



九龍建業有限公司
Kowloon Development Company Limited

(Stock Code : 34)

2005
Annual Report

Macro Vision
To Shape The Future

中國

CHINA

澳門

MACAU

香港

HONG KONG

Highlights

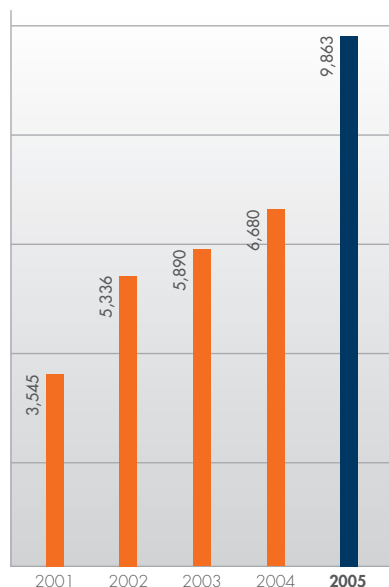
- Group's 2005 net profit rises to HK\$1,059 million; excluding property revaluations net of deferred tax, underlying net profit increases 111% to HK\$638 million.
- Excluding revaluation effects, underlying earnings per share for 2005 amount to HK\$1.13, an increase of 109% over 2004.
- The 5-year earnings target (earnings per share to grow at 20% per year in 2004-2008) set at the start of 2004 has been accomplished in two years.
- Robust earnings growth is expected in 2006 and 2007.

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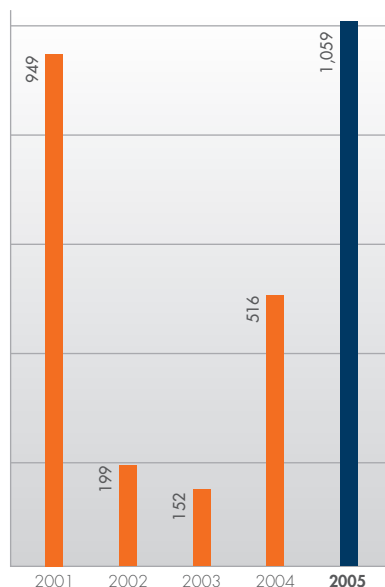
<i>For the year ended 31 December</i> <i>(HK\$ million)</i>	2005	2004	2003	2002	2002-2005 Average Change
Turnover	1,320	773	674	591	
<i>% year-on-year</i>	71%	15%	14%		33%
Profit attributable to shareholders	1,059	516	152	199	
— Net profit excluding revaluations	638	303	201	156	
<i>% year-on-year</i>	111%	51%	29%		64%
Earnings per share ("EPS") (HK\$)	1.87	0.92	0.32	0.41	
— EPS excluding revaluations	1.13	0.54	0.42	0.32	
<i>% year-on-year</i>	109%	29%	31%		56%
Dividends (HK\$)	0.45	0.32	0.28	0.25	
<i>% year-on-year</i>	41%	14%	12%		22%
— Interim	0.10	0.07	0.06	0.05	
— Final	0.35	0.25	0.22	0.20	

Five-Year Financial Summary

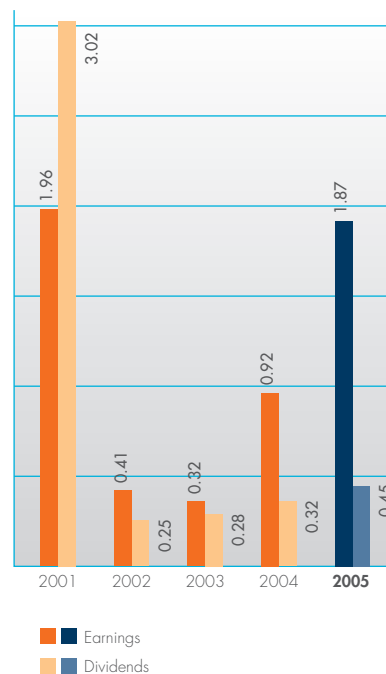
Total Assets (HK\$ million)



Profit Attributable to Shareholders (HK\$ million)



Earnings & Dividends per Share (HK\$)



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Consolidated Balance Sheet (HK\$ million)

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

Five-Year Financial Summary

Consolidated Income Statement (HK\$ million)

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

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Financial Highlights

	2005	2004	2003	2002	2001
Net Asset Value per Share (HK\$)	8.99	6.87	6.15	6.11	5.92
Earnings per Share (HK\$) (excluding revaluation of properties)	1.13	0.54	0.42	0.32	2.19
Earnings per Share (HK\$)	1.87	0.92	0.32	0.41	1.96
Dividends per Share (HK\$)	0.45	0.32	0.28	0.25	3.02
Dividend Payout Ratio (%) (excluding revaluation of properties)	40.00	59.88	76.37	77.67	138.12
Return on Shareholders' Equity (%)	23.55	15.01	5.14	6.84	27.42
Gearing Ratio (bank borrowings/ shareholders' equity) (%)	51.83	44.98	74.27	51.56	10.54

Notes:

- The financial information in this summary is extracted from the published accounts for the last five years, restated where appropriate to be in accordance with the current accounting policies of the Group.
- In 2001, special interim dividend in specie was declared and distributed in the proportion of 4 shares of The Kowloon Motor Bus Holdings Limited for every 37 shares of the Company held (equivalent to a dividend of HK\$2.8 per share).

Chairman's Statement

Group Results and Dividends

The Group's profit attributable to shareholders for the year ended 31 December 2005 amounted to HK\$1,059 million. Excluding investment property revaluation gains net of deferred tax of HK\$421 million, underlying net profit rose 111% to HK\$638 million. Underlying earnings per share rose to HK\$1.13, representing an increase of 109% over 2004.

It should be noted that a number of new accounting standards which became effective on 1 January 2005 require restatement in the accounts of the Group's previously reported results.

The Board of Directors has recommended the payment of a final dividend of HK\$0.35 per share for 2005, an increase of 40% over 2004. Together with the interim dividend of HK\$0.10, the full year dividend for 2005 will amount to HK\$0.45 per share, representing an increase of 41% over the previous year.

The final dividend will be payable on 9 May 2006 to shareholders registered as at 8 May 2006.

Business Review

The record net profit achieved in 2005 has come from a broad-based improvement across our core property business which has benefited from strong economic growth and favourable sentiment in the property markets in Hong Kong and Macau. The main contributions to the Group's 2005 profit were two residential development projects in Hong Kong and Macau, the sales of which produced a combined profit of HK\$401 million. Other Group's businesses have also performed well.

Major Acquisitions

The Group provided investors with the opportunities to participate in the economies of Hong Kong, Macau, and increasingly the Mainland China. To further expand to Macau and the Mainland China, two major acquisitions were made in 2005.

In April 2005, through an 85% owned subsidiary, the Group entered into an agreement to acquire a 70.3% stake in



As a luxury trendsetter development in the Western Mid-Levels, Mount Davis 33 is at the international forefront in its user-oriented design.

Chairman's Statement

Shenzhen Properties & Resources Development (Group) Limited ("Shenzhen Properties") for a cash consideration of RMB459 million. Shenzhen Properties, indirectly owned by the Shenzhen Municipal Government, is an enterprise listed on the Shenzhen Stock Exchange and principally engaged in real estate development, investment and property management in the PRC. The acquisition of Shenzhen Properties was approved by the shareholders of the Company at an extraordinary general meeting on 20 July 2005. Subsequently, the Group made a share segregation proposal to the A-share shareholders of Shenzhen Properties in accordance with the relevant reform initiated by the China Securities Regulatory Commission ("CSRC"). The proposal was approved by the A-share shareholders of Shenzhen Properties on 13 January 2006. The Group will hold an effective 59.76% stake in Shenzhen Properties if the CSRC approves its general offer waiver application. If its waiver application is not granted, the Group may have to initiate a general offer to the A-share and B-share shareholders. Details of the acquisition has been stated in a circular issued by the Company on 30 June 2005.

In October 2005, the Company entered into an agreement to acquire an aggregate interest of approximately 56.84% in the existing issued shares of Polytec Asset Holdings Limited ("Polytec Asset") and all the outstanding partly paid non-voting convertible redeemable preference shares ("CPS") of Polytec Asset for a total consideration of HK\$826 million. Polytec Asset is a property investment, development



The Company is honoured to be selected by Forbes Asia as one of the 200 "Best Under A Billion" companies in 2005.

and trading company listed on the Main Board of the Hong Kong Stock Exchange (stock code: 208) and the majority of its property development and investment portfolio is in Macau. The whole acquisition process was completed on 24 November 2005. Assuming full conversion of the CPS, the Group has an effective interest of Polytec Asset of 64.15%. As we only completed the whole acquisition process of Polytec Asset in late November, its contribution to the Group's 2005 profit was negligible. The full impact of the Polytec Asset acquisition will be reflected in the Group's 2006 accounts.

