing Lung Bank Limited<br>45 Des Voeux Road Central<br>Hong Kong |
| **Share registrar and transfer office** | Computershare Hong Kong Investor Services Limited<br>Shops 1712-1716<br>17th Floor, Hopewell Centre<br>183 Queen's Road East<br>Hong Kong |
| **Authorised representatives** | Lai Ka Fai<br>Wai Yuk Hing, Monica |
| **Company secretary and qualified accountant** | Wai Yuk Hing, Monica |

## 4. 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 Long position | Number of Shares Short position | Approximate % of enlarged issued share capital of the Company *(Note 1)* |
|---|---|---|---|---|
| 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% |
| 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% |

| Name of Director | Nature of interest | Number of Shares Long position | Short position | Approximate % of enlarged issued share capital of the Company *(Note 1)* |
|---|---|---|---|---|
| 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:*

1. The percentage holding is calculated based on the number of shares interested or deemed to be interested over 1,150,681,275 Shares of the Company, being the enlarged issued share capital of the Company assuming the Rights Issue has been completed as at the Latest Practicable Date.

2. As founder and one of the beneficiaries of the Or Family Trust which is ultimately interested in such Shares.

3. By virtue of a 100% interest in China Dragon Limited which is interested in such Shares.

4. As a beneficiary under the Or Family Trust which is ultimately interested in such Shares.

5. As founder and as beneficiary of respective discretionary trusts which are interested in such Shares.

6. By virtue of a 48% interest in Larry H. C. Tam & Associates Limited which is interested in such Shares.

7. 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.

8. 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 Long position | Short position | Approximate % of existing issued share capital of PAH *(Note 1)* |
|---|---|---|---|---|
| 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 was 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 interest in 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.

## 5. 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 Long position | Number of Shares Short position | Approximate % of enlarged issued share capital of the Company *(Note 1)* |
|---|---|---|---|---|
| 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.

## 6. 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.

## 7. EXPERTS AND CONSENTS

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

| 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 prospectus with the inclusion of its letter or report as set out in this prospectus 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.

## 8. 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 prospectus 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.

## 9. 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 prospectus shall prevail over the Chinese text.

## 10. DOCUMENTS DELIVERED TO THE REGISTRAR OF COMPANIES

A copy of each of the Prospectus Documents and the written consents of Yeasun, KPMG, DTZ and Deloitte referred to in the paragraph headed "Experts and consents" in this appendix have been delivered to the Registrar of Companies in Hong Kong pursuant to section 38D of the Companies Ordinance (Chapter 32 of the Laws of Hong Kong).

This prospectus and the accompanying PAL and EAF and all acceptances of any offer or application contained in such documents are governed by and shall be construed in accordance with laws of Hong Kong. Where an application is made in pursuance of any such documents, the relevant document shall have the effect of rendering all persons concerned bound by the provisions, other than the penal provisions of sections 44A and 44B of the Companies Ordinance, so far as applicable.

## 11. 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 5 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 prospectus;

(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 prospectus;

(e) the unaudited pro-forma financial information of the Group and the comfort letter thereon from KPMG, the text of which is set out in Appendix II to this prospectus;

(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 prospectus;

(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).