THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

If you have sold or transferred all your shares in **KOWLOON DEVELOPMENT COMPANY LIMITED**, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

九 龍 建 業 有 限 公 司

KOWLOON DEVELOPMENT COMPANY LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Code: 34)

MAJOR TRANSACTION

IN RELATION TO
ACQUISITION OF THE NON-PERFORMING LOANS
AND
ESTABLISHMENT OF THE JOINT VENTURE COMPANY

18 October 2007

CONTENTS

In this circular, the following expressions shall have the following meanings unless the context indicates otherwise:

"Acquisition"	the acquisition of the Assets;
"Announcement"	the announcement of the Company dated 29 August 2007;
"Assets"	the non-performing loans to be acquired by the Purchaser pursuant to the Assets Transfer Agreement;
"Assets Transfer Agreement"	the agreement dated 22 August 2007 entered into between the Purchaser, the Company and China Orient in relation to the acquisition by the Purchaser of the Assets;
"associate(s)"	has the meaning ascribed to it under the Listing Rules;
"Board"	the board of directors of the Company;
"Business Day(s)"	a day excluding Saturday, Sunday and statutory holiday in the PRC;
"China Orient"	中國東方資產管理公司 (China Orient Asset Management Corporation), a company established in the PRC;
"Company"	Kowloon Development Company Limited, a company incorporated in Hong Kong, the securities of which are listed on the main board of the Stock Exchange;
"Completion"	completion of the transfer of the Assets pursuant to the Assets Transfer Agreement;
"connected person"	has the meaning ascribed to it under the Listing Rules;
"Consideration Shares"	the new Shares that may be allotted and issued to China Orient as consideration of the Acquisition;
"Convertible Bonds"	the convertible bonds in the principal amount equivalent to RMB2,190,000,000 (approximately HK$2,251,320,000) that may be issued to China Orient as consideration of the Acquisition;
"Conversion Shares"	new Shares to be issued upon the conversion of the Convertible Bonds;

"Director(s)"	the director(s) of the Company;
"Enlarged Group"	the Group and the Joint Venture;
"Group"	the Company and its subsidiaries;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong;
"Intellinsight"	Intellinsight Holdings Limited, a company incorporated in the British Virgin Islands, a substantial shareholder of the Company;
"Joint Venture"	the sino-foreign joint venture to be established by the Purchaser and China Orient pursuant to the Joint Venture Agreement;
"Joint Venture Agreement"	the joint venture agreement dated 22 August 2007 entered into between the Purchaser, the Company and China Orient in relation to the establishment of the Joint Venture;
"Latest Practicable Date"	15 October 2007, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information referred to in this circular;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange;
"PRC"	the People's Republic of China;
"PRC Examination and Approval Authorities"	the PRC governmental departments, including but not limited to the National Development and Reform Commission (國家發展和改革委員會) and the Ministry of Commerce (商務部), responsible for approving the transactions contemplated under the Assets Transfer Agreement and the Joint Venture Agreement;
"Purchaser"	Major Aim Developments Limited, a company incorporated in Hong Kong and is a wholly-owned subsidiary of the Company;

"RMB"	Renminbi, the lawful currency of the People's Republic of China;
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong);
"Shareholder(s)"	holder(s) of Shares;
"Share(s)"	ordinary share(s) of HK$0.10 each in the share capital of the Company;
"Stock Exchange"	The Stock Exchange of Hong Kong Limited;
"substantial shareholder"	has the meaning ascribed to it under the Listing Rules; and
"%"	per cent.

For illustration purposes, amounts in RMB in this circular have been translated into HK$ at RMB1 = HK$1.028 and US$1 = HK$7.8.

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
Mr. David John Shaw

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

18 October 2007

To the Shareholders

Dear Sir or Madam

MAJOR TRANSACTION

IN RELATION TO
ACQUISITION OF THE NON-PERFORMING LOANS
AND
ESTABLISHMENT OF THE JOINT VENTURE COMPANY

INTRODUCTION

The Board announced on 29 August 2007 that on 22 August 2007, the Purchaser, a wholly owned subsidiary of the Company, the Company and China Orient entered into the Assets Transfer Agreement and the Joint Venture Agreement.

The purpose of this circular is to provide you with information in respect of, among other things, the Acquisition, the Joint Venture and the terms of the Convertible Bonds.

THE ACQUISITION

Date of the Assets Transfer Agreement

22 August 2007

Parties

(1) The Purchaser;

(2) The Company; and

(3) China Orient.

China Orient is an assets management company approved by the State Council and the People's Bank of China established in Beijing. To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, each of China Orient and its ultimate beneficial owner is an independent third party not connected with the Company or its connected persons.

Assets to be acquired

Pursuant to the Assets Transfer Agreement, the Purchaser will acquire from China Orient the Assets for a consideration of RMB2,190,000,000 (equivalent to approximately HK$2,251,320,000). The Assets are non-performing loans and comprise 50% of the non-performing loans of China Orient in Guangdong and Hainan provinces (the "**Non-performing Loans Package**") that China Orient had put up for tender on 30 April 2007. The Assets include all the rights to the outstanding non-performing loans and any rights to the collaterals thereon. China Orient warrants that the Assets do not include non-performing loans where (a) the debtor or the guarantor is a state organisation, (b) the debtor is a State-owned enterprise that has been liquidated in accordance with the reform policy approved by the State Council of the PRC, (c) the debtor or the guarantor is involved in a sector which falls under the "prohibited" category of the Catalogue for the Guidance of Foreign Investment Industries and (d) the debts involve State security or military that concerns sensitive information and State security and other debts which are prohibited or restricted from being assigned.

The Non-performing Loans Package, of which the Assets accounted for 50% and the assets in the amount of RMB2,190,000,000 (equivalent to approximately HK$2,251,320,000) to be contributed by China Orient to the Joint Venture accounted for the remaining 50%, comprises about 5,224 loans with an outstanding principal amount of approximately RMB35,546,120,000 (equivalent to approximately HK$36,541,411,360) together with interests thereon and delay interests valued as at 31 March 2007. These non-performing loans are primarily commercial loans extended to enterprises in Guangdong and Hainan provinces which have defaulted on their payment obligations. These loans are secured by various assets (primarily land and buildings) and/or corporate guarantees. The majority of the loans have on average been outstanding for a period of over 7 years and to the best knowledge of the Directors, China Orient has not received any interest income from the borrowers of the Non-performing Loans Package for the two years ended 31 December 2006.

Consideration

The consideration for the Acquisition is RMB2,190,000,000 (equivalent to approximately HK$2,251,320,000), which is determined after arm's length negotiation with reference to the latest average asset recovery ratio of approximately 24.20% for non-performing loans reported by China Banking Regulatory Commission on the 4 largest assets management corporations in the PRC up to 31 March 2006 and after legal due diligence conducted by the Company on the Non-performing Loans Package. As the consideration was determined with reference to the average asset recovery ratio reported by the 4 largest assets management corporations, and the consideration of the Assets together with the value of the assets in the amount of RMB2,190,000,000 (equivalent to approximately HK$2,251,320,000) to be contributed by China Orient to the Joint Venture represents approximately 12.32% of the principal outstanding amount of the non-performing loans under the Non-performing Loans Package, which is lower than the average asset recovery ratio of 24.20% reported by the 4 largest assets management corporations, the Directors (including the independent non-executive Directors) are of the view that the consideration is fair and reasonable so far as the Company and the Shareholders are concerned.

The consideration will be satisfied by the Company in one of the following manners, as determined by China Orient within 90 days from the date of the Assets Transfer Agreement becoming effective:

(a) by cash; or

(b) by the issue of 6-month zero coupon convertible bonds in the principal amount of equivalent to RMB2,190,000,000 (approximately HK$2,251,320,000) to China Orient. The conversion price will be 105% of the average closing price per Share for the 5 trading days immediately preceding the date of the Assets Transfer Agreement becoming effective, subject to a maximum conversion price of HK$18.50 per Share (the "**Maximum Conversion Price**"). The parties also subsequently agreed on a minimum conversion price of HK$14.50 per Share (the "**Minimum Conversion Price**").

    The Maximum Conversion Price of HK$18.50 represents (i) a premium of about 13.50% to the closing price of HK$16.30 per Share as quoted on the Stock Exchange on 22 August 2007, being the last trading day of the Shares prior to the release of the Announcement; (ii) a premium of about 18.74% to the average closing price per Share of HK$15.58 as quoted on the Stock Exchange for the last 5 trading days ended 22 August 2007, being the last trading day before the Announcement; and (iii) a discount of about 11.48% to the closing price of HK$20.90 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

The Minimum Conversion Price of HK$14.50 represents (i) a discount of about 11.04% to the closing price of HK$16.30 per Share as quoted on the Stock Exchange on 22 August 2007, being the last trading day before the Announcement; (ii) a discount of about 6.93% to the average closing price per Share of HK$15.58 as quoted on the Stock Exchange for the last 5 trading days ended 22 August 2007, being the last trading day before the Announcement; and (iii) a discount of about 30.62% to the closing price of HK$20.90 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

China Orient has the right to demand redemption of the outstanding amount under the Convertible Bonds in the following events: (a) the Shares have been suspended for trading for any reasons (temporary suspension in compliance with the requirements of the Listing Rules excepted), (b) there exists a material litigation or threatened litigation against the Company which would adversely affect the execution of the Assets Transfer Agreement and/or the Joint Venture Agreement in a material way; and (c) there is a change of control in the Company.

Assuming full conversion of the Convertible Bonds at the Maximum Conversion Price, the Convertible Bonds will be convertible into approximately 121,692,972 Shares, representing approximately 10.58% of the existing issued share capital of the Company and approximately 9.56% of the issued share capital of the Company as enlarged by the Conversion Shares. Assuming full conversion of the Convertible Bonds at the Minimum Conversion Price, the Convertible Bonds will be convertible into approximately 155,263,448 Shares, representing approximately 13.49% of the existing issued share capital of the Company and approximately 11.89% of the issued share capital of the Company as enlarged by the Conversion Shares; or

(c) by the issue of the Consideration Shares to China Orient at an issue price per share equivalent to the average closing price per Share for the 5 trading days immediately preceding the date of the Assets Transfer Agreement becoming effective, subject to a maximum issue price of HK$18.50 per Share (the "**Maximum Issue Price**"). The parties also subsequently agreed on a minimum issue price of HK$14.50 per Share (the "**Minimum Issue Price**").

The Maximum Issue Price of HK$18.50 represents (i) a premium of about 13.50% to the closing price of HK$16.30 per Share as quoted on the Stock Exchange on 22 August 2007, being the last trading day before the Announcement; (ii) a premium of about 18.74% to the average closing price per Share of HK$15.58 as quoted on the Stock Exchange for the last 5 trading days ended 22 August 2007, being the last trading day before the Announcement; and (iii) a discount of about 11.48% to the closing price of HK$20.90 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

The Minimum Issue Price of HK$14.50 represents (i) a discount of about 11.04% to the closing price of HK$16.30 per Share as quoted on the Stock Exchange on 22 August 2007, being the last trading day before the Announcement; (ii) a discount of about 6.93% to the average closing price per Share of HK$15.58 as quoted on the Stock Exchange for the last 5 trading days ended 22 August 2007, being the last trading day before the Announcement; and (iii) a discount of about 30.62% to the closing price of HK$20.90 per Share as quoted on the Stock Exchange as at the Latest Practicable Date.

Assuming the Consideration Shares are issued at the Maximum Issue Price, a total of 121,692,972 Shares will be issued, representing approximately 10.58% of the existing issued share capital of the Company and approximately 9.56% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares, and assuming that the Consideration Shares are issued at the Minimum Issue Price, a total of 155,263,448 Shares will be issued, representing approximately 13.49% of the existing issued share capital of the Company and approximately 11.89% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares.

Based on the closing price of the Shares of HK$16.30 on 22 August 2007, the last trading day before the Announcement, the Consideration Shares at the Maximum Issue Price and the Minimum Issue Price would have a market value of HK$1,983,595,443 and HK$2,530,794,202 respectively. Based on the closing price of the Shares of HK$20.90 as at the Latest Practicable Date, the Consideration Shares have a market value of HK$2,543,383,115 on the basis of 121,692,972 Shares to be issued at the Maximum Issue Price.

The Assets Transfer Agreement will only become effective upon approval by the PRC Examination and Approval Authorities. As the exact number of Shares to be issued as Consideration Shares or as Conversion Shares upon the conversion of the Convertible Bonds cannot be determined until the issue price or the conversion price has been fixed, the Company will make announcement on the final payment method elected and the issue price or the conversion price (as the case may be) determined under the Assets Transfer Agreement if either the issue of Consideration Shares or Convertible Bonds is involved. Such Consideration Shares or the Conversion Shares to be issued upon the exercise of the conversion rights attached to the Convertible Bonds will be issued under the general mandate approved by the Shareholders at the annual general meeting of the Company held on 26 April 2007. No shares have been issued under such general mandate.

The detailed terms of the Convertible Bonds are disclosed below under the heading of Terms of the Convertible Bonds. An application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Consideration Shares or the Conversion Shares, as the case may be (if applicable). If cash is finally being elected to settle the consideration, the Company plans to satisfy such cash requirement through its own internal resources and/or by bank borrowing.