Property Sales

The Group's property sales rose to HK\$531 million in 2005, an increase of 80% over 2004. The substantial increase in sales was primarily due to the recognition of a portion of the cash distribution from the Group's 80% interest in La Baie Du Noble, a residential and commercial property development project in

Chairman's Statement

Macau, and the sale of a majority of the 68 residential units of Padek Palace at No.377 Prince Edward Road West in Hong Kong.

Property Development

La Baie Du Noble, covering an aggregate gross floor area of approximately 1,603,000 sq ft, is close to completion. It has been well received by the market since the launch of the pre-sale. Except for those duplex apartments, nearly all residential units have been sold. This is one of the most prestigious residential and commercial properties in Macau and its contemporary designs and superior finishes have set new high standards for residential developments in the town. We intend to release the duplex units to the market in the second half of this year.

The residential project at No. 33 Ka Wai Man Road, named as Mount Davis 33, is near completion. This luxury residential property is located above the western seashore of Hong Kong Island and is a joint-venture residential development project with the Urban Renewal Authority. It offers a total of 89 units, with a gross floor area of approximately 78,000 sq ft and a high quality private clubhouse. We will release some units to the market shortly. With a limited supply of quality residential units on Hong Kong Island, we expect this project to be well received by the market.

The Group's development at 31 Robinson Road, Mid-Levels, Hong Kong, of 84 luxury residential units with a gross floor area of approximately 128,000 sq ft, is expected to be completed in 2007.

The Group's important residential and commercial development project at 35 Clear Water Bay Road, Ngau Chi Wan, with an estimated gross floor area of approximately 2,163,000 sq ft, is currently under site formation works. The newly revised development plan has been approved by the Town Planning Board.

During 2005, the Group acquired certain properties, with a total gross floor area of approximately 60,000 sq ft, at Belcher's Street on Hong Kong Island. These properties will be redeveloped in the near future.

Property Investment

The Group's gross rental income for 2005 from its property investment portfolio amounted to HK\$212 million. Excluding a one-off termination fee from a retail tenancy in 2004, the underlying gross rental income rose 17% in 2005 over the previous year. The improvement was broad-based, with the underlying rental income from office and retail properties rising 20% and 19% respectively.

The Group has reached an agreement with MTR Corporation to construct a subway connecting the MTR Prince Edward Station and the basement of Pioneer Centre and the project will commence soon. After completion, it will provide greater convenience to visitors and people living in the vicinity.

Prospects

The Group has capitalized on the experience of the new management in property business and a series of development projects injected by the parent company since the takeover by the Polytec Group in early 2002. As a result, the Group's net profit, excluding revaluation gains, has grown at an annual rate of 60%, with underlying net profit rising from HK\$156 million in 2002 to HK\$638 million in 2005.

At the start of 2004, we set a 5-year earnings target for the Group, aiming to deliver an annual growth rate of 20% in earnings per share during the period of 2004-2008 or 149% over the period. We have accomplished the goal in two years rather than five, with underlying earnings per share growing 169% over the period.

Looking forward, while we have achieved our 5-year goal much earlier than we had targeted, barring unforeseen circumstances, we are confident that the Group's earnings will continue to grow at a robust rate in 2006 and 2007.

Assuming completion of the acquisition of a controlling stake in Shenzhen Properties, which is still pending final approval from the CSRC, the Group will pursue a three-tier development strategy, with an exposure in the three markets of the Greater China region. Polytec Asset will become the Group's property development and investment flagship in the Macau market while Shenzhen Properties will become the property

investment and development platform of the Group in the Mainland China. The Company will continue to concentrate on its activities in Hong Kong and as a holding company for the Group's interests in Macau and China. This will allow the three listed companies of the Group to maintain strategic focus on their respective markets and set a platform for the Group to readily access the best investment opportunities in three markets, providing greater investment flexibility.

Management will continue to focus on ensuring the Group maintains dynamic earnings growth in the long term, thus delivering the best return to our shareholders.

Appreciation

The Company is honored to be selected by Forbes Asia as one of the 200 "Best Under A Billion" companies in 2005. I would like to share this honor with my fellow directors and all staff. Indeed, without their efforts, we would not have had such an achievement. The reward also reminds us to continue to work hard for the benefit of the Company.

Or Wai Sheun

Chairman

Hong Kong, 30 March 2006

Review of Operations

Property Development

The status of our existing projects under development is shown below.

Group's* Major Projects Under Development

Location	Usage	Group's Interest	Approximate Total Gross Floor Area	Status	Expected Date of Completion
		(%)	(sq ft)		
MACAU					
La Baie Du Noble The Orient Pearl District Macau	Residential and Commercial	80	1,603,000	Superstructure works in progress	First half 2006
HONG KONG					
Mount Davis 33 No. 33 Ka Wai Man Road Kennedy Town Hong Kong	Residential	Joint Venture with the Urban Renewal Authority	78,000	Superstructure works in progress	First half 2006
No. 31 Robinson Road Mid-Levels Hong Kong	Residential	100	128,000	Superstructure works in progress	2007
No. 35 Clear Water Bay Road Ngau Chi Wan Kowloon	Residential and Commercial	100	2,163,000	Site formation works in progress	2008/2009
TOTAL			3,972,000		

Note: * Excluding those of Polytec Asset

La Baie Du Noble, The Orient Pearl District, Macau

An 80% interest in this luxury residential and commercial property development project was acquired by the Group in 2004. The development, comprising five residential blocks erected over a 3-storey commercial podium, commands a panoramic sea view.



Our Executive Director Mr Lai Ka Fai (middle) accepted the "Best Under A Billion" Award from Mr Steve Forbes, President, CEO and Editor-in-Chief of Forbes (left) and Mr Darrell Metzger, CEO, Sentosa Leisure Group, Host Sponsor (right).

Review of Operations

Mount Davis 33, 33 Ka Wai Man Road, Kennedy Town, Hong Kong

Situated at the Western Mid-levels, this joint-venture project with the Urban Renewal Authority offers top-quality residential units with full clubhouse facilities and a lush landscaped environment. At Mount Davis 33, every unit owns a panoramic seaview balcony, overlooking a magnificent view of Tsim Sha Tsui and Tsing Ma Bridge. This property project has achieved the provisional rating of Platinum Standard of The Hong Kong Building Environmental Assessment Method (HK-BEAM) Society, which assesses new building premises for their environmental protection and user-oriented design.

31 Robinson Road, Mid-Levels, Hong Kong

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



Mount Davis 33 has achieved the provisional rating of Platinum Standard of the HK-BEAM Society.

35 Clear Water Bay Road, Ngau Chi Wan, Kowloon

The site will be built up into a comprehensive residential and commercial complex with retail and community facilities.

Property Investment

The Group's existing investment properties, excluding that of our newly acquired subsidiary Polytec Asset, amounted to an aggregate gross floor area of 649,000 sq ft as at 31 December 2005, with 44% and 54% in office and retail space respectively.

The Group's 2005 gross rental income generated by its property investment portfolio amounted to HK\$212 million compared to the previous year rental income of HK\$181 million, excluding a one-off termination fee of HK\$26 million from a major retail tenancy. Indeed, improvement in the local economy and consumer sentiment in 2005 has boosted the overall demand for Grade A office and retail space.

Review of Operations

The Group's rental income from its office portfolio rose to HK\$53 million in 2005 from HK\$44 million in the previous year. This was largely due to a substantial increase in renewal rates for major office tenancies at Pioneer Center, with total rental from offices rising 21% in 2005 from the previous year. Indeed, offices at the Pioneer Centre were close to fully let at the end of 2005 compared to an average occupancy rate of 96.7% in 2004.

The Group's total rental income from its retail property portfolio rose to HK\$143 million in 2005 from the previous year's HK\$120 million which excludes the previously mentioned termination fee. Total retail rental income from Pioneer Centre, the Group's flagship commercial property, amounted to HK\$112 million in 2005.

Property Management

The Group and its associated companies together manage over 8.5 million sq ft of residential and commercial premises as at the end of 2005 compared to 7.7 million in the previous year.

Financing and Investments

The 2005 performance of our mortgage financing and investment business was encouraging. As at 31 December 2005, the Group invested a total of HK\$308 million in financial investments, of which HK\$65 million was in long term investment and HK\$243 million in short term investment. For the year ended 31 December 2005, financing and investment activities combined contributed HK\$124 million to the Group's operating profits, an increase of 58% over the previous year.

Polytec Asset Holdings Limited (56.84% owned by the Group)

For the year ended 31 December 2005, Polytec Asset's net profit amounted to HK\$477 million. Excluding property revaluations net of deferred tax, underlying net profit rose to HK\$57 million in 2005, an increase of 234% over the previous 13 months. The increase in profit was mainly driven by the sale of certain properties at China Plaza during the year. Polytec Asset contributed a total of HK\$5.5 million to the Group's 2005 profit as the company was only acquired in November 2005.

