



九龍建業有限公司

Kowloon Development Company Limited

(Stock Code 股票代號: 34)



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Corporate Information

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

Li Kwok Sing, Aubrey
Lok Kung Chin, Hardy
Seto Gin Chung, John
David John Shaw

Executive Committee

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

Audit Committee

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

Remuneration Committee

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

Company Secretary

Wai Yuk Hing, Monica

Authorized Representatives

Lai Ka Fai
Wai Yuk Hing, Monica

Principal Bankers

Bank of China (Hong Kong) Limited
China Construction Bank Corporation
Hang Seng Bank Limited
The Hongkong and Shanghai Banking
Corporation Limited
Wing Lung Bank Limited

Auditors

KPMG

Share Registrars

Computershare Hong Kong Investor Services Limited

Registered Office

23rd Floor, Pioneer Centre
750 Nathan Road, Kowloon, Hong Kong
Tel: (852) 2396 2112
Fax: (852) 2789 1370

Stock Code

The Hong Kong Stock Exchange: 34

Website

www.kdc.com.hk

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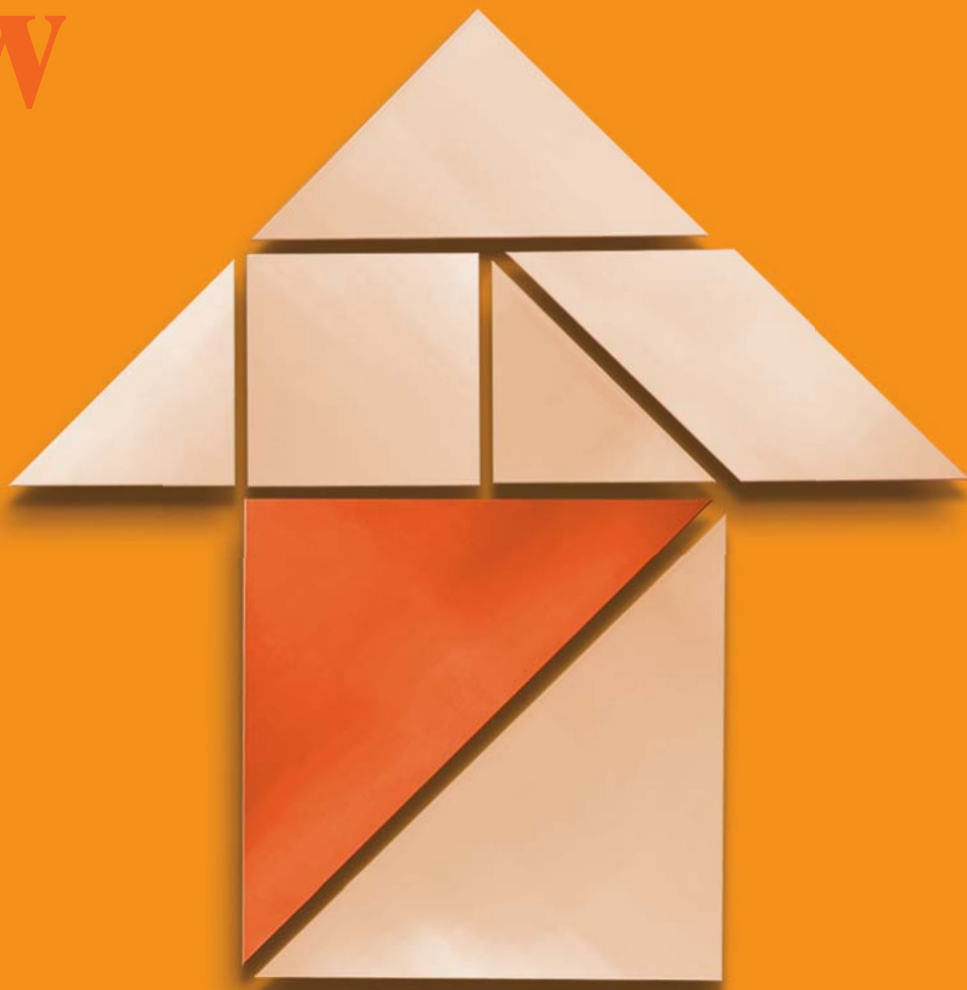
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Highlights