Conditions

Completion of the Acquisition is conditional upon fulfillment of the following conditions:

(1) the representations and warranties provided in the Assets Transfer Agreement remain materially true and accurate as at Completion;

(2) each of the parties to the Assets Transfer Agreement has performed its respective obligations thereunder;

(3) the Assets Transfer Agreement has been approved by the PRC Examination and Approval Authorities;

(4) the PRC Examination and Approval Authorities have approved the Joint Venture Agreement and the establishment of the Joint Venture;

(5) the relevant PRC Examination and Approval Authorities have issued the Joint Venture with its business license;

(6) the transactions contemplated by the Joint Venture Agreement and the issue of the Convertible Bonds or the Consideration Shares have been approved by the Shareholders at a general meeting of the Company (or the Stock Exchange has accepted the written approval issued by Intellinsight pursuant to Rule 14.44 of the Listing Rules in lieu of a resolution to be passed at a general meeting of the Company); and

(7) the Listing Committee of the Stock Exchange has granted the listing of, and the permission to deal in, the Consideration Shares, or the Conversion Shares upon the conversion of the Convertible Bonds.

If the Assets Transfer Agreement and the Joint Venture Agreement are not approved by the PRC Examination and Approval Authorities within 180 days from the execution of the agreements or the conditions set out above are not fulfilled within 90 days from the agreements becoming effective, unless extended by the parties, then each party to the Assets Transfer Agreement may by written notice to the other parties terminate the Assets Transfer Agreement. The Assets Transfer Agreement will be terminated and ceased to be of further effect upon the receipt of the termination notice by the other parties.

Completion

Completion will take place on or before the 15th Business Day following the satisfaction of the conditions set out in the Assets Transfer Agreement.

Terms of the Convertible Bonds

The main terms of the Convertible Bonds are summarized below:

Name of Issuer :	Kowloon Development Company Limited
Principal amount :	Hong Kong Dollar equivalent to RMB2,190,000,000 (approximately HK$2,251,320,000)
Interest Rate :	Zero coupon
Status of Conversion Shares :	The Conversion Shares will rank pari passu in all respects with the Shares then in issue on the relevant conversion date.
Conditions :	Notwithstanding the conversion rights attaching to the Convertible Bonds, the Company shall not issue any Shares if, upon such issue, (i) the bondholder and their respective parties acting in concert with it, will be interested in 30% (or such amount as may from time to time be specified in the Code on Takeovers and Mergers as being the level for triggering a mandatory general offer) or more of the then enlarged issued share capital of the Company at the date of the relevant conversion date, or (ii) the shareholding in the Company by the public will be less than 25% or the minimum prescribed percentage as set out in Rule 8.08 of the Listing Rules from time to time.
Transfer :	No transfer may be made without the prior written consent of the Company.
Voting Right :	Except in meetings of bondholder as specified in the trust deed, bondholder will not have any right to attend or vote in any meeting of the Company by virtue of their being bondholder.
Bond Status :	General, unsecured obligations of the Company ranking equally among themselves and pari passu with all other present and future unsecured and unsubordinated obligations of the Company except for the obligations accorded preference by mandatory provisions of applicable laws.

Listing	:	No application will be made for the listing of the Convertible Bonds on the Stock Exchange. Application will be made to the Listing Committee of the Stock Exchange for the listing of, and permission to deal in, the Conversion Shares, if the consideration is to be satisfied by the issue of the Convertible Bonds.
Conversion Period	:	At any time from the date of issue of the Convertible Bonds up to 7 days before the maturity date
Maturity	:	Six months from the date of issue
Early Redemption	:	Not available

THE JOINT VENTURE AGREEMENT

Date of the Joint Venture Agreement

22 August 2007

Parties

(1) The Purchaser;

(2) The Company; and

(3) China Orient.

Co-operation

Pursuant to the Joint Venture Agreement, the Purchaser and China Orient agreed to establish the Joint Venture in Zhuhai to engage in assets management, financial consulting services, valuation and agency services and other business as permitted by the PRC Examination and Approval Authorities.

The Joint Venture has a term of 5 years and subject to agreement between the Purchaser and China Orient, the Joint Venture may apply to the PRC Examination and Approval Authorities for the renewal of the term of the Joint Venture 6 months before the expiry of its term.

The establishment of the Joint Venture is subject to approval by the PRC Examination and Approval Authorities and the Shareholders having approved the transactions contemplated under the Joint Venture Agreement in a general meeting or the Stock Exchange accepting a written certificate given by Intellinsight, which is interested in 689,649,124 Shares, representing approximately 59.93% of the issued share capital of the Company, approving the Acquisition and/or the establishment of the Joint Venture in lieu of a resolution to be passed at a general meeting pursuant to Rule 14.44 of the Listing Rules.

Capital commitments

The total investment of the Joint Venture will be RMB8,800,000,000 (approximately HK$9,046,400,000) and the registered capital of the Joint Venture will be RMB3,000,000,000 (approximately HK$3,084,000,000). The registered capital of the Joint Venture will be held as to 75.10% by the Purchaser and as to 24.90% by China Orient.

The Purchaser's contribution to the Joint Venture will be in the form of (1) all the rights to the Assets acquired under the Acquisition and (2) cash in the sum of RMB4,420,000,000 (approximately HK$4,543,760,000), of which RMB2,253,000,000 (approximately HK$2,316,084,000) will be accounted as capital and RMB4,357,000,000 (approximately HK$4,478,996,000) will be accounted as an interest-free shareholder's loan to the Joint Venture. China Orient will contribute assets valued at RMB2,190,000,000 (approximately HK$2,251,320,000), of which RMB747,000,000 (approximately HK$767,916,000) will be accounted as capital and the balance of RMB1,443,000,000 (approximately HK$1,483,404,000) will be accounted as an interest-free shareholder's loan to the Joint Venture.

The capital commitments were agreed after arm's length negotiations between the parties based on the estimated capital requirements of the Joint Venture. The Purchaser shall contribute cash in the amount of RMB600,000,000 (approximately HK$616,800,000) to the registered capital of the Joint Venture within 15 Business Days from the date of establishment of the Joint Venture. A further contribution of RMB400,000,000 (approximately HK$411,200,000) shall be made to the registered capital of the Joint Venture within 180 days from the date of establishment of the Joint Venture. The shareholder's loan in the amount of RMB3,420,000,000 (approximately HK$3,515,760,000) to be provided by the Purchaser shall be delivered to the Joint Venture not later than 720 days from the date of establishment of the Joint Venture or in accordance with the needs of the Joint Venture. The Purchaser shall also contribute the Assets to the Joint Venture within 90 days from the date of establishment of the Joint Venture. China Orient shall contribute non-performing loan assets valued at RMB2,190,000,000 (approximately HK$2,251,320,000) to the Joint Venture within 180 days from the date of establishment of the Joint Venture.

The Purchaser and China Orient shall share the profits and bear the losses of the Joint Venture in accordance with their respective contribution (including capital and shareholder's loan) to the Joint Venture at the time of distribution.

Board composition of the Joint Venture

The board of the Joint Venture shall comprise 9 directors, of which 3 will be appointed by China Orient and 6 will be appointed by the Purchaser. The Purchaser shall have the right to nominate one of its appointees as the chairman of the board of the Joint Venture and China Orient shall have the right to nominate one of its appointees as the deputy chairman of the board of the Joint Venture.

After its establishment, the Joint Venture will be accounted for as a subsidiary of the Company.

As the Acquisition and the establishment of the Joint Venture are subject to approval and may or may not proceed, Shareholders and the public investors should exercise caution when dealing in the securities of the Company.

REASONS FOR THE ACQUISITION AND THE ESTABLISHMENT OF THE JOINT VENTURE

The Board believes that assets management is an area that has good development potential in the PRC and is in line with the Group's business activities in finance and investments. Given that the management of non-performing loans is relatively underdeveloped in the PRC market, the Board considers the Acquisition is a good opportunity for the Group to enter into this market. The Board also considers that the establishment of the Joint Venture would be a good opportunity for the Group to partner with an experienced assets management company in the PRC to develop the assets management business in the PRC. The Directors (including the independent non-executive Directors) consider that the Acquisition and the establishment of the Joint Venture have been made on normal commercial terms and are in the interest of the Company and the Shareholders as a whole.

CHANGES IN THE SHAREHOLDING STRUCTURE OF THE COMPANY UPON THE ISSUE OF THE CONSIDERATION SHARES OR THE FULL CONVERSION OF THE CONVERTIBLE BONDS

Shareholders	Issued share capital of the Company before the issue of the Consideration Shares or the Conversion Shares		Issued share capital of the Company after the issue of the Consideration Shares or the Conversion Shares at the Maximum Issue Price or the Maximum Conversion Price		Issued share capital of the Company after the issue of the Consideration Shares or the Conversion Shares at the Minimum Issue Price or the Minimum Conversion Price	
	No. of Shares	*%*	*No. of Shares*	*%*	*No. of Shares*	*%*
Intellinsight	689,649,124	59.93	689,649,124	54.20	689,649,124	52.81
Directors *(Note)*	3,420,500	0.30	3,420,500	0.27	3,420,500	0.26
China Orient	—	—	121,692,972	9.56	155,263,448	11.89
Other shareholders	457,611,651	39.77	457,611,651	35.97	457,611,651	35.04
	1,150,681,275	100.00	1,272,374,247	100.00	1,305,944,723	100.00

Note: Other than the Shares interest attributable to three Directors (Mr. Or Wai Sheun, Ms. Ng Chi Man and Mr. Or Pui Kwan) by a discretionary trust which is the ultimate beneficiary owner of Intellinsight.

Shareholders should be aware of the dilution effect to their shareholding upon the issue of the Consideration Shares or the Conversion Shares.

FUND RAISING ACTIVITIES CONDUCTED BY THE COMPANY IN THE PAST 12 MONTHS

Set out below is a summary of the fund raising activities conducted by the Group in the past 12 months from the Latest Practicable Date:

Date of announcement	Capital raising activities	Net proceeds	Use of proceeds as set out in the announcement	Actual use of proceeds
19 December 2006	Rights issue on the basis of 1 rights share for every 2 Shares held at HK$13.80 per rights share.	Approximately HK$3,003 million after offsetting HK$2,256 million loan from the ultimate holding company.	Approximately HK$1,100 million for the acquisition of a property development site in Tianjin, the PRC and approximately HK$1,903 million for investments and further acquisition of property projects in the PRC and as general working capital.	Actual net proceeds from the rights issue was HK$3,035 million; Approximately HK$501 million used in the investment in a property development site in Tianjin, the PRC; Approximately HK$1,935 million used for general working capital and property projects in the PRC; and The remaining balance of approximately HK$599 million is reserved for future payments for the investment in the property development site in Tianjin, the PRC.

FINANCIAL EFFECT OF THE ACQUISITION AND THE ESTABLISHMENT OF THE JOINT VENTURE

Set out in Appendix II to this circular is the pro forma financial information of the Enlarged Group which illustrates the financial impact of the Acquisition and establishment of the Joint Venture on the assets and liabilities of the Group. Save for the incidental costs of the Acquisition and the establishment of the Joint Venture, the effect of the Acquisition and the establishment of the Joint Venture will be neutral on the net assets attributable to Shareholders of the Company if the consideration is settled by cash; there will be an increase on the net assets attributable to Shareholders of the Company of an amount equivalent to the equity component of the Convertible Bonds upon issuance if the consideration is settled by Convertible Bonds but before conversion and; there will be an increase on the net assets attributable to Shareholders of the Company of approximately HK$2,251,320,000 if the consideration is settled by the Consideration Shares or if the Convertible Bonds are fully converted into Convertible Shares.

Upon formation, the Joint Venture will become a 75.10% owned subsidiary of the Company, the results of which will be consolidated into the Group's financial statements. The Directors consider that the Acquisition and the establishment of the Joint Venture will enlarge the earnings base of the Group but the magnitude of such impact will depend on the recovery extent of the Non-performing Loans Package.

GENERAL

The Group is principally engaged in property development and investment, property management, finance and investments in Hong Kong, Macau and the PRC.

The Acquisition and the establishment of the Joint Venture are inter-conditional and constitute a major transaction for the Company under the Listing Rules and is subject to the approval by the Shareholders at a general meeting of the Company. To the best knowledge, information and belief of the Directors, having made all reasonable enquiry, no Shareholder is required to abstain from voting for the resolution to approve the Acquisition and the establishment of the Joint Venture, the Company has accepted a written certificate given by Intellinsight, which is beneficially interested in 689,649,124 Shares, representing approximately 59.93% of the issued share capital of the Company, on 24 August 2007 in respect of its approval of the Acquisition and the establishment of Joint Venture in lieu of a resolution to be passed at a general meeting pursuant to Rule 14.44 of the Listing Rules.

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

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

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

An unqualified opinion in respect of the audit of the financial statements of the Group has been issued for five years ended 31 December 2006. The following information has been extracted from the audited consolidated accounts of the Group for each of the five years ended 31 December 2006.