Property Development: In Macau, Polytec Asset's 58% owned residential and commercial project in Taipa has been under site formation works since the beginning of February this year. This residential and commercial complex, covering an aggregate gross floor area of approximately 386,000 sq ft, includes two buildings with a total of 294 residential units and a number of retail shops on the ground floor. It has received encouraging enquiries regarding this project from potential buyers.



Review of Operations

In Hong Kong, Polytec Asset has two small-scale joint-venture residential projects under development. The first one is a 60% owned joint-venture project, situated in Shun Fung Wai, Tuen Mun, comprising of 15 low-rise houses with an aggregate gross floor area of approximately 31,000 sq ft. The second one is a 48% owned

joint-venture project, located in Kau To Shan, Shatin, consisting of 6 low-rise houses with an aggregate gross floor area of approximately 13,000 sq ft. The construction works of the two development projects are progressing smoothly and they are expected to be put on sale after their completion this year.

Polytec Asset's Projects Under Development

Location	Usage	Group's Interest	Approximate Total Gross Floor Area	Status	Expected Date of Completion
		(%)	(sq ft)		
MACAU					
Pacifica Garden The Taipa District Macau	Residential and Commercial	33	386,000	Site formation works in progress	2008
HONG KONG					
Tuen Mun New Territories Hong Kong	Residential	34	31,000	Superstructure works in progress	2006
Kau To Shan Shatin New Territories Hong Kong	Residential	27	13,000	Superstructure works in progress	2006
TOTAL			430,000		

Review of Operations

Property Investment: The renovation program of the retail portion of Macau Square, Polytec Asset's 50% owned commercial property situated at Av. Do Infante D. Henrique in Macau with total retail space covering gross floor area of approximately 90,000 sq ft, has just been completed. It has received an increasing number of enquiries regarding the retail space from potential tenants. The renovation of the office portion, covering gross floor area of approximately 303,000 sq ft, will be commenced soon and the soft marketing has been launched. This commercial property is expected to become one of the main sources of Polytec Asset's rental income in 2007 and beyond.

The renovation work of Va long, a commercial building which is situated at Praca da Amizade with an aggregate gross floor area of 20,000 sq ft, will be started soon and is expected to be completed in the second half of this year.

Other Businesses

Other businesses had made relatively insignificant contributions to the Group's profit in 2005. Among our other businesses, a 20% owned footwear wholesale and retail business of an associated company, Southern Success Corporation, continued to perform well. This associated company has distributed a total dividend of HK\$2.2 million to the Group for 2005.

Human Resources and Remuneration Policy

The Group (including Polytec Asset which became a subsidiary of the Group in November 2005, but excluding all associate companies) employed a total of about 250 employees at the end of 2005 (2004: 155 employees). Employee remuneration amounted to approximately HK\$52 million in 2005 (2004: HK\$38 million). The salary levels of the Group's employees are reviewed regularly so that they can be kept at a competitive level. Employees are rewarded based on their responsibilities and performance within the Group's salary and bonus system. The Group operates a share option scheme to provide incentives and rewards to eligible persons, including Directors and employees. Other employee benefits include medical insurance, retirement schemes, in-house training courses as well as subsidies for external education and training programmes.

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

Financial Review

Financial Resources and Bank Borrowings

The total bank borrowings of the Group as at 31 December 2005 amounted to HK\$2,642 million including HK\$88 million from Polytec Asset. This represents an increase of HK\$890 million from HK\$1,752 million recorded at the end of 2004. The gearing ratio, calculated on the basis of bank borrowings to equity attributable to shareholders of the Company was 52%. During the year under review, the Group paid HK\$192 million in relation to the proposed acquisition of Shenzhen Properties and repaid HK\$240 million to a subsidiary of the ultimate holding company. Of the HK\$826 million acquisition cost for a 56.84% interest in Polytec Asset, HK\$685 million has been paid with HK\$141 million remained payable to the major shareholder as at 31 December 2005. Substantial amount of cash has been generated from the Group's development projects in 2005, with HK\$460 million contributed from La Baie Du Noble in Macau and HK\$263 million from Padek Palace in Hong Kong.

All banking facilities are arranged on a floating rate basis with HK\$700 million bank loans being hedged by structured swaps contracted during the year under review.

The Chinese currency reform in mid-2005 has increased the Group's outstanding obligation (50% of RMB459 million) in respect of the proposed acquisition of Shenzhen Properties by approximately HK\$3 million. The Group's exposure to other currency risk is insignificant as most of the Group's operations are in Hong Kong and transactions are denominated in local currency.

With committed undrawn financing facilities in place, recurrent cash inflow from investment properties and property sales, the Group has



sufficient financial resources to satisfy its commitments and working capital requirements.

Capital Commitments

As at 31 December 2005, the Group had contracted commitments of HK\$222 million in respect of the acquisition of Shenzhen Properties. Commitments for construction work amounted to HK\$97 million.

Contingent Liabilities and Pledge of Assets

The Group has given guarantees in the amount of HK\$8 million to insurance companies in respect of performance bonds entered into by associated companies engaged in property management services.

As at 31 December 2005, properties and securities valued at HK\$4,983 million and time deposits of HK\$38 million were pledged to banks to secure credit facilities, and as margin deposits for the Group's investments in securities.

Profile of Directors and Senior Management

Board of Directors

Executive Directors

OR Wai Sheun, aged 54, is the *Chairman* of the Board of Kowloon Development Company Limited. He was appointed director of the Company in January 2002. Mr Or is responsible for the development of corporate strategies, corporate planning and general management of the Company. He is the chairman of Polytec Holdings International Limited and Intellinsight Holdings Limited and a director of The Or Family Trustee Limited Inc, all the three companies being substantial shareholders of the Company. Mr Or has over 20 years' experience in property development and investment and textile and garment business in Hong Kong and Macau. He is the husband of Ms Ng Chi Man and the father of Mr Or Pui Kwan, both Executive Directors of the Company.

NG Chi Man, aged 53, is the *Executive Director* of Kowloon Development Company Limited. She was appointed director of the Company in January 2002. Ms Ng is responsible for the development of corporate strategies, corporate planning and general management of the Company. She is a director of Polytec Holdings International Limited and Intellinsight Holdings Limited, both companies being substantial shareholders of the Company. Ms Ng has over 20 years' experience in property development and investment and textile and garment business in Hong Kong and Macau. She is the wife of Mr Or Wai Sheun, Chairman of the Company and the mother of Mr Or Pui Kwan, Executive Director of the Company.

LAI Ka Fai, aged 41, is the *Executive Director* of Kowloon Development Company Limited. He was appointed director of the Company in January 2002. Mr Lai is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company. He is a director of Intellinsight Holdings Limited, a substantial shareholder of the Company, and a non-executive director of Polytec Asset Holdings Limited*. Mr Lai has over 15 years' experience in finance, accounting, financial and operational management and corporate planning. He graduated from the University of East Anglia in the United Kingdom with a Bachelor's degree in Science. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.

Profile of Directors and Senior Management

OR Pui Kwan, aged 27, is the *Executive Director* of Kowloon Development Company Limited. Mr Or joined the Company in May 2003 and was appointed director of the Company in September 2005. He is responsible for the development of corporate strategies, corporate planning and day-to-day management of the Company. Mr Or has attained working experience since 2000 in various companies engaged in property development, securities investment, information technology, product research and development. He holds a Bachelor of Combined Science degree from University College London, United Kingdom. He is the son of Mr Or Wai Sheun and Ms Ng Chi Man, Chairman and Executive Director of the Company respectively.

Non-executive Directors

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

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

YEUNG Kwok Kwong, aged 47, is the chairman and managing director of Polytec Asset Holdings Limited*. Mr Yeung has over 20 years' experience in finance, accounting, financial and operational management and corporate planning. He is a fellow member of both the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in the United Kingdom. He became a director of the Company in January 2002.

Profile of Directors and Senior Management

Independent Non-executive Directors

CHAU Cham Son, aged 73, holds a Bachelor of Architecture degree from the University of Hong Kong and a Post-graduate Diploma in Civic Design in the University of Liverpool. He was admitted to the degree of Doctor of Laws (honoris causa) in the University of Liverpool. He is a Fellow of the Royal Town Planning Institute (UK) and a Fellow of the Hong Kong Institute of Planners. He has over 30 years of practical experience in the field of town planning, buildings and land development in Hong Kong. He joined the Government in 1960, became the Director of Building Development in 1984 and became the first Director of Buildings and Lands in 1986. He left Government service in 1989 and has since devoted himself to giving professional advice on planning and development projects. He became a director of the Company in 1995.