Consolidated Balance Sheet *(HK$ million)*

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

Consolidated Income Statement *(HK$ million)*

	2006	2005	2004	2003	2002
Turnover	2,908	1,320	773	674	591
Profit from operations	1,483	1,182	592	210	253
Finance costs	(178)	(18)	(6)	(11)	(8)
Profit attributable to Shareholders	1,346	1,059	516	152	199
Profit attributable to Shareholders *(excluding revaluation of properties)*	1,063	638	303	201	156
Dividends	572	255	181	154	121

(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 2006:

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

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

Consolidated Balance Sheet
at 31 December 2006
(Expressed in Hong Kong dollars)

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

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

Balance Sheet
at 31 December 2006
(Expressed in Hong Kong dollars)

		2006		2005	
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Non-current assets					
Fixed assets					
— Investment properties			3,500,000		3,235,000
— Other property, plant and equipment			1,263		903
	10		3,501,263		3,235,903
Interest in subsidiaries	*12*		6,708,360		2,698,153
Interest in jointly controlled entities	*14*		389,045		—
			10,598,668		5,934,056
Current assets					
Trade and other receivables	*18*	511,178		11,201	
Amount due from jointly controlled entity	*14*	1,437		—	
Cash and cash equivalents		33,447		15,531	
		546,062		26,732	
Current liabilities					
Amount due to ultimate holding company		4,985		—	
Amount due to a major shareholder	*32(m)*	—		140,791	
Trade and other payables	*20*	86,375		84,649	
Bank loans	*23*	215,000		217,287	
Current taxation		7,580		2,847	
		313,940		445,574	
Net current assets/(liabilities)			232,122		(418,842)
Total assets less current liabilities			10,830,790		5,515,214

		2006		2005	
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Non-current liabilities					
Loan from ultimate holding company	*22*	2,847,070		2,635	
Bank loans	*23*	1,236,000		1,320,900	
Deferred tax liabilities	*9(a)*	495,072		446,152	
			4,578,142		1,769,687
NET ASSETS			6,252,648		3,745,527
CAPITAL AND RESERVES					
Share capital			76,712		56,677
Reserves			6,175,936		3,688,850
TOTAL EQUITY	*24*		6,252,648		3,745,527

Consolidated Statement of Changes in Equity
for the year ended 31 December 2006
(Expressed in Hong Kong dollars)

		2006		2005	
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Total equity at 1 January			5,986,589		4,070,119
Net income for the year recognized directly in equity					
Exchange differences on translation of accounts of overseas subsidiaries and jointly controlled entities	*24*	15,148		—	
Changes in fair value of equity securities available-for-sale	*24*	32,201		(1,310)	
Changes in fair value of interests in property development	*24*	1,229,135		462,456	
Transfer to income statement upon disposal of equity securities available-for-sale	*24*	(1,870)		(11,156)	
Transfer to income statement upon recognition of interest in property development	*24*	(444,144)		(282,273)	
Net income for the year recognized directly in equity		830,470		167,717	
Net profit for the year	*24*	1,366,006		1,063,404	
Total net income recognized for the year			2,196,476		1,231,121
Attributable to:					
Shareholders of the Company		1,755,633		1,226,870	
Minority interests		440,843		4,251	
		2,196,476		1,231,121	

		2006		2005	
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Final dividend declared and paid	*8(b)*		(198,369)		(141,692)
Interim dividend declared and paid	*8(a)*		(88,416)		(56,677)
Dividend paid to minority interests	*24*		(32,554)		—
Loan from a minority shareholder	*24*		1,665		26,625
Minority interests of subsidiaries acquired during the year	*24*		—		857,093
Decrease in minority interests attributable to an increase in shareholding of a subsidiary	*24*		(162,876)		—
Issue of shares	*24*		20,035		—
Net share premium on issue of shares	*24*		2,491,493		—
Issue of shares of a subsidiary attributable to minority interests	*24*		2,383,492		—
Others	*24*		(25,004)		—
Total equity at 31 December			12,572,531		5,986,589

Consolidated Cash Flow Statement
for the year ended 31 December 2006
(Expressed in Hong Kong dollars)

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies

(a) Statement of compliance

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

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

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

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

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

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

(b) Measurement basis

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

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

(c) Basis of consolidation

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

(d) Goodwill

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

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

(e) Interest in subsidiaries and minority interests

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

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

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

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

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

(f) Interest in associated companies

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

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

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

(g) Interest in joint ventures

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

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

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

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

(h) Properties

(i) Investment properties

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

(ii) Land held for future development

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

(iii) Interests in property development

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

(iv) Properties under development

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

(v) Properties held for sale

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

(vi) Leasehold land and buildings held for own use

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

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

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

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

(j) ***Financial assets***

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

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

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

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

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

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

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

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

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

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

(l) Cash and cash equivalents

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

(m) Borrowings

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

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

(n) Depreciation and amortization

(i) Leasehold land and buildings

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

(ii) Other fixed assets

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

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

(o) Impairment of assets

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

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

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

(i) Financial assets

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

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

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

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

(ii) Other assets

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

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

(iii) Interim financial reporting and impairment

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

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

(p) Income tax

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

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

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

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

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

(q) Recognition of revenue

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

(i) Rental income from operating leases

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

(ii) Sale of properties

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

(iii) Income from interests in property development

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

(iv) Sale of investments in securities

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

(v) Dividends

— Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.

— Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

(vi) Interest income

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

(r) Translation of foreign currencies

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

(s) Financial guarantees issued, provisions and contingent liabilities

(i) Financial guarantees issued

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

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

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

(ii) Other provisions and contingent liabilities

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

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

(t) Related parties

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

(u) Segment reporting

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

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

2 Segment information

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

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

(a) ***Business segments***

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

	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	26,482				
Profit before taxation	1,208,366				
Income tax	(144,962)				
Profit for the year	1,063,404				
Segment assets	8,777,577	3,788,598	4,161,131	502,406	325,442
Interest in jointly controlled entities	641,699	16,256	625,443	—	—
Interest in associated companies	56,568	—	—	—	56,568
Unallocated	387,407				
Total assets	9,863,251				
Segment liabilities	386,660	204,438	82,999	80,536	18,687
Unallocated	3,490,002				
Total liabilities	3,876,662				
Capital expenditure incurred during the year	585,130	—	428,234	—	156,896
Depreciation and amortization for the year	1,304	—	—	—	1,304

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

(b) Geographical segments

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

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

(c) Major customers and suppliers

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

3 Profit before taxation

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

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

(b) Finance costs

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

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

(c) Other items

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

(d) The Group's share of profits for the year, after minority interests and after the declaration of dividend and taxation, retained by the associated companies was $1,324,362 (2005: $10,542,300).

(e) The Group's share of profits less losses for the year, after minority interests and after the declaration of dividend and taxation, retained by the jointly controlled entities was $2,190,824 (2005: $4,166,726).

(f) In 2006, negative goodwill of $162,876,069 was recorded on the conversion of convertible preference shares of Polytec Asset Holdings Limited ("Polytec Asset"), a listed subsidiary of the Company, held by the Group into 275,191,901 ordinary shares of Polytec Asset (note 32 (k)).

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

4 Directors' and management's emoluments

(a) Directors' emoluments

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

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

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

	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.

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

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

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

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

	2006	2005
$0 — $1,000,000	—	—
$1,000,001 — $1,500,000	1	4
$1,500,001 — $2,000,000	2	—

5 Income tax

(a) Taxation in the consolidated income statement represents:

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

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

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

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

6 Profit attributable to shareholders

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

7 Earnings per share

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

(c) Number of shares

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

8 Dividends

(a) Dividends attributable to the year

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

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

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

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

9 Deferred taxation

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

Group

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

Company

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

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

(b) Deferred tax assets not recognized

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

10 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 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
At 1 January 2006	4,147,630	270,206	33,060	36,626	4,487,522
Additions	392	—	—	4,356	4,748
Disposals	—	—	—	(1,519)	(1,519)
Revaluation surplus	346,608	—	—	—	346,608
At 31 December 2006	4,494,630	270,206	33,060	39,463	4,837,359
Representing					
Professional valuation	4,494,630	—	—	—	4,494,630
Cost	—	270,206	33,060	39,463	342,729
	4,494,630	270,206	33,060	39,463	4,837,359

	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 2005	—	4,386	1,409	29,240	35,035
Charge for the year	—	267	80	957	1,304
Written back on disposals	—	—	—	(1,503)	(1,503)
At 31 December 2005	—	4,653	1,489	28,694	34,836
At 1 January 2006	—	4,653	1,489	28,694	34,836
Charge for the year	—	6,531	785	2,330	9,646
Written back on disposals	—	—	—	(1,515)	(1,515)
At 31 December 2006	—	11,184	2,274	29,509	42,967
Carrying value					
At 31 December 2006	4,494,630	259,022	30,786	9,954	4,794,392
At 31 December 2005	4,147,630	265,553	31,571	7,932	4,452,686

(b) Company

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

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

(c) Analysis of carrying value of properties

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

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

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

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

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

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

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

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

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

11 Goodwill

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

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

12 Interest in subsidiaries

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

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

Details of the principal subsidiaries are shown in note 30.

13 Interests in property development

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

14 Interest in jointly controlled entities

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

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

Details of the jointly controlled entities are as follows:

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

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

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

Income Statement	2006 $'000	2005 $'000
Revenue	12,371	116
Expenses	(7,421)	(254)

Balance Sheet	2006 $'000	2005 $'000
Non-current assets	426,864	403,618
Current assets	1,556,951	223
Current liabilities	(702,657)	(134,264)
Non-current liabilities	(653,178)	(45,339)
Net assets	627,980	224,238

15 Interest in associated companies

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

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

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

Details of the associated companies are shown as follows:

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

Summary of financial information on significant associated companies:

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

16 Investments in securities

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

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

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

17 Inventories

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

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

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

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

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

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

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

18 Trade and other receivables

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

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

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

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

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

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

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

19 Derivative financial instruments

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

(a) Over-the-counter contingent forward transactions

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

(b) Interest rate swaps

(i) Hong Kong Dollar Swap

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

(ii) US Dollar Swap

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

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

20 Trade and other payables

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

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

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

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

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

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

21 Amounts due to minority shareholders

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

22 Loan from ultimate holding company

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

23 Bank loans

At 31 December, bank loans were repayable as follows:

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

Bank loans were classified in the balance sheets as follows:

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

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

24 Total equity

(a) Group

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

		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 interests 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 recognition of interest in property development		—	—	—	(282,273)	—	(282,273)	—	(282,273)
Final dividend declared and paid	*8(b)*	—	—	—	—	(141,692)	(141,692)	—	(141,692)
Interim dividend declared and paid	*8(a)*	—	—	—	—	(56,677)	(56,677)	—	(56,677)
Loan from a minority shareholder		—	—	—	—	—	—	26,625	26,625
Minority interests of subsidiaries acquired during the year	*26(b)*	—	—	—	—	—	—	857,093	857,093
Profit for the year		—	—	—	—	1,059,153	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	Share premium	Retained profits	Total
		$'000	*$'000*	*$'000*	*$'000*
At 1 January 2006		56,677	557,916	3,130,934	3,745,527
Issue of shares		20,035	—	—	20,035
Premium on issue of shares		—	2,549,602	—	2,549,602
Expenses on issue of shares		—	(58,109)	—	(58,109)
Final dividend declared and paid	*8(b)*	—	—	(198,369)	(198,369)
Interim dividend declared and paid	*8(a)*	—	—	(88,416)	(88,416)
Profit for the year		—	—	282,378	282,378
At 31 December 2006		76,712	3,049,409	3,126,527	6,252,648
At 1 January 2005		56,677	557,916	2,894,414	3,509,007
Final dividend declared and paid	*8(b)*	—	—	(141,692)	(141,692)
Interim dividend declared and paid	*8(a)*	—	—	(56,677)	(56,677)
Profit for the year		—	—	434,889	434,889
At 31 December 2005		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 2006 after minority interests were $54,772 (2005: $19,896,912).

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

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

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

(c) Share capital

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

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

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

25 Warrants of a subsidiary

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

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

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

26 Notes to consolidated cash flow statement

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

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

(b) Acquisition of subsidiaries

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

	2006
	$'000
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	3,295,510
	8,448,000

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

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

	2005
	$'000
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 the subsidiaries	623,430

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

27 Capital commitments

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

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

28 Contingent liabilities

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

29 Pledge of assets

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

30 Subsidiaries

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

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	*Indirect*	
Atlantic Capital Limited	Hong Kong	$10,000	100%	—	Investment holding
Country House Property Management Limited	Hong Kong	$10,000	—	100%	Property management and security services
Elegant Florist Limited	British Virgin Islands	US$1,000	100%	—	Investment holding
Eversound Investments Limited	Hong Kong	$1,000,000	—	100%	Property investment
Future Star International Limited	British Virgin Islands	US$1	100%	—	Investment holding
Gargantuan Investment Limited	Hong Kong	$2	100%	—	Financial investment
Good Companion Investments Limited	British Virgin Islands	US$1	100%	—	Investment holding
Jumbo Power Enterprises Limited	Hong Kong	$2	—	100%	Property development
Jumbo Star Limited	British Virgin Islands	US$1	100%	—	Investment holding
King's City Holdings 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		Principal activities
			Direct	*Indirect*	
Kowloon Development Engineering Limited	Hong Kong	$2	100%	—	Construction
Kowloon Development Finance Limited	Hong Kong	$2,000,000	100%	—	Financial Services
Lucky City Investments Limited	British Virgin Islands	US$1	100%	—	Investment holding
Manor House Holdings Limited	Hong Kong	$264,529,125	100%	—	Investment holding
Marble King International Limited	British Virgin Islands	US$2	100%	—	Investment holding
Pak Hop Shing Company, Limited	Hong Kong	$1,300,000	—	100%	Property development
Polytec Property Good Companion (Shenyang) Limited	People's Republic of China	US$60,000,000 *(Note)*	—	100%	Property development
Polytec Property Lucky City (Shenyang) Limited	People's Republic of China	$118,600,000 *(Note)*	—	100%	Property development
Roe Investment Limited	Hong Kong	$500,000	100%	—	Investment holding
Searson (Hong Kong) Limited	Hong Kong	$2	100%	—	Property development

Note: Amount represented the registered and paid up capital.