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

LOK Kung Chin, Hardy, aged 56, is the Managing Director of The Sun Company, Limited and has over 30 years' experience in building and engineering construction work. He graduated from the University of Manchester Institute of Science & Technology and is a Member of the Institution of Civil Engineers (United Kingdom), a Member of the Hong Kong Institution of Engineers and a Fellow of the Hong Kong Institute of Construction Managers. He became a director of the Company in January 2002.

SETO Gin Chung, John, aged 57, is an independent non-executive director of China Everbright Limited* and a director of Pacific Eagle Asset Management Limited. He was a non-executive director of Hong Kong Exchanges and Clearing Limited* and was the chief executive of HSBC Broking Services (Asia) Limited. Mr Seto was a Council Member of The Stock Exchange of Hong Kong Limited from 1994 to 2000 and was the first vice chairman from 1997 to 2000. He was a director of Poly Investments Holdings Limited* from 1993 to 2002, and was the chairman and a non-executive director of Stockmartnet Holdings Limited* from 2001 to 2005. He holds a Master of Business Administration degree from New York University, US and has over 30 years of experience in the securities and futures industry. He became a director of the Company in January 2002.

* Companies listed on The Stock Exchange of Hong Kong Limited

Senior Management

AU YEUNG Chi Hung, Alex, aged 46, is the *General Manager, Property Investment and Development* of the Company. Mr Au Yeung has over 20 years' experience in large scale infrastructure and property development projects in Hong Kong, Macau, China and Singapore. Prior to joining the Company in 2002, he was a General Manager in a large property development company and had worked for various international consultancy firms involved in various infrastructure work and power projects. He is a member of the Hong Kong Institution of Engineers.

HO Chun Chuen, aged 54, is the *General Manager, Construction* of the Company. Mr Ho has over 30 years of experience in the building construction industry. Prior to joining the Company in 2002, he worked for John Lok & Partners Limited, Sanfield Building Contractors Limited and New House Construction Company Limited for the construction of many famous buildings in Hong Kong. He is a member of the Australian Institute of Building, Chartered Institute of Building, Hong Kong Institute of Construction Managers and Hong Kong Institute of Project Management.

LAW Yu Wing, Steven, aged 49, is the *General Manager, Marketing & Sales* of the Company. Mr Law holds a Master's degree in Business Administration and has a strong background in general management and finance, predominantly in property field. Prior to joining the Company in 2002, he had worked for the Hongkong Land Group for over 19 years and had an excellent track record in property management and project management both in Hong Kong and China.

WAI Yuk Hing, Monica, aged 47, is the *Assistant General Manager and Company Secretary* of the Company. She is responsible for the day-to-day financial management and company secretarial duties of the Company. Ms Wai holds a Bachelor of Business degree from the Monash University, Melbourne, Australia, and is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants and an associate member of CPA Australia. Prior to joining the Company in 1986, she worked for an international accounting firm for 8 years serving many multinational corporations and listed companies in Hong Kong.

Report of the Directors

The Directors have pleasure in submitting their annual report together with the audited statement of accounts for the year ended 31 December 2005.

Principal Place of Business

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

Principal Activities

The principal activities of the Company are property development and investment and the holding of investments. The principal activities and particulars of its principal subsidiaries are set out in note 31 on the accounts.

Group Profit

The profit of the Group for the year ended 31 December 2005 and the state of affairs of the Company and of the Group at that date are set out in the accounts on pages 37 to 112.

Dividends

An interim dividend of HK\$0.10 per share (2004: HK\$0.07 per share) was paid on 28 October 2005. The Directors now recommend that a final dividend of HK\$0.35 per share (2004: HK\$0.25 per share) be paid in respect of the year ended 31 December 2005.

Share Capital

Movements in share capital during the year are set out in note 26 on the accounts.

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

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares during the year.

Reserves

Movements in reserves during the year are set out in note 26 on the accounts.

Fixed Assets

Movements in fixed assets during the year are set out in note 11 on the accounts.

Bank Loans and Other Borrowings

Particulars of bank loans and other borrowings of the Company and of the Group as at 31 December 2005 are set out in notes 15, 23, 24 and 25 on the accounts.

Finance Costs Capitalized

The amount of finance costs capitalized by the Group during the year is set out in note 4(a) on the accounts.

Donations

Charitable donations made by the Group during the year amounted to HK\$762,019 (2004: HK\$340,900).

Properties

Particulars of properties of the Group are shown on pages 113 to 117 of the Annual Report.

Five-Year Financial Summary

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

Report of the Directors

Directors

The Directors of the Company during the year and up to the date of this report are as follows and their brief biographical details are set out on pages 14 to 16 of the Annual Report:

Mr Or Wai Sheun, *Chairman*

Mr Keith Alan Holman, *Deputy Chairman*

Ms Ng Chi Man, *Executive Director*

Mr Lai Ka Fai, *Executive Director*

Mr Or Pui Kwan, *Executive Director (appointment effective on 9 September 2005)*

Mr Tam Hee Chung, *Non-executive Director*

Mr Yeung Kwok Kwong, *Non-executive Director*

Mr Chau Cham Son, *Independent Non-executive Director*

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

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

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

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In accordance with article 105 of the Articles of Association of the Company, Mr Chau Cham Son, Mr Keith Alan Holman and Ms Ng Chi Man will retire by rotation at the forthcoming Annual General Meeting. With the exception of Mr Chau Cham Son who has informed the Board that he will not stand for re-election, Mr Keith Alan Holman and Ms Ng Chi Man, being eligible, offer themselves for re-election.

Mr Or Pui Kwan was appointed as an Executive Director of the Company on 9 September 2005. In accordance with article 96 of the Articles of Association of the Company, he shall hold office until the forthcoming Annual General Meeting. Mr Or Pui Kwan, being eligible, offers himself for re-election.

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

Particulars of the Directors' remuneration disclosed pursuant to Section 161 of the Hong Kong Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 5(a) on the accounts.

Report of the Directors

Directors' Interests and Short Positions

As at 31 December 2005, the following Directors of the Company were interested, or deemed to be interested in, the following long and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Part XV (s.352) of the SFO:

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

Name of director	Number of shares	Percentage of total issued shares	Note
Or Wai Sheun	353,023,083	62.29%	1
Ng Chi Man	352,838,083	62.25%	2
Or Pui Kwan	352,845,083	62.26%	3
Tam Hee Chung	500,000	0.09%	4
Lai Ka Fai	282,000	0.05%	5
Lok Kung Chin, Hardy	200,000	0.04%	6
Keith Alan Holman	153,000	0.03%	5
Yeung Kwok Kwong	100,000	0.02%	5

Notes:

1. Mr Or Wai Sheun was deemed to be interested in 352,838,083 shares ultimately and wholly-owned by a discretionary family trust of which Mr Or 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 Note of the section on "Interests of Substantial Shareholders and Other Persons".

Mr Or Wai Sheun was also deemed to be interested in 185,000 shares owned by China Dragon Limited due to his corporate interest therein.
2. Ms Ng Chi Man is the spouse of Mr Or Wai Sheun. Ms Ng was deemed to be interested in 352,838,083 shares as a beneficiary of the discretionary family trust referred to in Note 1 above.
3. 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 7,000 shares and was also deemed to be interested in 352,838,083 shares as a beneficiary of the discretionary family trust referred to in Note 1 above.
4. Mr Tam Hee Chung was deemed to be interested in 500,000 shares owned by Larry H.C. Tam & Associates Limited by virtue of his 48% interest therein.
5. Shares were held by the respective Directors in their capacity as beneficial owners.
6. Mr Lok Kung Chin, Hardy was taken to be interested in 200,000 shares owned by a discretionary trust of which Mr Lok is the founder.

Report of the Directors

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

Polytec Asset Holdings Limited

Name of director	No. of shares	% of total issued shares	No. of underlying shares	% of total issued shares	Note
Or Wai Sheun	698,975,374	56.84%	250,734 005	20.38%	1
Ng Chi Man	698,975,374	56.84%	250,734 005	20.38%	1
Or Pui Kwan	698,975,374	56.84%	250,734 005	20.38%	1
Yeung Kwok Kwong	1,600,000	0.13%			3
Tam Hee Chung	1,000,000	0.08%			2
Keith Alan Holman	480,000	0.04%			3
Lai Ka Fai	300,000	0.02%			3

Notes:

1. Through their respective interests in the Company disclosed under the subsection on "Long Positions in Shares, Underlying Shares and Debentures of the Company", Mr Or Wai Sheun, Ms Ng Chi Man and Mr Or Pui Kwan were deemed to be interested in 698,975,374 ordinary shares and 3,703,590,076 non-voting redeemable convertible preference shares ("CPS") of Polytec Asset Holdings Limited. The CPS are issued partly paid as to 10% of the subscription price of HK\$0.02 per share and convertible into 250,734,005 ordinary shares. Mr Or Wai Sheun, Ms Ng Chi Man and Mr Or Pui Kwan were deemed to be interested in an aggregate 77.22% of the issued ordinary shares of Polytec Asset Holdings Limited as at 31 December 2005.
2. Mr Tam Hee Chung was deemed to be interested in 1,000,000 shares owned by Larry H.C. Tam & Associates Limited by virtue of his 48% interest therein.
3. Shares were held by the respective Directors in their capacity as beneficial owners.

Other than the holdings disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director of the Company or their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. None of the Directors (including their spouses and children under the age of 18) had, as at 31 December 2005, any interest in, or had been granted any right to subscribe for the shares and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

Directors' Interests in Contracts and Connected Transactions

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

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

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

Top Milestone had entered into a co-investment agreement ("Co-Investment Agreement") with Polytex Corporation Limited ("Polytex"), a wholly-owned subsidiary of Polytec Holdings on 11 November 2003, whereby Top Milestone agreed to provide financing to Polytex in the development of a property project named La Baie Du Noble in Macau.

As Polytec Holdings is the controlling shareholder of the Company, the Acquisition and the provision of loans by Top Milestone to Polytex pursuant to the Co-Investment Agreement after completion of the Acquisition constitute a connected transaction for the Company under Rule 14.26 and 14.25(2) of the Listing Rules (before amendments effective 31 March 2004) respectively. A loan agreement dated 24 February 2004 was entered into between the

Report of the Directors

Company as borrower and Polytec Holdings as lender in relation to the provision of a loan in the sum of HK\$400 million to the Company upon normal commercial terms to assist the completion of the Acquisition. The signing of the said loan agreement is a connected transaction exempted by virtue of Rule 14.24(8) of the Listing Rules (before amendments effective 31 March 2004). Polytec Holdings is ultimately wholly-owned by a family trust the beneficiary objects of which include Mr Or Wai Sheun, the Chairman of the Company, Ms Ng Chi Man and Mr Or Pui Kwan, Executive Directors, and their family members. The Acquisition as detailed in a circular issued by the Company on 30 January 2004 was approved by independent shareholders on 16 February 2004 and completed on 24 February 2004.

For the above connected transactions, the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules. Save as disclosed above and under the heading "Material Related Party Transactions" as set out in note 33 to the accounts, no other contracts of significance to which the Company, any of its subsidiaries, holding companies or fellow subsidiaries was a party and in which a Director had a material interest subsisted at any time during the year.

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Directors' Service Contracts

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

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

Interests of Substantial Shareholders and Other Persons

As at 31 December 2005, the interests and short positions of persons, other than Directors, in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Part XV (s.336) of the SFO were as follows:

Name of shareholder	Number of shares		Percentage of total issued shares
	Long position	Short position	
HSBC International Trustee Limited	354,074,433	—	62.47%
The Or Family Trustee Limited Inc	352,838,083	—	62.25%

Note: Of the 354,074,433 shares in which HSBC International Trustee Limited was interested as trustee of certain discretionary trusts that it manages, 352,838,083 shares were the shares held by The Or Family Trustee Limited Inc. as trustee disclosed in the above table and referred to in Note 1 of the section on "Directors' Interests and Short Positions".

Share Option Scheme

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

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

Report of the Directors

The total number of shares which may be issued pursuant to the Share Option Scheme is 48,376,785 shares, being 10% of the total number of shares of the Company in issue as at the date of approval of the Share Option Scheme. No option has been granted under the Share Option Scheme to any person since its adoption and the total number of shares available for issue remains at 48,376,785 representing 8.5% of the issued share capital of the Company at the date of this report.

Retirement Schemes

Particulars of the retirement schemes operated by the Group are set out in note 32 on the accounts.

Arrangement to Purchase Shares and Debentures

Apart from the Share Option Scheme, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the Directors of the Company to acquire benefits by means of acquisition of shares in, or debenture of, the Company or any other body corporate.

Corporate Governance

Principal corporate governance practices adopted by the Company are set out in the Corporate Governance Report on pages 28 to 35.

Review of Accounts

The Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2005, including the accounting principles and practices adopted by the Group, in conjunction with the Company's auditors.

Public Float

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

Closure of Register of Members

The Register of Members of the Company will be closed from Friday, 28 April 2006 to Monday, 8 May 2006, both dates inclusive. To qualify for the final dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, at Shops 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on Thursday, 27 April 2006.

Auditors

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

By Order of the Board

Or Wai Sheun

Chairman

Hong Kong, 30 March 2006

Corporate Governance Report

Corporate Governance Practices

The Company acknowledges the importance of good corporate governance practices and aims at complying with, where appropriate, all Code Provisions set out in Appendix 14 Code on Corporate Governance Practices (“Code”) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”).

The Company has complied with the code provisions (with the exception of Code Provision C.2 on internal controls which will apply to accounting periods commencing 1 July 2005) throughout the accounting year ended 31 December 2005, save for the few exceptions specified and explained below.

Code Provision A.2.1

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

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

Code Provision A.4.1 and A.4.2

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

Code A.4.2 stipulates that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with Article 105(A) of the Company's existing Articles of Association, at every annual general meeting one-third of the Directors for the time being or, if their number is not three or a multiple of three, then the number nearest one-third, who have been longest in office since their last election shall retire from office, provided that no Director holding office as executive chairman or as a managing director shall be subject to retirement by rotation or taken into account in determining the number of Directors to retire. The retiring Directors shall be eligible for re-election.

A special resolution to replace the existing Article 105(A) in the Company's Articles of Association with a new Article 105(A) is proposed under the notice convening the forthcoming Annual General Meeting to provide that all Directors shall be elected for a term of not more than approximately three years since his last election or re-election expiring at the conclusion of the third annual general meeting of the Company after his election or re-election and shall be eligible for re-election.

Non-executive Directors of the Company do not have a specific term of appointment. However, as Non-executive Directors will be subject to re-election under the new Article 105(A), in the opinion of the Directors, the principle of Code A.4 that all directors should be subject to re-election at regular intervals has been up held.

The Company's Articles of Association provide that a Director appointed to fill a casual vacancy shall hold office until the first annual general meeting after his appointment, and shall be subject to re-election by the shareholders. This procedure complies with the requirement of Appendix 3 of the Listing Rules.

Code Provision B.1.1, C.3.3

As reported in the Company's 2005 interim report, the remuneration committee as required under Code B.1.1 was established on 20 July 2005 and the terms of reference of the Audit Committee were also revised on 20 July 2005 to reflect the duties set out in Code C.3.3.

Corporate Governance Report

Board of Directors

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

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

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

Nomination of Directors

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

During a meeting held in 2005, the Board considered and approved the appointment of an additional Executive Director.

Remuneration of Directors

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

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

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

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

- reviewed the human resources and payroll system of the Company;
- considered alternative long-term incentive arrangements for the Company;
- considered the remuneration package for an additional Executive Director in consultation with the Chairman and approved the same;
- reviewed management's proposal on the amount of directors' fees payable to each Non-executive Director in 2005 and passed the same to the Board for approval; and
- ensured that no Director or any of his associates is involved in deciding his own remuneration.

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

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

Corporate Governance Report

Audit Committee

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

The Audit Committee has specific written Terms of Reference which deal clearly with its authority and duties. The Terms of Reference of the Audit Committee have been revised in 2005 to include the duties set out in Code Provision C.3.3 (a) to (n) of the Code, with modifications where necessary. They have been posted to the Company's website (www.kdc.com.hk) and are also available in writing upon request to the Company Secretary.

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

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

- reviewed and revised its Terms of Reference to conform to the Code;
- reviewed the audited accounts and annual results announcement for the year 2004;
- reviewed the interim report and interim results announcement for the six months ended 30 June 2005;
- met with the auditors and management of Company to discuss issues arising from the audit of annual accounts and review of interim accounts;
- considered and recommended to the Board the adoption of new accounting policies and standards;
- reviewed and approved the remuneration in respect of audit and non-audit services provided by the auditors;
- reviewed the progress on internal control documentation update;
- reviewed auditor's independence and effectiveness of the audit process; and
- developed policy on the engagement of auditors to supply non-audit services.