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
Triumph Glory Investments Limited	British Virgin Islands	US$1	100%	—	Investment holding
Tyleelord Development & Agency Company Limited	Hong Kong	$100,000	—	100%	Property investment
Un Chau Properties Limited	Hong Kong	$2	—	100%	Property investment
Units Properties Limited	Hong Kong	$2	—	100%	Property investment
Union Way Management Limited	Hong Kong	$2	—	100%	Investment holding
Wealrise Investments Limited	Hong Kong	$2	—	100%	Property development and investment
Brilliant Idea Investments Limited	British Virgin Islands	US$100	85%	—	Investment holding
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

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held *Direct*	*Indirect*	Principal activities
Polytec Asset Holdings Limited	Cayman Islands/ Hong Kong and Macau	$431,642,530	—	59.59%	Investment holding
Genius Star Investments Limited	British Virgin Islands/Macau	US$1	—	59.59%	Financial investment
Glentech International Company Limited	Hong Kong	$2	—	59.59%	Provision of consultancy services
Imperial Profit Investment Limited	British Virgin Islands/Hong Kong	US$1	—	59.59%	Financial investment
New Bedford Properties Limited	British Virgin Islands	US$1	—	59.59%	Investment holding
Newcott Limited	British Virgin Islands	US$10,000	—	59.59%	Investment holding
Noble Prime International Limited	British Virgin Islands	US$1	—	59.59%	Investment holding
Power Charm International Limited	British Virgin Islands	US$1	—	59.59%	Investment holding
Power Giant Limited	British Virgin Islands/Macau	US$1	—	59.59%	Property trading and investment
Profit Sphere International Limited	British Virgin Islands	US$1	—	59.59%	Investment holding
Sheen Concord Enterprises Limited	Hong Kong	$2	—	59.59%	Property investment and development
Sinocharm Trading Limited	British Virgin Islands	US$1	—	59.59%	Investment holding
Success Ever Limited	British Virgin Islands	US$1	—	59.59%	Investment holding
The Hong Kong Ice & Cold Storage Company Limited	Hong Kong	$500,000	—	59.59%	Ice manufacturing and provision of cold storage
Top Vision Assets Limited	British Virgin Islands	US$1	—	59.59%	Investment holding

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held *Direct*	*Indirect*	Principal activities
Century Leader Profits Limited	British Virgin Islands/People's Republic of China	US$100	—	54.23%	Property trading and investment
Acestart Investments Limited	British Virgin Islands/Macau	US$1	—	42.01%	Property trading and investment
Think Bright Limited	British Virgin Islands/Macau	US$200	—	42.01%	Property trading and investment
Hin Rich International Limited	British Virgin Islands/Macau	US$1	—	34.56%	Financial investment
Kam Yuen Property Investment Limited	Macau	MOP30,000	—	34.56%	Property investment and development
New Cosmos Holdings Limited	British Virgin Islands	US$100	—	34.56%	Investment holding

31 Staff retirement scheme

The Group operates a defined contribution staff retirement scheme. Contributions under the scheme are charged to the income statement as incurred. The amount of contributions is based on a specified percentage of the basic salary of the eligible employees. Forfeited contributions in respect of unvested benefits of staff leavers utilized to reduce the Group's ongoing contributions during the year amounted to $44,732 (2005: $38,354). There were no unutilized forfeited contributions at the balance sheet date of both years. The Group's annual contribution for the year was $608,865 (2005: $615,20).

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

32 Material related party transactions

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

(a) Polytec Holdings has guaranteed the due performance of a subsidiary of the Group in respect of its obligations under the development agreement as stated in note 17.

(b) Details of the acquisition of a subsidiary from Polytec Holdings during the year was set out in note 26(b). Balance payable to Polytec Holdings for the acquisition together with accrued interest was $3,026,230,979 as at 31 December 2006. Such transaction is considered to be related party transaction and also constitutes connected transactions as defined under the Listing Rules.

(c) Loan amounting to $2,194,040,000 has been obtained from Polytec Holdings during the year for the subscription payments of new shares issued by Polytec Asset. The proceeds of the subscription payments were utilized by Polytec Asset to settle partially the consideration for the acquisition of the subsidiary as stated in note 26(b). Such transaction is considered to be related party transaction and also constitutes connected transactions as defined under the Listing Rules.

(d) During the year, amounts of $600,000,000 was received and $40,246,056 was receivable from a subsidiary of Polytec Holdings being distribution of one of the Group's interest in property development in Macau (note 13).

(e) During the year, interest of $149,177,934 was paid to Polytec Holdings.

(f) During the year, arranger's fee and commission fee of $33,788,856 was paid to a related company for the placement and subscription of shares of the Company and Polytec Asset. Such transaction is considered to be related party transaction and also constitutes connected transactions as defined under the Listing Rules.

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

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

(i) On 5 May 2006, a subsidiary of the Company entered into a subscription agreement with Polytec Asset for the subscription of 1,598,000,000 shares of Polytec Asset at a subscription price of $1.98 each, totalling $3,164,040,000. Such transaction is considered to be related party transaction and also constitutes connected transactions as defined under the Listing Rules.

(j) During the year, Polytec Asset had a bonus issue of 69,897,537 units of warrants to a subsidiary of the Company on the basis of one unit of warrants for every ten shares then held by the subsidiary (note 25). The subsidiary has not exercised the warrants as at 31 December 2006.

(k) During the year, a subsidiary of the Company has fully paid up the convertible preference shares of Polytec Asset with amount of $66,664,621 and converted into 275,191,901 ordinary shares that resulted in an increase of 2.75% interests in Polytec Asset and a negative goodwill of $162,876,069 was arisen thereon.

(l) In December 2006, Intellinsight Holdings Limited ("Intellinsight"), the parent company of the Company and certain directors of the Company, entered into an underwriting agreement pursuant to which Intellinsight and the directors have undertaken to the Company to subscribe for 224,119,041 and 1,211,000 rights shares respectively provisionally allotted to them under the two for one rights issue at a price of $13.8 per rights share.

(m) During the year, the Company has fully repaid the amount due to a major shareholder of $140,791,092.

(n) As at 31 December 2006, a director of the Company granted a guarantee to a bank to secure the liabilities of a subsidiary to the extent of $42,718,000.

(o) As at 31 December 2006, the Group has given guarantees to insurance companies in respect of performance bonds entered into by certain associated companies to the extent of $11,020,000.

(p) During the year, the remuneration for key management personnel being short term employee benefits amounted to $12,071,342 (2005: $9,883,894) as disclosed in notes 4(a) and 4(b). The remuneration of directors and senior management is determined by the Remuneration Committee having regard to the performance and responsibilities of individuals and market trends.

33 Post balance sheet event

(a) On 18 January 2007, the authorized share capital of the Company was increased to $500 million by the creation of 4,000,000,000 new shares of $0.10 each.

(b) On 5 February 2007, 383,560,425 fully paid rights shares were issued at a price of $13.80 per rights share on the basis of one rights share for every two shares held on 18 January 2007.

34 Critical accounting judgements and key sources of estimation uncertainty

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

(a) Depreciation and amortization

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

(b) Allowances for bad and doubtful debts

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

(c) Estimated impairment of goodwill

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

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

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

35 Financial risk management objectives and policies

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

(a) Interest rate risk

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

(b) Credit risk

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

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

(c) Liquidity risk

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

(d) Foreign currency risk

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

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

(e) Price risk

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

36 Parent and ultimate holding company

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

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

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

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

(3) INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2007

Set out below are the unaudited consolidated financial statements of the Group for the six months ended 30 June 2007 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	
		2007	**2006**
		(unaudited)	**(unaudited)**
	Note	*$'000*	*$'000*
Turnover	*2*	3,180,113	1,312,418
Other revenue		6,407	7,151
Other net income/(expenses)	*3(a)*	235,209	(62,301)
Depreciation and amortization		(5,102)	(4,738)
Staff costs		(29,187)	(28,780)
Cost of inventories/financial investments sold		(2,540,740)	(905,171)
Fair value changes on investment properties	*7*	128,438	72,210
Other operating expenses		(23,825)	(34,835)
Profit from operations	*2*	951,313	355,954
Finance costs	*3(b)*	(57,200)	(34,203)
Profit on disposal of an associated company		—	47,090
Share of profits of associated companies	*3(d)*	1,161	588
Share of profits less losses of jointly controlled entities	*3(e)*	6,208	3,273
Profit before taxation	*3*	901,482	372,702
Income tax	*4*	(130,893)	(43,470)
Profit for the period		770,589	329,232
Attributable to:			
Shareholders of the Company	*16(a)*	711,746	317,835
Minority interests	*16(a)*	58,843	11,397
Profit for the period	*16(a)*	770,589	329,232
			(restated)
Earnings per share — Basic	*6(a)*	$0.67	$0.52
Earnings per share — Basic (excluding fair value changes on investment properties net of deferred tax)	*6(b)*	$0.57	(restated) $0.42
Dividend per share	*5(a)*	$0.17	$0.13

Consolidated Balance Sheet

(Expressed in Hong Kong dollars)

		At 30 June 2007		At 31 December 2006	
		(unaudited)	(unaudited)	(audited)	(audited)
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Non-current assets					
Fixed assets					
— Investment properties			4,625,330		4,494,630
— Leasehold land held for own use			255,757		259,022
— Other property, plant and equipment			40,296		40,740
	7		4,921,383		4,794,392
Goodwill			16,994		16,994
Interests in property development	*8*		10,505,678		9,490,063
Interest in jointly controlled entities			999,405		789,209
Interest in associated companies			7,142		12,040
Financial investments	*9*		136,508		150,635
Loans and advances			32,991		40,430
Deferred tax assets			4,051		3,970
			16,624,152		15,297,733
Current assets					
Interest in property development	*8*	59,288		122,124	
Inventories	*10*	4,350,586		4,054,734	
Trade and other receivables	*11*	947,484		1,045,889	
Loans and advances		54,316		56,942	
Amounts due from jointly controlled entities		232,374		258,053	
Amount due from an associated company		—		185	
Derivative financial instruments	*12*	88,274		36,074	
Financial investments	*9*	2,043,547		1,258,752	
Time deposit (pledged)		345,087		65,994	
Cash and cash equivalents		1,562,831		401,830	
		9,683,787		7,300,577	

		At 30 June 2007		At 31 December 2006	
		(unaudited)	(unaudited)	(audited)	(audited)
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Current liabilities					
Trade and other payables	*13*	1,390,830		1,087,207	
Amount due to ultimate holding company		—		4,985	
Amounts due to minority shareholders		18,270		25,082	
Derivative financial instruments	*12*	19,499		16,590	
Bank loans		671,843		888,843	
Current taxation		189,364		94,363	
		2,289,806		2,117,070	
Net current assets			7,393,981		5,183,507
Total assets less current liabilities			24,018,133		20,481,240
Non-current liabilities					
Other payable	*19(c)*	1,348,000		—	
Loan from ultimate holding company	*14*	554,339		2,857,548	
Amount payable to ultimate holding company	*15*	879,853		3,026,231	
Bank loans		1,253,200		1,290,700	
Deferred tax liabilities		764,772		734,230	
			4,800,164		7,908,709
NET ASSETS			19,217,969		12,572,531
CAPITAL AND RESERVES					
Share capital	*16(b)*		115,068		76,712
Reserves			15,032,930		8,976,072
Total equity attributable to shareholders of the Company	*16(a)*		15,147,998		9,052,784
Minority interests	*16(a)*		4,069,971		3,519,747
TOTAL EQUITY	*16(a)*		19,217,969		12,572,531

Consolidated Statement of Changes in Equity

(Expressed in Hong Kong dollars)

		Six months ended 30 June 2007		Six months ended 30 June 2006	
		(unaudited)	(unaudited)	(unaudited)	(unaudited)
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Total equity at 1 January			12,572,531		5,986,589
Net income for the period recognized directly in equity					
Exchange differences on translation of accounts of overseas subsidiaries and jointly controlled entities	*16(a)*	29,862		—	
Changes in fair value of available-for-sale investments	*16(a)*	(9,982)		1,218	
Changes in fair value of interests in property development	*16(a)*	1,103,479		14,982	
Transfer to income statement upon disposal of available-for-sale investments		—		(1,871)	
Transfer to income statement upon recognition from interest in property development	*16(a)*	(136,972)		—	
Net income for the period recognized directly in equity		986,387		14,329	
Net profit for the period	*16(a)*	770,589		329,232	
Total net income recognized for the period			1,756,976		343,561
Attributable to:					
Shareholders of the Company		1,287,012		332,164	
Minority interests		469,964		11,397	
		1,756,976		343,561	

		Six months ended 30 June 2007		Six months ended 30 June 2006	
		(unaudited)	**(unaudited)**	**(unaudited)**	**(unaudited)**
	Note	*$'000*	*$'000*	*$'000*	*$'000*
Final dividend declared and paid	*5(b)*		(483,286)		(198,369)
Dividend paid to minority interests	*16(a)*		(26,623)		(23,833)
Loan from a minority shareholder	*16(a)*		1,945		1,114
Increase in minority interests upon the subscription of shares under warrants of a subsidiary	*16(a)*		104,938		—
Issue of shares	*16(a)*		38,356		11,335
Net share premium on issue of shares	*16(a)*		5,253,132		1,366,222
Issue of share of a subsidiary attributable to minority interests			—		2,358,512
Total equity at 30 June			19,217,969		9,845,131

Condensed Consolidated Cash Flow Statement

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2007	**2006**
	(unaudited)	**(unaudited)**
	$'000	*$'000*
Net cash used in operating activities	(126,835)	(500,295)
Net cash used in investing activities	(204,841)	(3,212,431)
Net cash from financing activities	1,488,718	3,930,655
Net increase in cash and cash equivalents	1,157,042	217,929
Cash and cash equivalents at 1 January	401,830	104,706
Effect of foreign exchange rate changes	3,959	—
Cash and cash equivalents at 30 June	1,562,831	322,635

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 Hong Kong Standard on Review Engagements 2410 "Review of interim financial information performed by the independent auditor of the entity", 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 39. 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 2006 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 2007. 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 2006 annual financial statements.

The financial information relating to the financial year ended 31 December 2006 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 15 March 2007.

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 financial investments, net proceeds from sale of properties, ice making and cold storage and interest income.

(a) ***Business segments***

	Six months ended 30 June 2007				
	Consolidated	**Property development**	**Property investment**	**Finance and investments**	**Others**
	$'000	*$'000*	*$'000*	*$'000*	*$'000*
Turnover	3,180,113	167,398	114,853	2,857,052	40,810
Contribution from operations	844,907	131,290	109,052	595,785	8,780
Fair value changes on investment properties	128,438	—	128,438	—	—
Unallocated group expenses	(22,032)				
Profit from operations	951,313				
Finance costs	(57,200)				
Share of profits of associated companies	1,161	—	—	—	1,161
Share of profits less losses of jointly controlled entities	6,208	(1,221)	7,429	—	—
Profit before taxation	901,482				
Income tax	(130,893)				
Profit for the period	770,589				

	Six months ended 30 June 2006				
	Consolidated	**Property development**	**Property investment**	**Finance 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				

(b) Geographical segments

	Group turnover		Group profit from operations	
	Six months ended 30 June		Six months ended 30 June	
	2007	**2006**	**2007**	**2006**
	$'000	*$'000*	*$'000*	*$'000*
Hong Kong	2,965,190	1,154,139	805,412	310,058
People's Republic of China	750	132,000	(6,947)	29,835
Macau	164,447	12,409	137,926	822
North America	42,309	11,252	7,553	12,682
Others	7,417	2,618	7,369	2,557
	3,180,113	1,312,418	951,313	355,954

3. Profit before taxation

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

(a) Other net income/(expenses) represents fair value changes on financial investments and derivative financial instruments.

(b) Finance costs

	Six months ended 30 June	
	2007	**2006**
	$'000	*$'000*
Interest on bank loans and overdrafts	49,711	61,886
Interest on loan from/amount payable to ultimate holding company	53,061	12,717
Less: Amount capitalized *(Note)*	(45,572)	(39,529)
	57,200	35,074
Less: Interest expense included as other operating expenses	—	(871)
	57,200	34,203

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

(c) ***Other items***

	Six months ended 30 June	
	2007	**2006**
	$'000	*$'000*
Rentals receivable under operating leases less outgoings	(108,647)	(95,573)
Rental income	(114,853)	(107,931)
Less: Outgoings	6,206	12,358
Interest income	(48,904)	(35,952)
Dividend income from listed investments	(6,870)	(2,221)
Income from held-to-maturity notes	—	(1,230)
Income from other unlisted investments	(9,099)	(24,037)
Income from other listed investments	(3,788)	—
Realized gain on available-for-sale investments	—	(3,257)
Realized gain on other listed investments	(306,096)	(52,266)

(d) 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 $1,161,000 (six months ended 30 June 2006: $588,000).

(e) The Group's share of profits less losses of jointly controlled entities for the period, after minority interests and taxation, attributable to shareholders of the Company was $3,201,000 (six months ended 30 June 2006: $1,861,000).

4. Income tax

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2007	**2006**
	$'000	*$'000*
Current tax		
Provision for profits tax		
— Hong Kong	100,434	35,156
— Overseas	3,067	1,505
Overprovision in respect of prior years	(2,208)	(3,333)
	101,293	33,328
Deferred tax	29,600	10,142
	130,893	43,470

Hong Kong profits tax is calculated at 17.5% (six months ended 30 June 2006: 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	
	2007	**2006**
	$'000	*$'000*
Interim dividend declared after the interim period of $0.17 (2006: $0.13) per share on 1,150,681,275 shares (2006: 680,120,850 shares)	195,616	88,416

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	
	2007	**2006**
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the interim period, of $0.42 (2006: $0.35) per share on 1,150,681,275 shares (2006: 566,767,850 shares)	483,286	198,369

6. 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 $711,746,000 (six months ended 30 June 2006: $317,835,000) and weighted average number of ordinary shares in issue during the period of 1,065,307,711 (2006: 607,719,138 as restated).

(b) Basic earnings per share (excluding fair value changes on investment properties net of deferred tax)

The calculation of basic earnings per share excluding fair value changes on investment properties net of deferred tax is based on the adjusted profit attributable to shareholders of the Company of $605,785,000 (six months ended 30 June 2006: $257,908,000).

(c) Diluted earnings per share

No diluted earnings per share for the six months ended 30 June 2006 and 2007 has been presented as the Company had no dilutive potential ordinary shares for both periods.

(d) The comparative amount of earnings per share has been restated, as the number of ordinary shares in prior period has been adjusted for the consolidation of one-for-two rights issue effected during the six months ended 30 June 2007.

7. Fixed assets

The investment properties of the Group were revalued at 30 June 2007 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 $128,438,000 (six months ended 30 June 2006: $72,210,000) and deferred tax thereon of $22,477,000 (six months ended 30 June 2006: $12,637,000) have been included in the consolidated income statement.

8. 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 the ultimate holding company, Polytec Holdings International Limited ("Polytec Holdings").

In determining the fair value of interests in property development, the Group estimates the future cash flows expected to arise from the interests in property development and utilizes a suitable discount rate to calculate the present value. Cash flow projections for the interests in property development are based on the past performance, current market conditions, valuation information by independent professional valuer, management's expectations for the market development and terms provided under the co-investment agreements.

9. Financial investments

	At 30 June 2007 *$'000*	**At 31 December 2006** *$'000*
Non-current assets		
Available-for-sale investments		
— Equity shares, listed in Hong Kong	97,720	108,080
— Investment fund, unlisted	38,788	42,555
	136,508	150,635
Current assets		
Other listed investments		
— Equity shares, listed in Hong Kong	1,889,095	1,069,954
— Equity shares, listed outside Hong Kong	—	31,578
— Bonds, listed outside Hong Kong	154,452	157,220
	2,043,547	1,258,752
	2,180,055	1,409,387

	At 30 June 2007 $'000	At 31 December 2006 $'000
Market value of financial investments		
— Listed in Hong Kong	1,986,815	1,178,034
— Listed outside Hong Kong	154,452	188,798

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

Risk management

The Group is exposed to risk associated with its financial investments. Appropriate measures are implemented under sophisticated risk management policies on a timely and effective manner. These measures covered macroeconomic analysis, securities analysis, trade execution control and portfolio evaluation. Currently the Group maintains a diversified investment portfolio.

10. Inventories

	At 30 June 2007 $'000	At 31 December 2006 $'000
Land held for future development	16,475	190,526
Properties under development	4,049,426	3,552,329
Properties held for sale	282,422	310,319
Trading goods	2,263	1,560
	4,350,586	4,054,734

Included in properties under development is an amount of $1,535,990,000 (at 31 December 2006: $1,510,604,000), which represents the accumulated costs incurred by the Group for the development of a property in Ngau Chi Wan. The Group has been granted the exclusive right for the development by The Little Sisters of the Poor ("The Little Sisters"). Pursuant to the development agreement with The Little Sisters, the Group is responsible for bearing all costs and expenses of carrying out the development and in return, the Group is entitled to all sales proceeds derived from the completed development. As at 30 June 2007, the Group had an outstanding payable to The Little Sisters under the development agreement of approximately $38 million (at 31 December 2006: $88 million).

11. Trade and other receivables

The following is an ageing analysis of trade receivables:

	At 30 June 2007	**At 31 December 2006**
	$'000	*$'000*
Current and 0 – 90 days	231,967	113,212
91 – 180 days	2,019	1,521
Over 180 days	8,781	7,973
Trade receivables	242,767	122,706
Utility and other deposits	5,051	5,266
Other receivables and prepayments	699,666	917,917
	947,484	1,045,889

Trade receivables of the Group of an amount of $191,675,000 (at 31 December 2006: $40,246,000) represents receivable from a subsidiary of Polytec Holdings being entitlement of one of the Group's interest in property development in Macau.

Utility and other deposits of the Group of $3,498,000 (at 31 December 2006: $3,687,000) are expected to be recovered after more than one year.

Prepayments of the Group of an amount of $345,743,000 (at 31 December 2006: $345,743,000) represents 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.

Prepayments of the Group of an amount of approximately $303,392,000 (at 31 December 2006: $498,256,000) represents the initial deposit paid for the acquisition of a composite property development site located in Tianjin of the People's Republic of China ("PRC"). During the period ended 30 June 2007, the Group's interest in this property development project was reduced from 100% to 61% with the disposal of the Group's 39% interest to two strategic partners.

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. Derivative financial instruments

	At 30 June 2007		**At 31 December 2006**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
	$'000	*$'000*	*$'000*	*$'000*
Over-the-counter contingent forward transactions	88,274	19,499	31,407	16,590
Interest rate swaps				
— Hong Kong Dollars	—	—	4,667	—
	88,274	19,499	36,074	16,590

13. Trade and other payables

The following is an ageing analysis of trade payables:

	At 30 June 2007	At 31 December 2006
	$'000	*$'000*
Not yet due or on demand	791,511	561,702
0 – 90 days	36,386	4,427
91 – 180 days	1	104
Over 180 days	1,774	—
Trade payables	829,672	566,233
Rental and other deposits	52,975	50,668
Deposits received on sale of properties	411,096	276,646
Other payables and accrued expenses	97,087	193,660
	1,390,830	1,087,207

Trade and other payables of the Group of $49,557,000 (at 31 December 2006: $47,394,000) are expected to be refunded/settled after more than one year.

Trade payables of the Group of an amount of $441,605,000 (at 31 December 2006: $428,535,000) represents outstanding consideration for the acquisition of a piece of land in Shenyang of the PRC, the payment of which is not yet due and is payable within one year.

Deposits received on sale of properties of the Group of $407,070,000 (at 31 December 2006: $276,646,000) are expected to be settled after more than one year.

14. 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.

15. Amount payable to ultimate holding company

This represents balance payable to Polytec Holdings for the acquisition of a subsidiary from Polytec Holdings in relation to the Group's certain interests in property development in Macau. The balance payable is unsecured, interest bearing with interest charged with reference to bank lending rates and is not expected to settle within one year.

16. Total equity

(a) Total equity

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

	Note	Share capital $'000	Share premium $'000	Capital reserve $'000	Fair value reserves $'000	Exchange reserves $'000	Retained profits $'000	Total $'000	Minority interests $'000	Total equity $'000
		Attributable to shareholders of the Company								
At 1 January 2007		76,712	3,049,409	2,154	731,265	15,148	5,178,096	9,052,784	3,519,747	12,572,531
Issue of shares		38,356	—	—	—	—	—	38,356	—	38,356
Premium on issue of shares		—	5,254,777	—	—	—	—	5,254,777	—	5,254,777
Expenses on issue of shares		—	(1,645)	—	—	—	—	(1,645)	—	(1,645)
Exchange differences on translation of accounts of overseas subsidiaries and jointly controlled entities		—	—	—	—	29,862	—	29,862	—	29,862
Changes in fair value of available-for-sale investments		—	—	—	(9,982)	—	—	(9,982)	—	(9,982)
Changes in fair value of interests in property development		—	—	—	692,358	—	—	692,358	411,121	1,103,479
Transfer to income statement upon recognition from interest in property development		—	—	—	(136,972)	—	—	(136,972)	—	(136,972)
Final dividend declared and paid	5(b)	—	—	—	—	—	(483,286)	(483,286)	—	(483,286)
Dividend paid to minority interests		—	—	—	—	—	—	—	(26,623)	(26,623)
Loan from a minority shareholder		—	—	—	—	—	—	—	1,945	1,945
Increase in minority interests upon the subscription of shares under warrants of a subsidiary		—	—	—	—	—	—	—	104,938	104,938
Profit for the period		—	—	—	—	—	711,746	711,746	58,843	770,589
At 30 June 2007		115,068	8,302,541	2,154	1,276,669	45,010	5,406,556	15,147,998	4,069,971	19,217,969

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 2007 No. of shares of $0.1 each	At 30 June 2007 Amount $'000	At 31 December 2006 No. of shares of $0.1 each	At 31 December 2006 Amount $'000
Authorized	5,000,000,000	500,000	1,000,000,000	100,000
Issued and fully paid				
At 1 January	767,120,850	76,712	566,767,850	56,677
Issue of shares	383,560,425	38,356	200,353,000	20,035
At 30 June (2006: At 31 December)	1,150,681,275	115,068	767,120,850	76,712

On 18 January 2007, the authorized share capital of the Company was increased to $500 million by the creation of additional 4,000,000,000 shares of $0.10 each, ranking pari passu with the existing ordinary shares of the Company in all respects.

On 5 February 2007, 383,560,425 fully paid rights shares were issued at a price of $13.80 per rights share on the basis of one rights share for every two shares held on 18 January 2007.

17. Capital commitments

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

	At 30 June 2007	**At 31 December 2006**
	$'000	*$'000*
Contracted for		
— Capital injection into a jointly controlled entity	—	194,445
— Investment properties	4,806	1,241
— Acquisition/Formation of subsidiaries	703,644	693,293
	708,450	888,979
Authorized but not contracted for		
— Investment properties	93,882	94,067

18. Pledge of assets

At 30 June 2007, properties and financial investments of the Group with an aggregate carrying value of approximately $6,884,010,000 (at 31 December 2006: $6,039,683,000) and time deposits of $345,087,000 (at 31 December 2006: $65,994,000) were pledged to financial institutions to secure banking facilities granted to the Group or as margin deposits for the Group's financial investments.

19. 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 10.

(b) Polytec Holdings has guaranteed the due performance of the obligations of the Company in respect of its obligations in the property development project in Tianjin, PRC.

(c) At 30 June 2007, an amount of $1,348,000,000 was received from a subsidiary of Polytec Holdings in respect of the Group's interests in property development in Macau and was recorded under "Other payable" of non-current liabilities.

(d) At 30 June 2007, a director has granted a guarantee to a bank to secure the liabilities of the Group to the extent of $42,718,000.