Attendance at Meetings of the Board, Remuneration Committee and Audit Committee

	Meetings Attended in 2005		
	Board	Remuneration Committee	Audit Committee
Number of Meetings Held in 2005	7	1	2
Executive Directors			
Or Wai Sheun (<i>Chairman</i>)	5/7		
Ng Chi Man	5/7		
Lai Ka Fai	5/7	1/1	
Or Pui Kwan (<i>appointed on 9 September 2005</i>)	1/3		
Non-executive Directors			
Keith Alan Holman (<i>Deputy Chairman</i>)	2/7		
Tam Hee Chung	4/7		
Yeung Kwok Kwong	4/7		2/2
Independent Non-executive Directors			
Chau Cham Son	5/7		
Li Kwok Sing, Aubrey	6/7	1/1	2/2
Lok Kung Chin, Hardy	5/7	1/1	2/2
Seto Gin Chung, John	6/7	1/1	2/2

Notes:

- (1) There were two Board meetings held during the year in which Mr Or Wai Sheun, Ms Ng Chi Man, Mr Or Pui Kwan, Mr Lai Ka Fai and Mr Yeung Kwok Kwong were regarded as interested directors and chose not to attend.
- (2) There was one Board meeting held in 2005 in which all Non-executive Directors were regarded as interested directors and chose not to attend.

Corporate Governance Report

Financial Reporting

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

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

A statement by the auditors about their reporting responsibilities is included in the Auditors' Report on page 36 of the Annual Report.

Securities Transactions by Directors

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

Auditors' Remuneration

In respect of the financial year 2005, the following remuneration was paid or is payable to the Company's auditors:

Fees for audit services — HK\$1,250,000

Fees for non-audit services — HK\$474,350 made up as follows:

- Review of interim accounts: HK\$156,150;
- Ad hoc project (review of accounts for the year ended 31 December 2004 prepared under accounting standards of the People's Republic of China): HK\$288,300; and
- Other services: HK\$29,900.

Internal Controls

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

Relevant documentation on the Group's system of internal control is undergoing a regular update and will be put forward to the Audit Committee for its review in due course.

Auditors' Report



To the shareholders of Kowloon Development Company Limited

(Incorporated in Hong Kong with limited liability)

We have audited the accounts on pages 37 to 112 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

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

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

KPMG

Certified Public Accountants

Hong Kong, 30 March 2006

Consolidated Income Statement

for the year ended 31 December 2005
(Expressed in Hong Kong dollars)

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

The notes on pages 45 to 112 form part of these accounts.

Consolidated Balance Sheet

at 31 December 2005
(Expressed in Hong Kong dollars)

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

Consolidated Balance Sheet

at 31 December 2005
(Expressed in Hong Kong dollars)

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

Approved and authorized for issue by the board of directors on 30 March 2006.

Or Wai Sheun
Lai Ka Fai
Directors

The notes on pages 45 to 112 form part of these accounts.

Balance Sheet

at 31 December 2005
(Expressed in Hong Kong dollars)

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

Approved and authorized for issue by the board of directors on 30 March 2006.

Or Wai Sheun
Lai Ka Fai
Directors

The notes on pages 45 to 112 form part of these accounts.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2005
(Expressed in Hong Kong dollars)

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2005
(Expressed in Hong Kong dollars)

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2005
(Expressed in Hong Kong dollars)

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

The notes on pages 45 to 112 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 December 2005
(Expressed in Hong Kong dollars)

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

The notes on pages 45 to 112 form part of these accounts.

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies

(a) Statement of compliance

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

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

(b) Measurement basis

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

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

(c) Basis of consolidation

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

(d) Goodwill

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

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

(e) Interest in subsidiaries

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

(e) Interest in subsidiaries *(continued)*

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

(f) Interest in associated companies

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

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

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

(g) Interest in joint ventures

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

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

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

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

(h) Properties

(i) *Investment properties*

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

(ii) *Land held for future development*

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

(h) Properties *(continued)*

(iii) *Interest in property development*

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

(iv) *Properties under development*

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

(v) *Properties held for sale*

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

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

(i) Trade and other receivables

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

(j) Financial instruments

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

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

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

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

(k) Trade and other payables

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

(l) Borrowings

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

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

(m) Depreciation and amortization

(i) *Leasehold land and buildings*

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

(m) Depreciation and amortization *(continued)*

(ii) Other fixed assets

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

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

(n) Impairment of assets

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

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

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

(i) Investments in debt and equity securities

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

(n) Impairment of assets *(continued)*

(i) Investments in debt and equity securities *(continued)*

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

(ii) Other assets

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

(o) Deferred taxation

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

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

(p) Recognition of revenue

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

(i) *Rental income from operating leases*

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

(ii) *Sale of properties*

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

(iii) *Income from interest in property development*

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

(iv) *Sale of investments in securities*

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

(v) *Interest income*

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(continued)*

(q) Translation of foreign currencies

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

(r) Related parties

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

(s) Segment reporting

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

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

2 Changes in accounting policies

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

2 Changes in accounting policies *(continued)*

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

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

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

Group

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

2 Changes in accounting policies *(continued)*

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

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

Company

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

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

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

Group

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

2 Changes in accounting policies *(continued)*

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

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

Company

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

2 Changes in accounting policies *(continued)*

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

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

2 Changes in accounting policies *(continued)*

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

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

2 Changes in accounting policies *(continued)*

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

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

2 Changes in accounting policies *(continued)*

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

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

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

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

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

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

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

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

2 Changes in accounting policies *(continued)*

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

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

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

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

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

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

(c) Leasehold land (HKAS 17, Leases)

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

2 Changes in accounting policies *(continued)*

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

(i) Derivatives and hedging

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

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

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

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

2 Changes in accounting policies *(continued)*

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

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

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

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

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

In prior periods:

- Negative goodwill which arose prior to 1 January 2001 was taken directly to reserve at the time it arose, and was not recognized in the income statement until disposal or impairment of the acquired business; and
- Negative goodwill which arose on or after 1 January 2001 was amortized over the weighted average useful life of the depreciable/amortizable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognized in the income statement as those expected losses were incurred.

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

2 Changes in accounting policies *(continued)*

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

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

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

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

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

3 Segment information

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

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

(a) Business segments

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

3 Segment information *(continued)*

(a) Business segments *(continued)*

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

3 Segment information *(continued)*

(b) Geographical segments

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

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

(c) Major customers and suppliers

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

4 Profit before taxation

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

(a) Finance costs

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

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

(b) Other items

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

4 Profit before taxation (continued)

- (c) The Group's share of profits for the year, after minority interests and after the declaration of dividend, retained by the associated companies was \$10,542,300 (2004: \$8,714,434).
- (d) The Group's share of profits for the year, after minority interests and after the declaration of dividend, retained by the jointly controlled entities was \$4,166,726 (2004: \$Nil).

5 Directors' and management's emoluments

(a) Directors' emoluments

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

5 Directors' and management's emoluments (continued)

(a) Directors' emoluments (continued)

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

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

(b) Individuals with highest emoluments

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

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

6 Income tax in the consolidated income statement

(a) Taxation in the consolidated income statement represents:

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

7 Profit attributable to shareholders

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

8 Earnings per share

(a) Basic earnings per share

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

(b) Diluted earnings per share

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

(c) Number of shares

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

9 Dividends

(a) Dividends attributable to the year

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

9 Dividends *(continued)*

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

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

10 Income tax in the balance sheets

(a) Current taxation in the balance sheets represents:

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

10 Income tax in the balance sheets *(continued)*

(b) Deferred taxation

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

Group

	Future benefit of tax losses \$'000	Revaluation of properties \$'000	Accelerated depreciation allowances \$'000	General provision \$'000	Total \$'000
At 1 January 2004					
— as previously reported	3,163	(6,451)	(17,373)	1,200	(19,461)
— prior year adjustments	—	(375,331)	—	—	(375,331)
— as restated	3,163	(381,782)	(17,373)	1,200	(394,792)
Credited/(Charged) to income statement (as restated)	318	(42,454)	(3,933)	(108)	(46,177)
At 31 December 2004 (as restated)	3,481	(424,236)	(21,306)	1,092	(440,969)
At 1 January 2005 (as restated)	3,481	(424,236)	(21,306)	1,092	(440,969)
Through acquisition of subsidiaries	—	(131,235)	(3,489)	—	(134,724)
Credited/(Charged) to income statement	5,085	(84,863)	(2,905)	(261)	(82,944)
At 31 December 2005	8,566	(640,334)	(27,700)	831	(658,637)

Notes on the Accounts

(Expressed in Hong Kong dollars)

10 Income tax in the balance sheets *(continued)*

(b) Deferred taxation *(continued)*

Company

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

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

(c) Deferred tax assets not recognized

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

11 Fixed assets

(a) Group

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

11 Fixed assets (continued)

(a) Group (continued)

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

11 Fixed assets (continued)

(b) Company

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

11 Fixed assets (continued)

(b) Company (continued)

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

11 Fixed assets (continued)

(c) Analysis of carrying value of properties

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

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

11 Fixed assets *(continued)*

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

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

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

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

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

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

12 Interest in jointly controlled entities

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

12 Interest in jointly controlled entities *(continued)*

Details of the jointly controlled entities are as follows:

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

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

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

South Bay Centre Company Limited

	From 24 November 2005 (date of acquisition) to 31 December 2005 \$'000
Revenue	116
Expenses	(254)
	At 31 December 2005 \$'000
Non-current assets	403,618
Current assets	223
Current liabilities	(134,264)
Non-current liabilities	(45,339)
Net assets	224,238

Notes on the Accounts

(Expressed in Hong Kong dollars)

13 Jointly controlled assets

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

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

14 Goodwill

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

15 Interest in subsidiaries

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

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

Details of the principal subsidiaries are shown in note 31.