(e) During the period ended 30 June 2007, the Group has recognized entitlement of one of the Group's interest in property development in Macau. As at 30 June 2007, entitlement of $191,675,000 is receivable from a subsidiary of Polytec Holdings.

(f) At 30 June 2007, the Group has given guarantees to insurance companies in respect of performance bonds entered into by certain associated companies to the extent of $6,027,000.

20. Post balance sheet event

Subsequently after the balance sheet date, the Group conditionally agreed to acquire non-performing loan assets from an assets management company in the PRC for a consideration of RMB2,190,000,000 pursuant to an assets transfer agreement dated 22 August 2007. Meanwhile, according to a joint venture agreement of the same date, a wholly-owned subsidiary of the Company agreed to establish a joint venture with the assets management company on a 75.1% and 24.9% basis. The subsidiary will contribute the assets acquired under the assets transfer agreement and cash of RMB4,420,000,000 while the assets management company will contribute non-performing loan assets valued at RMB2,190,000,000 into the joint venture company.

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

Over the course of 2006, through a series of major land acquisitions, we have secured a number of sizeable pieces of land in Macau and three cities in the Mainland China, namely Tianjin, Foshan and Shenyang. Accordingly the Group's landbank has significantly increased to 5 million sq. m. gross floor area with 480,000 sq. m. in Macau and 4,300,000 sq. m. in China. These moves have laid a solid foundation for the Group's property development in the years ahead.

We are optimistic about the economic development in China and believe its continued strong economic growth and on-going urbanization will lead to rising personal income and wealth and hence a rapid growth in the number of middle-class households, boosting resilient demand for housing. The recent rise in auctioned land prices and housing prices across the nation confirms our positive view on the China property market.

All the Group's projects in China are proceeding well and are expected to start contributing earnings to the Group in 2009. In the first half of 2008, we will commence the construction work of the first phase of our Shenyang and Foshan development projects. For the Tianjin project, where the development site is located in the heart of central business district of Hedong, we plan to build a modern commercial complex which will become the most prominent landmark in the area.

Over the past six months, we have been building up a strong local team of professionals and experts, which will enable the Group to accelerate the pace of its business development in China.

The Group, through its subsidiary Polytec Asset Holdings Limited, will continue to maintain its strategic focus on Macau, where we believe there is still further upside in its property market.

The performance of the Group's finance and investments segment has been encouraging over the past five years, with its investment income rising significantly each year. We did expand our investment portfolio throughout the period 2002-2006, but at the same time, we have also improved the overall rate of return to capital. Meanwhile, we will continue to maintain highly prudent approach to our investment activities.

The proposed acquisition of 50% of the non-performing loan portfolio from China Orient will further strengthen the Group's finance and investments business. And the Group's joint-venture with China Orient will build mutual benefits and long-term business relationship with one of the four state asset management companies. Indeed, the combined synergy generated from China Orient's existing human resources and its knowledge in local business, and our management's extensive knowledge and experience in finance, retail, infrastructure and manufacturing businesses, will enable the joint-venture to enhance the recovery rate of the non-performing loans.

Looking forward, we will continue to explore potential investment opportunities in Hong Kong and Macau and accelerate the pace of our business development in China. With existing investment and development plans, the Group is entering a period of rapid growth and we expect this impetus will provide sustainable and solid momentum to the Group's earnings for the years to come.

As at 30 June 2007, the Group's total bank borrowings amounted to HK$1,925 million with HK$1,253 million repayable in more than one year. Cash and cash equivalents of the Group amounted to HK$1,563 million with resulting net borrowings position of HK$362 million, a substantial reduction of 80% or HK$1,416 million as compared with the net borrowings of HK$1,778 million as at 31 December 2006. During the six months period under review, the Group raised net proceeds of HK$3,035 million by the issue of 383,560,425 rights shares at HK$13.8 per share and after offsetting loans from the ultimate holding company of HK$2,256 million. The new equity capital had not only strengthened the financial position of the Group by reducing the Group's gearing ratio (calculated on the basis of net bank borrowings to equity attributable to shareholders of the Company) significantly from 20% at year end of 2006 to 2.4% as at 30 June 2007 but also equipped the Group with funds for further investment opportunities which may come up especially from the Mainland China.

The ultimate holding company continued its financial support to the Group with loans outstanding as at 30 June 2007 of HK$1,434 million including the balance of HK$880 million in respect of the acquisition of interests in property development in Macau. Taking account of the outstanding balance due to the ultimate holding company, the adjusted gearing ratio is 12% as at 30 June 2007.

During the period under review, the Group has further increased its investment in both Shenyang and Foshan projects by HK$219 million and HK$195 million respectively, while HK$771 million was added to its financial investment portfolio. The total outstanding balance due to the ultimate holding company dropped by HK$4,450 million with HK$2,256 million being offset against portion of the subscription money for the Company's rights shares by the major shareholder, Intellinsight Holdings Limited. An amount of HK$1,348 million was received by the Group during the first half year of 2007 from a subsidiary of the ultimate holding company, Polytec Holdings International Limited in Macau.

All banking facilities are arranged on a floating rate basis. Management will continue to monitor and manage the Group's exposure to interest rate risks and will engage in relevant hedging arrangements when appropriate.

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

With the financing facilities in place, recurrent income from investment properties, property sales and the proceeds from the rights issue in February 2007, there are sufficient financial resources for the Group to satisfy its commitments in property projects and working capital requirements. Furthermore, according to the assets transfer agreement with China Orient, the Company may be required to issue new equity for its capital commitments under the agreement.

As at 30 June 2007, the Group had contracted commitments of HK$704 million in respect of the acquisition of Shenzhen Properties & Resources Development (Group) Limited. Commitments for construction work of investment properties amounted to HK$99 million.

As at 30 June 2007, properties and financial investments valued at HK$6,884 million and time deposits of HK$345 million were pledged to financial institutions to secure credit facilities or as margin deposits for the Group's financial investments. The Group had no contingent liabilities as at 30 June 2007.

As at 30 June 2007, the Group (including Polytec Asset Holdings Limited but excluding associated companies) employed a total of around 390 employees (as at 31 December 2006: 324 employees). The Group ensures that pay levels of employees remain competitive and employees are rewarded based on their performance. Employee benefits include medical insurance, life insurance, retirement schemes, in-house training courses as well as subsidies for external education and training programmes. A share option scheme is also in place to provide incentives and rewards to eligible persons, including Directors and employees.

(5) 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 2006, the date to which the latest audited consolidated financial statements of the Group were made up.

(6) 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, available and unutilized banking and other borrowing facilities and internal resources of the Enlarged Group, the Enlarged Group will have sufficient working capital for its present requirements for at least the next twelve months following the date of this circular.

(7) 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 31 August 2007, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, any mortgages, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness (including those authorized or otherwise created but unissued), finance leases or hire-purchase commitments, liabilities under acceptances or acceptance credits, or any guarantees or other contingent liabilities outstanding as at close of business on 31 August 2007.

Borrowings

As at 31 August 2007, the Group had outstanding borrowings of approximately HK$4,169 million. The borrowings comprised bank loans of approximately HK$2,481 million, loan from and amount payable to ultimate holding company of approximately HK$1,683 million and amount due to a minority shareholder of approximately HK$5 million. The aggregate amount of borrowings at 31 August 2007 is as follows:

	HK$'million
Secured bank loans	2,281
Unsecured bank loans	200
Unsecured loan from ultimate holding company	
— interest-bearing with no fixed terms of repayment	790
Unsecured amount payable to ultimate holding company	
— interest-bearing and is not expected to settle within one year	887
— interest-free with no fixed terms of repayment	6
Unsecured amount due to a minority shareholder	
— interest-bearing with no fixed terms of repayment	5
	4,169

Pledge of assets

As at 31 August 2007, certain properties, securities, cash and bank balances and receivables of the Group with aggregate carrying values of approximately HK$7,969 million were pledged to banks to secure general banking facilities or as margin deposits for financial investments.

For illustrative purpose only, set out below is the unaudited pro forma statements of assets and liabilities on the Enlarged Group after completion of the Assets Transfer Agreement and Joint Venture Agreement. The unaudited pro forma statements of assets and liabilities are prepared in accordance with Rule 4.29(1) and Rule14.67(4)(a)(ii) of the Listing Rules to illustrate the effect of the completion of the Assets Transfer Agreement and Joint Venture Agreement on the Group's assets and liabilities.

(A) UNAUDITED PRO FORMA STATEMENTS 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 Joint Venture (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 acquisition of non-performing loans ("the Acquisition") from and the establishment of a joint venture ("the Joint Venture") with China Orient Asset Management Corporation ("China Orient"). A narrative description of the pro forma adjustments of the Acquisition and the establishment of the Joint Venture 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 4 to 17 of the "Letter from the Board" in this circular.

The unaudited pro forma statement of assets and liabilities on the Enlarged Group is prepared based on the unaudited consolidated balance sheet of the Group as at 30 June 2007, extracted from the published interim report of the Group as set out in Appendix I of this circular as if the Acquisition and the establishment of the Joint Venture has been completed on 30 June 2007.

The unaudited Pro Forma Financial Information is prepared to provide information on the Enlarged Group as a result of the completion of the Acquisition and the establishment of the Joint Venture. 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 Acquisition and the establishment of the Joint Venture ("the Completion").

Settlement method I — by cash

	The Group as at 30 Jun 2007	Unaudited pro forma adjustments upon completion of proposed Acquisition and establishment of the Joint Venture		The Enlarged Group pro forma total
	HK$'000	*HK$'000*	*Note*	*HK$'000*
	(Unaudited)			(Unaudited)
Non-current assets				
Fixed assets				
— Investment properties	4,625,330	—		4,625,330
— Leasehold land held for own use	255,757	—		255,757
— Other property, plant and equipment	40,296	—		40,296
	4,921,383	—		4,921,383
Goodwill	16,994	—		16,994
Interests in property development	10,505,678	—		10,505,678
Interest in jointly controlled entities	999,405	—		999,405
Interest in associated companies	7,142	—		7,142
Financial investments	136,508	—		136,508
Loans and advances	32,991	—		32,991
Deferred tax assets	4,051	—		4,051
	16,624,152	—		16,624,152
Current assets				
Interest in property development	59,288	—		59,288
Inventories	4,350,586	—		4,350,586
Trade and other receivables	947,484	—		947,484
Loans and advances	54,316	2,251,320	*1*	4,556,956
		2,251,320	*2*	
Amounts due from jointly controlled entities	232,374	—		232,374
Derivative financial instruments	88,274	—		88,274
Financial investments	2,043,547	—		2,043,547
Time deposit (pledged)	345,087	—		345,087
Cash and cash equivalents	1,562,831	(1,562,831)	*1*	4,543,760
		4,543,760	*2*	
	9,683,787	7,483,569		17,167,356

	The Group as at 30 Jun 2007	Unaudited pro forma adjustments upon completion of proposed Acquisition and establishment of the Joint Venture		The Enlarged Group pro forma total
	HK$'000	*HK$'000*	*Note*	*HK$'000*
	(Unaudited)			(Unaudited)
Current liabilities				
Trade and other payables	1,390,830	—		1,390,830
Amounts due to minority shareholders	18,270	—		18,270
Derivative financial instruments	19,499	—		19,499
Bank loans	671,843	—		671,843
Current taxation	189,364	—		189,364
	2,289,806	—		2,289,806
Net current assets	7,393,981	7,483,569		14,877,550
Total assets less current liabilities	24,018,133	7,483,569		31,501,702
Non-current liabilities				
Other payable	1,348,000	—		1,348,000
Loan from ultimate holding company	554,339	—		554,339
Amount payable to ultimate holding company	879,853	—		879,853
Bank loans	1,253,200	688,489	*1*	6,485,449
		4,543,760	*2*	
Deferred tax liabilities	764,772	—		764,772
	4,800,164	5,232,249		10,032,413
NET ASSETS	19,217,969	2,251,320		21,469,289
CAPITAL AND RESERVES				
Share capital	115,068	—		115,068
Reserves	15,032,930	—		15,032,930
Total equity attributable to shareholders of the Company	15,147,998	—		15,147,998
Minority interests	4,069,971	2,251,320	*2*	6,321,291
TOTAL EQUITY	19,217,969	2,251,320		21,469,289

Settlement method II — by the Convertible Bonds but before conversion

	The Group as at 30 Jun 2007	Unaudited pro forma adjustments upon completion of proposed Acquisition and establishment of the Joint Venture		The Enlarged Group pro forma total
	HK$'000	*HK$'000*	*Note*	*HK$'000*
	(Unaudited)			(Unaudited)
Non-current assets				
Fixed assets				
— Investment properties	4,625,330	—		4,625,330
— Leasehold land held for own use	255,757	—		255,757
— Other property, plant and equipment	40,296	—		40,296
	4,921,383	—		4,921,383
Goodwill	16,994	—		16,994
Interests in property development	10,505,678	—		10,505,678
Interest in jointly controlled entities	999,405	—		999,405
Interest in associated companies	7,142	—		7,142
Financial investments	136,508	—		136,508
Loans and advances	32,991	—		32,991
Deferred tax assets	4,051	—		4,051
	16,624,152	—		16,624,152
Current assets				
Interest in property development	59,288	—		59,288
Inventories	4,350,586	—		4,350,586
Trade and other receivables	947,484	—		947,484
Loans and advances	54,316	2,251,320	*1*	4,556,956
		2,251,320	*2*	
Amounts due from jointly controlled entities	232,374	—		232,374
Derivative financial instruments	88,274	—		88,274
Financial investments	2,043,547	—		2,043,547
Time deposit (pledged)	345,087	—		345,087
Cash and cash equivalents	1,562,831	4,543,760	*2*	4,543,760
		(1,562,831)	*2*	
	9,683,787	7,483,569		17,167,356

	The Group as at 30 Jun 2007	Unaudited pro forma adjustments upon completion of proposed Acquisition and establishment of the Joint Venture		The Enlarged Group pro forma total
	HK$'000	*HK$'000*	*Note*	*HK$'000*
	(Unaudited)			(Unaudited)
Current liabilities				
Trade and other payables	1,390,830	—		1,390,830
Amounts due to minority shareholders	18,270	—		18,270
Convertible bonds	—	2,176,331	*1*	2,176,331
Derivative financial instruments	19,499	—		19,499
Bank loans	671,843	—		671,843
Current taxation	189,364	—		189,364
	2,289,806	2,176,331		4,466,137
Net current assets	7,393,981	5,307,238		12,701,219
Total assets less current liabilities	24,018,133	5,307,238		29,325,371
Non-current liabilities				
Other payable	1,348,000	—		1,348,000
Loan from ultimate holding company	554,339	—		554,339
Amount payable to ultimate holding company	879,853	—		879,853
Bank loans	1,253,200	2,980,929	*2*	4,234,129
Deferred tax liabilities	764,772	—		764,772
	4,800,164	2,980,929		7,781,093
NET ASSETS	19,217,969	2,326,309		21,544,278
CAPITAL AND RESERVES				
Share capital	115,068	—		115,068
Reserves	15,032,930	74,989	*1*	15,107,919
Total equity attributable to shareholders of the Company	15,147,998	74,989		15,222,987
Minority interests	4,069,971	2,251,320	*2*	6,321,291
TOTAL EQUITY	19,217,969	2,326,309		21,544,278

Settlement method III — by the Consideration Shares at the Maximum Issue Price

	The Group as at 30 Jun 2007	Unaudited pro forma adjustments upon completion of proposed Acquisition and establishment of the Joint Venture		The Enlarged Group pro forma total
	HK$'000	*HK$'000*	*Note*	*HK$'000*
	(Unaudited)			(Unaudited)
Non-current assets				
Fixed assets				
— Investment properties	4,625,330	—		4,625,330
— Leasehold land held for own use	255,757	—		255,757
— Other property, plant and equipment	40,296	—		40,296
	4,921,383	—		4,921,383
Goodwill	16,994	—		16,994
Interests in property development	10,505,678	—		10,505,678
Interest in jointly controlled entities	999,405	—		999,405
Interest in associated companies	7,142	—		7,142
Financial investments	136,508	—		136,508
Loans and advances	32,991	—		32,991
Deferred tax assets	4,051	—		4,051
	16,624,152	—		16,624,152
Current assets				
Interest in property development	59,288	—		59,288
Inventories	4,350,586	—		4,350,586
Trade and other receivables	947,484	—		947,484
Loans and advances	54,316	2,251,320	*1*	4,556,956
		2,251,320	*2*	
Amounts due from jointly controlled entities	232,374	—		232,374
Derivative financial instruments	88,274	—		88,274
Financial investments	2,043,547	—		2,043,547
Time deposit (pledged)	345,087	—		345,087
Cash and cash equivalents	1,562,831	4,543,760	*2*	4,543,760
		(1,562,831)	*2*	
	9,683,787	7,483,569		17,167,356

	The Group as at 30 Jun 2007	Unaudited pro forma adjustments upon completion of proposed Acquisition and establishment of the Joint Venture		The Enlarged Group pro forma total
	HK$'000	*HK$'000*	*Note*	*HK$'000*
	(Unaudited)			(Unaudited)
Current liabilities				
Trade and other payables	1,390,830	—		1,390,830
Amounts due to minority shareholders	18,270	—		18,270
Derivative financial instruments	19,499	—		19,499
Bank loans	671,843	—		671,843
Current taxation	189,364	—		189,364
	2,289,806	—		2,289,806
Net current assets	7,393,981	7,483,569		14,877,550
Total assets less current liabilities	24,018,133	7,483,569		31,501,702
Non-current liabilities				
Other payable	1,348,000	—		1,348,000
Loan from ultimate holding company	554,339	—		554,339
Amount payable to ultimate holding company	879,853	—		879,853
Bank loans	1,253,200	2,980,929	*2*	4,234,129
Deferred tax liabilities	764,772	—		764,772
	4,800,164	2,980,929		7,781,093
NET ASSETS	19,217,969	4,502,640		23,720,609
CAPITAL AND RESERVES				
Share capital	115,068	12,169	*1*	127,237
Reserves	15,032,930	2,239,151	*1*	17,272,081
Total equity attributable to shareholders of the Company	15,147,998	2,251,320		17,399,318
Minority interests	4,069,971	2,251,320	*2*	6,321,291
TOTAL EQUITY	19,217,969	4,502,640		23,720,609

Settlement method IV — by the Consideration Shares at the Minimum Issue Price

	The Group as at 30 Jun 2007	Unaudited pro forma adjustments upon completion of proposed Acquisition and establishment of the Joint Venture		The Enlarged Group pro forma total
	HK$'000	*HK$'000*	*Note*	*HK$'000*
	(Unaudited)			(Unaudited)
Non-current assets				
Fixed assets				
— Investment properties	4,625,330	—		4,625,330
— Leasehold land held for own use	255,757	—		255,757
— Other property, plant and equipment	40,296	—		40,296
	4,921,383	—		4,921,383
Goodwill	16,994	—		16,994
Interests in property development	10,505,678	—		10,505,678
Interest in jointly controlled entities	999,405	—		999,405
Interest in associated companies	7,142	—		7,142
Financial investments	136,508	—		136,508
Loans and advances	32,991	—		32,991
Deferred tax assets	4,051	—		4,051
	16,624,152	—		16,624,152
Current assets				
Interest in property development	59,288	—		59,288
Inventories	4,350,586	—		4,350,586
Trade and other receivables	947,484	—		947,484
Loans and advances	54,316	2,251,320	*1*	4,556,956
		2,251,320	*2*	
Amounts due from jointly controlled entities	232,374	—		232,374
Derivative financial instruments	88,274	—		88,274
Financial investments	2,043,547	—		2,043,547
Time deposit (pledged)	345,087	—		345,087
Cash and cash equivalents	1,562,831	4,543,760	*2*	4,543,760
		(1,562,831)	*2*	
	9,683,787	7,483,569		17,167,356

	The Group as at 30 Jun 2007	Unaudited pro forma adjustments upon completion of proposed Acquisition and establishment of the Joint Venture		The Enlarged Group pro forma total
	HK$'000	*HK$'000*	*Note*	*HK$'000*
	(Unaudited)			(Unaudited)
Current liabilities				
Trade and other payables	1,390,830	—		1,390,830
Amounts due to minority shareholders	18,270	—		18,270
Derivative financial instruments	19,499	—		19,499
Bank loans	671,843	—		671,843
Current taxation	189,364	—		189,364
	2,289,806	—		2,289,806
Net current assets	7,393,981	7,483,569		14,877,550
Total assets less current liabilities	24,018,133	7,483,569		31,501,702
Non-current liabilities				
Other payable	1,348,000	—		1,348,000
Loan from ultimate holding company	554,339	—		554,339
Amount payable to ultimate holding company	879,853	—		879,853
Bank loans	1,253,200	2,980,929	*2*	4,234,129
Deferred tax liabilities	764,772	—		764,772
	4,800,164	2,980,929		7,781,093
NET ASSETS	19,217,969	4,502,640		23,720,609
CAPITAL AND RESERVES				
Share capital	115,068	15,526	*1*	130,594
Reserves	15,032,930	2,235,794	*1*	17,268,724
Total equity attributable to shareholders of the Company	15,147,998	2,251,320		17,399,318
Minority interests	4,069,971	2,251,320	*2*	6,321,291
TOTAL EQUITY	19,217,969	4,502,640		23,720,609

Background

On 22 August 2007, the Company, Major Aim Developments Limited ("Major Aim", a wholly-owned subsidiary of the Company), and China Orient entered into the following agreements:

- an assets transfer agreement ("the Assets Transfer Agreement"), pursuant to which Major Aim will conditionally acquire from China Orient the Assets (as defined herein) for a consideration of RMB2,190,000,000 ("the Consideration", equivalent to approximately HK$2,251,320,000). The assets acquired ("the Assets") are non-performing loans, comprising 50% of the outstanding non-performing loans of China Orient in Guangdong and Hainan provinces ("the Non-performing Loans Package"). The Assets will be transferred to the Group upon the settlement of the Consideration and the satisfaction of the conditions set out in the Assets Transfer Agreement; and

- a joint venture agreement ("the Joint Venture Agreement"), pursuant to which Major Aim and China Orient will establish a joint venture in Zhuhai to engage in assets management.

The Assets Transfer Agreement

Pursuant to the Assets Transfer Agreement, the Consideration will be settled by the Group in one of the following manners, as determined by China Orient within 90 days from the date of the Assets Transfer Agreement becoming effective:

i. by cash; or

ii. by the issue of six-month zero coupon convertible bonds ("the Convertible Bonds") in the principal amount of Hong Kong Dollar equivalent to RMB2,190,000,000 (approximately HK$2,251,320,000) to China Orient. The conversion price will be 105% of the average closing price per share for the five trading days immediately preceding the date of the Assets Transfer Agreement becoming effective, subject to a maximum conversion price of HK$18.50 per share. The parties also subsequently agreed on a minimum conversion price of HK$14.50 per share; or

iii. by the issue of shares of the Company ("the Consideration Shares") to China Orient at an issue price per share equivalent to the average closing price per share for the five trading days immediately preceding the date of the Assets Transfer Agreement becoming effective, subject to a maximum issue price of HK$18.50 per share ("the Maximum Issue Price"). The parties also subsequently agreed on a minimum issue price of HK$14.50 per share ("the Minimum Issue Price").

The Joint Venture Agreement

Pursuant to the Joint Venture Agreement, the Group and China Orient agreed to establish the Joint Venture in Zhuhai to engage in assets management, financial consulting services, valuation and agency services and other business as permitted by the PRC examination and approval authorities. The Joint Venture has a term of five years.

The total investment of the Joint Venture will be RMB8,800,000,000 (equivalent to approximately HK$9,046,400,000), which comprises registered share capital of RMB3,000,000,000 (equivalent to approximately HK$3,084,000,000) and interest-free shareholders' loans of RMB5,800,000,000 (equivalent to approximately HK$5,962,400,000). The shareholders' loans are assumed to be capital contributions into the Joint Venture and classified as equity.

The Group will contribute RMB6,610,000,000 (equivalent to approximately HK$6,795,080,000) to the Joint Venture in the form of all the rights to the Assets acquired under the Acquisition and cash in the sum of RMB4,420,000,000 (equivalent to approximately HK$4,543,760,000), while China Orient will contribute its remaining 50% interest in the Non-performing Loans Package, valued at RMB2,190,000,000 (equivalent to approximately HK$2,251,320,000).

Based on the Group's shareholding and its majority of voting rights in the board of directors, the Joint Venture is assumed to be a 75.10% owned subsidiary of the Enlarged Group, while the 24.90% interest held by China Orient is assumed to be a minority interest.

Settlement methods

As the settlement method of the Consideration is at the determination of China Orient, a separate unaudited Pro Forma Financial Information is prepared to illustrate the effect of the Acquisition and the establishment of the Joint Venture on the Group's assets and liabilities for each of the following four settlement methods:

I Settlement by cash;

II Settlement by the Convertible Bonds but before conversion;

III Settlement by the Consideration Shares at the Maximum Issue Price; and

IV Settlement by the Consideration Shares at the Minimum Issue Price.

Settlement method I: Settlement by cash

Notes:

(1) The adjustment is to record the settlement of the Consideration by cash.

The Consideration will be settled in cash and is assumed to be financed as to RMB1,520,264,000 (equivalent to approximately HK$1,562,831,000) by internal resources of the Group and as to RMB669,736,000 (equivalent to approximately HK$688,489,000) by long-term bank borrowings not expected to be payable within one year.

(2) The adjustment is to record the impact of the establishment of the Joint Venture with China Orient.

China Orient shall transfer its remaining 50% interest in the Non-performing Loans Package to the Joint Venture, which represents a minority interest in the Enlarged Group, while the Group will transfer the Assets and contribute cash of RMB4,420,000,000 (equivalent to approximately HK$4,543,760,000), which is assumed to be financed by long-term bank borrowings not expected to be payable within one year.

Settlement method II: Settlement by the Convertible Bonds but before conversion

Notes:

(1) The adjustment is to record the settlement of the Consideration by the issuance of the Convertible Bonds.

The Consideration will be settled by the Convertible Bonds in the principal amount of Hong Kong Dollar equivalent to RMB2,190,000,000 (approximately HK$2,251,320,000) to China Orient, assuming no conversion of the Convertible Bonds will take place as at the date of the Completion.

The fair value of the liability component of the Convertible Bonds at the date of the Completion is determined to be HK$2,176,331,000 by an independent professional valuer. The equity component is therefore HK$74,989,000. The liability and the equity components of the Convertible Bonds is accounted for in accordance with HKAS 32 "Financial Instruments: Disclosure and Presentation".

(2) The adjustment is to record the impact of the establishment of the Joint Venture with China Orient.

China Orient shall transfer its remaining 50% interest in the Non-performing Loans Package to the Joint Venture, which represents a minority interest in the Enlarged Group, while the Group will transfer the Assets and contribute cash of RMB4,420,000,000 (equivalent to approximately HK$4,543,760,000), which is assumed to be financed as to RMB1,520,264,000 (equivalent to approximately HK$1,562,831,000) by internal resources of the Group and as to RMB2,899,736,000 (equivalent to approximately HK$2,980,929,000) by long-term bank borrowings not expected to be payable within one year.

Settlement method III: Settlement by the Consideration Shares at the Maximum Issue Price

Notes:

(1) The adjustment is to record the settlement of the Consideration by the issuance of the Consideration Shares at the Maximum Issue Price.