16 Interest in associated companies

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

16 Interest in associated companies *(continued)*

Details of the associated companies are shown as follows:

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

Summary of financial information on significant associated companies:

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

17 Investments in securities

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

18 Derivative financial instruments

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

(a) Over-the-counter contingent forward transactions

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

18 Derivative financial instruments *(continued)*

(b) Interest rate swaps

(i) Hong Kong Dollar Swap

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

(ii) US Dollar Swap

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

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

19 Interest in property development

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

20 Inventories

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

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

20 Inventories *(continued)*

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

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

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

21 Trade and other receivables

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

21 Trade and other receivables *(continued)*

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

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

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

22 Trade and other payables

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

22 Trade and other payables *(continued)*

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

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

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

23 Loan from ultimate holding company

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

24 Amounts due to minority shareholders

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

25 Bank loans

At 31 December, bank loans were repayable as follows:

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

Bank loans were classified in the balance sheets as follows:

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

26 Total equity

(a) Group

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

26 Total equity (continued)

(a) Group (continued)

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

26 Total equity (continued)

(b) Company

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

26 Total equity (continued)

(b) Company (continued)

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

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

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

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

(c) Share capital

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

27 Notes to consolidated cash flow statement

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

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

(b) Acquisition of subsidiaries

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

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

(b) Acquisition of subsidiaries *(continued)*

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

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

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

28 Capital commitments

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

29 Contingent liabilities

- (a) The Group and the Company have given guarantees to insurance companies in respect of performance bonds entered into by certain associated companies to the extent of \$8,020,000 (2004: \$13,867,000).
- (b) The Company has given guarantees in respect of banking facilities and other obligations of certain subsidiaries to the extent of \$1,636,093,000 (2004: \$757,317,000). The banking facilities and other obligations were utilized to the extent of \$1,360,115,000 (2004: \$597,459,000) at 31 December 2005.

30 Pledge of assets

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

31 Subsidiaries

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

31 Subsidiaries *(continued)*

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
Gargantuan Investment Limited	Hong Kong	\$2	100%	—	Financial investment
Jumbo Power Enterprises Limited	Hong Kong	\$2	—	100%	Property development
Jumbo Star Limited	British Virgin Islands	US\$1	100%	—	Investment holding
King's City Holdings Limited	Hong Kong	\$2	—	100%	Property development
Kowloon Development Engineering Limited	Hong Kong	\$2	100%	—	Construction
Kowloon Development Finance Limited	Hong Kong	\$2,000,000	100%	—	Financial services
Manor House Holdings Limited	Hong Kong	\$264,529,125	100%	—	Investment holding
Marble King International Limited	British Virgin Islands	US\$2	100%	—	Investment holding
Pak Hop Shing Company, Limited	Hong Kong	\$2	—	100%	Property development
Roe Investment Limited	Hong Kong	\$500,000	100%	—	Investment holding
Searson (Hong Kong) Limited	Hong Kong	\$2	100%	—	Property development
Spark Team Limited	Hong Kong	\$2	100%	—	Retail

Notes on the Accounts

(Expressed in Hong Kong dollars)

31 Subsidiaries *(continued)*

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
To Kwa Wan Properties Limited	Hong Kong	\$2	—	100%	Property investment
Top Milestone Developments Limited	British Virgin Islands/ Macau	US\$100	—	100%	Project and financial investment
Town House Development Limited	Hong Kong	\$10,000	100%	—	Property investment
Tyleelord Development & Agency Company Limited	Hong Kong	\$100,000	—	100%	Property investment
Un Chau Properties Limited	Hong Kong	\$2	—	100%	Property investment
Units Properties Limited	Hong Kong	\$2	—	100%	Property investment
Union Way Management Limited	Hong Kong	\$2	—	100%	Investment holding
Wealrise Investments Limited	Hong Kong	\$2	—	100%	Property development and investment
Brilliant Idea Investments Limited	British Virgin Islands/People's Republic of China	US\$100	85%	—	Investment holding
Golden Princess Amusement Company Limited	Hong Kong	\$100,000	85%	—	Film distribution
Cinema City Company Limited	Hong Kong	\$1,000,000	—	85%	Film distribution

Notes on the Accounts

(Expressed in Hong Kong dollars)

31 Subsidiaries *(continued)*

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
Cinema City (Film Production) Company Limited	Hong Kong	\$5,000,000	—	85%	Film distribution
Golden Princess Film Production Limited	Hong Kong	\$10,000	—	85%	Film distribution
Polytec Asset Holdings Limited	Cayman Islands/ Hong Kong and Macau	\$122,981,448	—	56.84%	Investment holding
Genius Star Investments Limited	British Virgin Islands/ Macau	US\$1	—	56.84%	Financial investment
Glentech International Company Limited	Hong Kong	\$2	—	56.84%	Provision of consultancy services
Imperial Profit Investment Limited	British Virgin Islands/ Hong Kong	US\$1	—	56.84%	Financial investment
Newcott Limited	British Virgin Islands	US\$10,000	—	56.84%	Investment holding
Noble Prime International Limited	British Virgin Islands	US\$1	—	56.84%	Investment holding
Power Charm International Limited	British Virgin Islands	US\$1	—	56.84%	Investment holding
Power Giant Limited	British Virgin Islands/ Macau	US\$1	—	56.84%	Property trading and investment

Notes on the Accounts

(Expressed in Hong Kong dollars)

31 Subsidiaries (continued)

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
Profit Sphere International Limited	British Virgin Islands	US\$1	—	56.84%	Investment holding
Sheen Concord Enterprises Limited	Hong Kong	\$2	—	56.84%	Property development
Sinocharm Trading Limited	British Virgin Islands	US\$1	—	56.84%	Investment holding
Success Ever Limited	British Virgin Islands	US\$1	—	56.84%	Investment holding
The Hong Kong Ice & Cold Storage Company Limited	Hong Kong	\$500,000	—	56.84%	Ice manufacturing and provision of cold storage
Top Vision Assets Limited	British Virgin Islands	US\$1	—	56.84%	Investment holding
Acestart Investments Limited	British Virgin Islands/ Macau	US\$1	—	40.07%	Property trading and investment
Think Bright Limited	British Virgin Islands/ Macau	US\$200	—	40.07%	Property trading and investment
Hin Rich International Limited	British Virgin Islands/ Macau	US\$1	—	32.97%	Property trading and investment
Kam Yuen Property Investment Limited	Macau	MOP30,000	—	32.97%	Property investment and development
New Cosmos Holdings Limited	British Virgin Islands	US\$100	—	32.97%	Investment holding

Notes on the Accounts

(Expressed in Hong Kong dollars)

32 Staff retirement scheme

The Group operates a defined contribution staff retirement scheme. Contributions under the scheme are charged to the income statement as incurred. The amount of contributions is based on a specified percentage of the basic salary of the eligible employees. Forfeited contributions in respect of unvested benefits of staff leavers utilized to reduce the Group's ongoing contributions during the year amounted to \$38,354 (2004: \$41,225). There were no unutilized forfeited contributions at the balance sheet date of both years. The Group's annual contribution for the year was \$615,120 (2004: \$712,465).

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

33 Material related party transactions

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

- (a) Polytec Holdings has guaranteed the due performance of a subsidiary of the Group in respect of its obligations under the development agreement as stated in note 20.
- (b) During the year, an amount of \$460,000,000 was received from a subsidiary of Polytec Holdings being cash distribution of the Group's interest in property development (*note 19*).
- (c) During the year, the Group acquired from the major shareholder a group of companies at an aggregate consideration of \$826,062,195. Details of the acquisition were set out in note 27(b). An amount of \$140,791,092 remained payable to the major shareholder for this acquisition as at the balance sheet date and to be payable not later than 31 December 2006.
- (d) As at 31 December 2005, a director of the Company granted a guarantee to a bank to secure the liabilities of a subsidiary to the extent of \$22,000,000.
- (e) Guarantees in respect of performance bonds provided for certain associated companies were disclosed in note 29.
- (f) During the year, the remuneration for key management personnel being short term employee benefits amounted to \$9,883,894 (2004: \$8,772,569) as disclosed in notes 5(a) and 5(b). The remuneration of directors and senior management is determined by the Remuneration Committee having regard to the performance and responsibilities of individuals and market trends.