The Consideration will be settled by the issue of 121,692,972 new Consideration Shares, of HK$0.1 each, to China Orient at the Maximum Issue Price of HK$18.50. As a result of the Consideration Shares issue, the Group's issued share capital and share premium will increase by HK$12,169,000 and HK$2,239,151,000 respectively.

(2) The adjustment is to record the impact of the establishment of the Joint Venture with China Orient.

China Orient shall transfer its remaining 50% interest in the Non-performing Loans Package to the Joint Venture, which represents a minority interest in the Enlarged Group, while the Group will transfer the Assets and contribute cash of RMB4,420,000,000 (equivalent to approximately HK$4,543,760,000), which is assumed to be financed as to RMB1,520,264,000 (equivalent to approximately HK$1,562,831,000) by internal resources of the Group and as to RMB2,899,736,000 (equivalent to approximately HK$2,980,929,000) by long-term bank borrowings not expected to be payable within one year.

Settlement method IV: Settlement by the Consideration Shares at the Minimum Issue Price

Notes:

(1) The adjustment is to record the settlement of the Consideration by the issuance of the Consideration Shares at the Minimum Issue Price.

The Consideration will be settled by the issue of 155,263,448 new Consideration Shares, of HK$0.1 each, to China Orient at the Minimum Issue Price of HK$14.50. As a result of the Consideration Shares issue, the Group's issued share capital and share premium will increase by HK$15,526,000 and HK$2,235,794,000 respectively.

(2) The adjustment is to record the impact of the establishment of the Joint Venture with China Orient.

China Orient shall transfer its remaining 50% interest in the Non-performing Loans Package to the Joint Venture, which represents a minority interest in the Enlarged Group, while the Group will transfer the Assets and contribute cash of RMB4,420,000,000 (equivalent to approximately HK$4,543,760,000), which is assumed to be financed as to RMB1,520,264,000 (equivalent to approximately HK$1,562,831,000) by internal resources of the Group and as to RMB2,899,736,000 (equivalent to approximately HK$2,980,929,000) by long-term bank borrowings not expected to be payable within one year.

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

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

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

18 October 2007

Dear Sirs,

Kowloon Development Company Limited ("the Company")

We report on the unaudited pro forma financial information (the "unaudited Pro Forma Financial Information") of Kowloon Development Company Limited, its subsidiaries and a joint venture company to be formed by the Company and China Orient Asset Management Corporation (the "Enlarged Group") set out on pages 97 to 109 in Appendix II of the Company's circular dated 18 October 2007 (the "Circular") in connection with the acquisition of non-performing loans and the establishment of a joint venture company, which has been prepared by the directors of the Company solely for illustrative purposes to provide information as to how the transactions might have affected the financial information presented. The basis of preparation of the unaudited Pro Forma Financial Information is set out in the introduction and notes to the unaudited pro forma statement of assets and liabilities on the Enlarged Group as set out in Appendix II of the Circular.

Responsibilities

It is the responsibility solely of the directors of the Company to prepare the unaudited Pro Forma Financial Information in accordance with Paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29 of the Listing Rules, on the unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited Pro Forma Financial Information with the directors of the Company. The engagement did not involve independent examination of any of the underlying financial information.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The unaudited Pro Forma Financial Information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, it does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at 30 June 2007 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

1. RESPONSIBILITY STATEMENT

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

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions

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 and its associated corporation (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 and short positions which he is taken or deemed to have under such provisions of the SFO); or (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, underlying Shares and debentures of the Company

Name of Directors	Nature of interest	Number of Shares Long position	Number of Shares Short position	Approximate percentage of total issued Shares *(Note 1)*
Or Wai Sheun	Beneficiary *(Note 2)*	689,649,124	Nil	59.93%
	Corporate *(Note 3)*	277,500	Nil	0.02%
Ng Chi Man	Beneficiary *(Note 4)*	689,649,124	Nil	59.93%

Name of Directors	Nature of interest	Number of Shares Long position	Number of Shares Short position	Approximate percentage of total issued Shares *(Note 1)*
Or Pui Kwan	Beneficiary *(Note 5)*	689,649,124	Nil	59.93%
	Personal *(Note 5)*	10,500	Nil	0.00%
Lok Kung Chin, Hardy	Under Trust *(Note 6)*	1,425,000	Nil	0.12%
Keith Alan Holman	Personal *(Note 7)*	567,000	Nil	0.05%
Tam Hee Chung	Corporate *(Note 8)*	308,000	Nil	0.03%
Lai Ka Fai	Personal *(Note 7)*	468,000	Nil	0.04%
David John Shaw	Personal *(Note 7)*	133,500	Nil	0.01%
	Family *(Note 9)*	66,000	Nil	0.01%
Yeung Kwok Kwong	Personal *(Note 7)*	165,000	Nil	0.01%

Notes:

1. The percentage holding is calculated based on the total number of issued Shares of 1,150,681,275 Shares as at the Latest Practicable Date.

2. Mr. Or Wai Sheun was interested in 689,649,124 Shares ultimately and wholly-owned by a discretionary family trust of which Mr. Or Wai Sheun is the founder and a beneficiary. These Shares were the Shares disclosed under Ms. Ng Chi Man and Mr. Or Pui Kwan in the above table and in the section on "Interests of substantial Shareholders and other persons in the Company and other members of the Group" below.

3. Mr. Or Wai Sheun was also interested in 277,500 Shares owned by China Dragon Limited due to his corporate interest therein.

4. Ms. Ng Chi Man is the spouse of Mr. Or Wai Sheun. Ms. Ng was deemed to be interested in 689,649,124 Shares as a beneficiary of the discretionary family trust referred in Note 2 above.

5. Mr. Or Pui Kwan is the son of Mr. Or Wai Sheun and Ms. Ng Chi Man. Mr. Or Pui Kwan was the beneficial owner of 10,500 Shares and was also deemed to be interested in 689,649,124 Shares as a beneficiary of the discretionary family trust referred in Note 2 above.

6. Mr. Lok Kung Chin, Hardy was taken to be interested in 1,425,000 Shares owned by discretionary trusts of which Mr. Lok is the founder and a beneficiary respectively.

7. Shares were held by the respective Directors in their capacity as beneficial owners.

8. By virtue of a 48% interest in Larry H.C. Tam & Associates Limited, Mr. Tam Hee Chung was deemed to be interested in such Shares.

9. Shares were held through the family interest of Mr. David John Shaw.

Interests in shares, underlying shares and debentures of the associated corporation — Polytec Asset Holdings Limited ("Polytec Asset")

Name of Directors	Nature of interest	Number of shares Long position	Short position	Approximate percentage of total issued shares *(Note 1)*
Or Wai Sheun	Beneficiary *(Note 2)*	2,642,064,812	Nil	59.52%
Ng Chi Man	Beneficiary *(Note 2)*	2,642,064,812	Nil	59.52%
Or Pui Kwan	Beneficiary *(Note 2)*	2,642,064,812	Nil	59.52%
Yeung Kwok Kwong	Personal	1,860,000	Nil	0.04%
Tam Hee Chung	Corporate *(Note 3)*	1,100,000	Nil	0.02%
Keith Alan Holman	Personal	582,000	Nil	0.01%
Lai Ka Fai	Personal	430,000	Nil	0.01%

Notes:

1. The percentage holding is calculated based on 4,438,967,838 ordinary shares, being the total number of issued shares of Polytec Asset as at the Latest Practicable Date.

2. Through their respective interests in the Company disclosed under the sub-section on "Interests in Shares, underlying Shares and debentures of the Company", and by virtue of 100% interest in Marble King International Limited, the immediate holding company of Polytec Asset, by the Company, Mr. Or Wai Sheun, Ms. Ng Chi Man and Mr. Or Pui Kwan were deemed to be interested in 2,642,064,812 ordinary shares.

3. By virtue of a 48% interest in Larry H.C. Tam & Associates Limited which owns such ordinary shares.

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 positions in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were 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 and 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) Interests of substantial Shareholders and other persons in the Company and other members of the Group

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 or 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 the Company and any other members 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:

Name of Shareholders	Nature of interest	Number of Shares Long position	Number of Shares Short position	Approximate percentage of total issued Shares *(Note 1)*
HSBC International Trustee Limited	Trustee	690,331,624 *(Note 2)*	Nil	59.99%
Or Family Trustee Limited Inc.	Trust	689,649,124 *(Notes 2&3)*	Nil	59.93%

Notes:

1. The percentage holding is calculated based on the total number of 1,150,681,275 Shares as at the Latest Practicable Date.

2. Out of the 690,331,624 Shares in which HSBC International Trustee Limited was interested as trustee of certain discretionary trusts that it manages, 689,649,124 Shares were the Shares held by the Or Family Trustee Limited Inc. as trustee disclosed in the above table and referred in the section "Directors' interests and short positions". Mr. Or Wai Sheun and Mr. Keith Alan Holman are directors of Or Family Trustee Limited Inc.

3. As trustee for The Or Unit Trust, owning all the shares of Polytec Holdings International Limited, which in turn owns all the shares of Intellinsight, which in turn owns 689,649,124 Shares in the Company.

Subsidiaries (excluding Polytec Asset and its subsidiaries)

Name of subsidiary	Name of shareholder	Approximate percentage 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%
Polytec Binhai Property (Tianjin) Co., Ltd	Tianjin Binhai Mass Transit Development Co., Ltd.	10.00%
Polytec CITIC Property (Tianjin) Co., Ltd	Tianjin CITIC Real Estate Investment Co., Ltd.	30.00%
	Tianjin Binhai Mass Transit Development Co., Ltd.	10.00%

Polytec Asset and its subsidiaries

Name of subsidiary	Name of shareholder	Approximate percentage 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.

3. COMPETING INTEREST

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 International Limited ("Polytec Holdings"), a company ultimately and wholly-owned by the Or Family Trust in which Mr. Or Wai Sheun (the "Chairman"), 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 Wai Sheun, Mr. 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.

4. DIRECTORS' SERVICE CONTRACTS

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).

5. DIRECTORS' OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any assets which has been, since the date to which the latest published audited accounts of the Group were made up, acquired or disposed of by or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by or leased to, the Company or any of its subsidiaries.

6. LITIGATION

So far as the Directors are aware, as at the Latest Practicable Date, no members of the Group were 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 circular:

Name	**Qualification**
KPMG	certified public accountants

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

As at the Latest Practicable Date, neither KPMG 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 2006 (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 circular and are or may be material:

(a) 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$11.60 million (equivalent to approximately HK$90.48 million);

(b) the sale and purchase agreement dated 8 April 2006 ("New Bedford Agreement") between Profit Sphere International Limited ("Profit Sphere"), a wholly-owned subsidiary of Polytec Asset Holdings Limited ("Polytec Asset"), and Polytec Holdings International Limited 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;

(c) 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;

(d) the agreement dated 5 May 2006 between Polytec Asset and the Company in respect of the issue and subscription of 1,598,000,000 new shares in Polytec Asset at HK$1.98 per share;

(e) 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;

(f) the cooperation agreement dated 13 December 2006 ("Tianjin Agreement") between the Company and Tianjin Binhai Mass Transit Development Co., Ltd. ("Tianjin Binhai") in relation to the proposed investment by the Company in a sino-foreign equity joint venture enterprise to be established in the PRC to acquire a property in Tianjin and under which the Company has agreed to pay the consideration of RMB3,500 million (equivalent to approximately HK$3,598 million) for the interest in the said property;

(g) the underwriting agreement dated 19 December 2006 entered into among Intellinsight, the Company and certain undertaking Directors in relation to the subscription of rights shares under, and the underwriting of, a proposed rights issue of 1 rights share for every 2 Shares held at a price of HK$13.80 per rights share;

(h) the cooperation agreement dated 15 May 2007 entered into among the Company, Tianjin CITIC Real Estate Investment Co., Ltd. ("CITIC") and Tianjin Flying Investment Development Co., Ltd. ("Flying") to regulate the mutual rights and obligations among the Company, CITIC and Flying in Polytec CITIC Property (Tianjin) Co., Ltd. ("Polytec CITIC") established under terms of the Tianjin Agreement, pursuant to which the parties will participate in the development of the property located at the intersection of Shiyijing Road and Liuwei Road, Hedong District, Tianjin, the PRC, (the "Tianjin Property");

(i) the interest transfer agreement dated 15 May 2007 entered into between the Company, CITIC and Flying in relation to the transfer out of 39% interest in Polytec CITIC, pursuant to which the parties can jointly participate in the development of the Tianjin Property;

(j) the supplemental agreement to the Tianjin Agreement dated 15 May 2007 entered into among the Company, Tianjin Binhai, CITIC and Flying to amend the Tianjin Agreement, in particular in respect of the Company's obligations towards Tianjin Binhai;

(k) the Assets Transfer Agreement; and

(l) the Joint Venture Agreement.

9. MISCELLANEOUS

(a) The registered office of the Company is 23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong. The share registrar of the Company is Computershare Hong Kong Investor Services Limited on 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(b) The qualified accountant and secretary of the Company is Ms. Wai Yuk Hing, Monica. Ms. Wai holds a Bachelor of Business degree from Monash University, Melbourne, Australia, and is a certified public accountant registered with the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and an associate member of CPA Australia.

(c) The English text of this circular will prevail over the Chinese text.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the registered office of the Company from the date of this circular up to and including 1 November 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 2006 and the interim report of the Company for the six months ended 30 June 2007;

(c) the written consent as referred to in the section headed "Experts and Consents" of this appendix;

(d) the financial information on the Group, the text of which is set out in Appendix I of this circular;

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

(f) the material contracts as referred to in the section headed "Material Contracts" in this appendix; and

(g) 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 2006.