Notes on the Accounts

(Expressed in Hong Kong dollars)

34 Critical accounting judgements and key sources of estimation uncertainty

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

Depreciation and amortization

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

Allowances for bad and doubtful debts

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

Estimated impairment of goodwill

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

35 Financial risk management objectives and policies

The Group's major financial instruments include loans and advances, borrowings, trade receivables, other receivables, trade payables and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(a) Interest rate risk

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings. The interest rate and terms of repayment of bank borrowings of the Group are disclosed in note 25. Appropriate hedging instruments are engaged to partially mitigate the Group's exposure in interest rate risk.

(b) Credit risk

The Group's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations as at 31 December 2005 in relation to each class of recognized financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. The Group maintains a defined credit policy. An ageing analysis of trade debtors is prepared on a regular basis and is closely monitored to minimize any credit risk associated with receivables. Collateral is usually obtained in respect of loans and advances to customers. The Group's exposure in the credit risk associated with loans and advances is significantly reduced.

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

(c) Liquidity risk

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

36 Parent and ultimate holding company

At 31 December 2005, the directors consider the parent company and ultimate holding company to be Intellinsight Holdings Limited and Polytec Holdings International Limited, which are both incorporated in the British Virgin Islands. Neither entity produces accounts available for public use.

Notes on the Accounts

(Expressed in Hong Kong dollars)

37 Comparative figures

Certain comparative figures have been adjusted or reclassified as a result of the changes in accounting policies. Further details are disclosed in note 2.

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting year ended 31 December 2005

Up to the date of issue of these accounts, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the accounting year ended 31 December 2005.

The Group has not early adopted these amendments, new standards and new interpretations in the accounts for the year ended 31 December 2005. The Group has already commenced an assessment of the impact of these amendments, new standards and new interpretations but is not yet in a position to state whether these amendments, new standards and new interpretations would have a significant impact on the Group's results of operations and financial position.

Particulars of Properties

31 December 2005

A. Investment Properties

Location	Usage	Category of Lease	Total Gross Floor Area (sq. ft.)	Group's Interest (%)
Hong Kong				
Pioneer Centre No. 750 Nathan Road Mongkok Kowloon	Commercial	Long term lease	483,581 sq. ft. and 124 Carparking Spaces	100
51 Shop Units on Basement, Ground Floor, Mezzanine Floor and 1st Floor Sino Centre Nos. 582-592 Nathan Road Mongkok Kowloon	Commercial	Long term lease	10,931	100
127 Shop Units on 1st Floor and Signage Spaces on external wall New Mandarin Plaza No. 14 Science Museum Road Tsim Sha Tsui Kowloon	Commercial	Long term lease	49,430	100
20th Floor of Argyle Centre Phase 1 No. 688 Nathan Road and No. 65 Argyle Street Mongkok Kowloon	Commercial	Long term lease	15,774	100
2nd to 23rd Floor and the Roof of The Elgin No. 51 Elgin Street Central Hong Kong	Residential	Long term lease	14,280	100

Particulars of Properties

31 December 2005

A. Investment Properties *(continued)*

Location	Usage	Category of Lease	Total Gross Floor Area (sq. ft.)	Group's Interest (%)
The Whole of 2nd Floor and Signage Spaces on external wall New Mandarin Plaza No. 14 Science Museum Road Tsim Sha Tsui Kowloon	Commercial	Long term lease	56,228	100
The Whole Shop Spaces and 10 Parking Spaces on Basement Peninsula Centre No. 67 Mody Road Tsim Sha Tsui Kowloon	Commercial	Long term lease	19,018 sq. ft. and 10 Carparking Spaces	100
Basement Carpark of Manor Centre No. 213 Un Chau Street and No. 218 Fuk Wing Street Sham Shui Po Kowloon	Carpark	Medium term lease	97 Carparking Spaces	100
58 Parking Spaces on Basement and 17 Parking Spaces on Ground Floor of Merit Industrial Centre No. 94 To Kwa Wan Road To Kwa Wan Kowloon	Carpark	Long term lease	75 Carparking Spaces	100
Storeroom B on Ground Floor, 6 Parking Spaces on Basement and 2 Parking Spaces on Ground Floor of Merit Industrial Centre No. 94 To Kwa Wan Road To Kwa Wan Kowloon	Carpark and a Storeroom	Long term lease	8 Carparking Spaces and 822 sq. ft. for Storeroom	100

Particulars of Properties

31 December 2005

A. Investment Properties *(continued)*

Location	Usage	Category of Lease	Total Gross Floor Area (sq. ft.)	Group's Interest (%)
Macau				
38 Shop Units and 14 Parking Spaces of Va long at Praca da Amizade Nos. 6-52, Avendia do Infante D. Henrique Nos. 25-31 and Avenida Doutor Mario Soares Nos. 227-259 Macau	Commercial	Medium term lease	20,315 sq. ft. and 14 Carparking Spaces	57

B. Investment Properties of the Jointly Controlled Entities

Location	Usage	Category of Lease	Total Gross Floor Area (sq. ft.)	Group's Interest (%)
Macau				
208 Shop Units, 208 Office Units and 265 Parking Spaces at The Macau Square, Rua do Dr. Pedro Jose Lobo No. 2-16A, Avendia do Infante D. Henrique No. 43-53A and Avenida Doutor Mario Soares No. 81-113 Macau	Commercial	Medium term lease	393,457 sq. ft. and 265 Carparking Spaces	28

Particulars of Properties

31 December 2005

C. Major Properties Held for Sale

Location	Usage	Total Gross Floor Area (sq. ft.)	Group's Interest %
Macau			
37 Shop Units, 38 Office Units and 177 Parking Spaces in China Plaza at Avenida da Praia Grande Nos. 730-804 and Avenida de D. Joao IV Nos. 2-6B Macau	Commercial	138,105 sq. ft. and 177 Carparking Spaces	40

D. Properties Under Development

Location	Usage	Approximate Total Gross Floor Area (sq. ft.)	Status	Expected Date of Completion	Group's Interest (%)
Hong Kong					
Mount Davis 33 No. 33 Ka Wai Man Road Kennedy Town Hong Kong	Residential	78,000	Superstructure works in progress	First half 2006	Joint Venture with the Urban Renewal Authority
No. 31 Robinson Road Mid-Levels Hong Kong	Residential	128,000	Superstructure works in progress	2007	100
No 35 Clear Water Bay Road Ngau Chi Wan Kowloon	Commercial and Residential	2,163,000	Site formation works in progress	2008/2009	100
Certain lots in Demarcation District No. 124 Tuen Mun New Territories Hong Kong	Residential	31,000	Superstructure works in progress	2006	34

Particulars of Properties

31 December 2005

D. Properties Under Development *(continued)*

Location	Usage	Approximate Total Gross Floor Area (sq. ft.)	Status	Expected Date of Completion	Group's Interest (%)
Certain lots in Demarcation District No. 171 and in Demarcation District No. 175 Kau To Shan Shatin New Territories Hong Kong	Residential	13,000	Superstructure works in progress	2006	27
Macau					
La Baie Du Noble The Orient Pearl District Macau	Commercial and Residential	1,603,000	Superstructure works in progress	First half 2006	80

E. Properties Held for Future Development

Location	Usage	Approximate Total Gross Floor Area (sq. ft.)	Group's Interest (%)
Hong Kong			
Belcher's Street Kennedy Town Hong Kong	Residential	60,000	100
Macau			
Pacifica Garden The Taipa District Macau (Note)	Commercial and Residential	386,000	33

Note: Site formation works had been started in February 2006.

Corporate Information

Kowloon Development Company Limited

A member of the Polytec Group

Board of Directors

Executive Directors

Or Wai Sheun (*Chairman*)
Ng Chi Man
Lai Ka Fai
Or Pui Kwan

Non-executive Directors

Keith Alan Holman (*Deputy Chairman*)
Tam Hee Chung
Yeung Kwok Kwong

Independent Non-executive Directors

Chau Cham Son
Li Kwok Sing, Aubrey
Lok Kung Chin, Hardy
Seto Gin Chung, John

Audit Committee

Li Kwok Sing, Aubrey (*Chairman*)
Lok Kung Chin, Hardy
Seto Gin Chung, John
Yeung Kwok Kwong

Executive Committee

Or Wai Sheun (*Chairman*)
Ng Chi Man
Lai Ka Fai
Yeung Kwok Kwong
Or Pui Kwan

Remuneration Committee

Seto Gin Chung, John (*Chairman*)
Lai Ka Fai
Li Kwok Sing, Aubrey
Lok Kung Chin, Hardy

Company Secretary

Wai Yuk Hing, Monica

Auditors

KPMG

Registrars

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183 Queen's Road East, Wanchai
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Stock Code

The Hong Kong Stock Exchange: 34