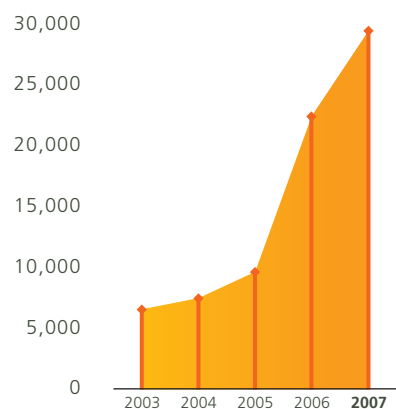


- ◆ Group's net profit rises to HK\$1,906 million; excluding property revaluations net of deferred tax, underlying net profit increases 41.3% to HK\$1,502 million.
- ◆ Taking account of the dilution effects of the rights issue, underlying earnings per share after excluding the effect of property revaluations amounts to HK\$1.36 from HK\$1.58 in 2006.
- ◆ Pre-sale of the Group's two Macau projects has exceeded HK\$4 billion as of 31 December 2007.
- ◆ Dividend per share rises to HK\$0.65, an increase of 18.2% over 2006.

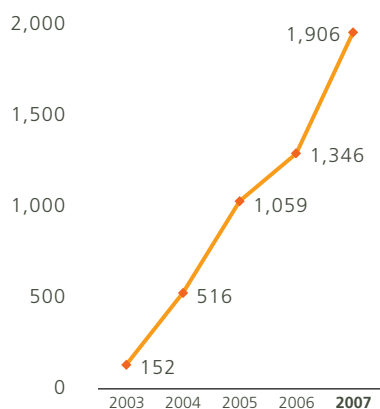
<i>(HK\$ million)</i>	2007	2006	Change +/-
Turnover	10,384	2,908	257%
Profit attributable to the Company's shareholders	1,906	1,346	42%
Excluding property revaluations	1,502	1,063	41%
Earnings per share <i>(HK\$)</i>			
Basic	1.72	2.00	(14%)
Excluding property revaluations	1.36	1.58	(14%)
Net asset value per share attributable to the Company's shareholders <i>(HK\$)</i>	14.87	11.80	26%
Dividend per share <i>(HK\$)</i>	0.65	0.55	18%
Interim	0.17	0.13	31%
Final	0.48	0.42	14%

Five-Year Financial Summary

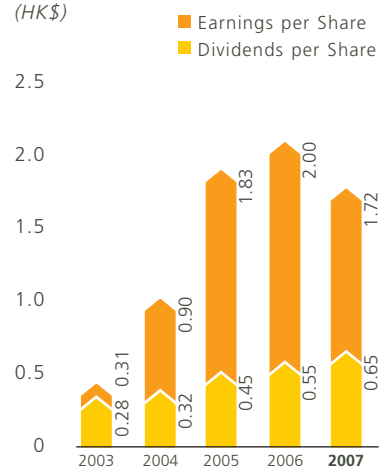
Total Assets
(HK\$ million)



Profit Attributable to Shareholders
(HK\$ million)



Earnings & Dividends per Share
(HK\$)



Consolidated Balance Sheet

(HK\$ million)	2007	2006	2005	2004	2003
Non-Current Assets	18,563	15,298	5,050	3,686	3,505
Current Assets	11,058	7,301	4,813	2,994	2,385
Total Assets	29,621	22,599	9,863	6,680	5,890
Current Liabilities	(2,958)	(2,117)	(1,542)	(1,244)	(743)
Non-Current Liabilities	(4,844)	(7,909)	(2,334)	(1,539)	(2,172)
Net Assets	21,819	12,573	5,987	3,897	2,975
Share Capital	115	77	57	57	48
Reserves	16,992	8,976	5,041	3,839	2,926
Shareholders' Equity	17,107	9,053	5,098	3,896	2,974
Minority Interests	4,712	3,520	889	1	1
Total Equity	21,819	12,573	5,987	3,897	2,975

► Consolidated Income Statement

(HK\$ million)	2007	2006	2005	2004	2003
Turnover	10,384	2,908	1,320	773	674
Profit From Operations	2,427	1,483	1,182	592	210
Finance Costs	(82)	(178)	(18)	(6)	(11)
Profit Attributable To Shareholders	1,906	1,346	1,059	516	152
Profit Attributable To Shareholders (excluding revaluation of properties)	1,502	1,063	638	303	201
Dividends	748	572	255	181	154

► Financial Highlights

	2007	2006	2005	2004	2003
Net Asset Value per Share (HK\$)	14.87	11.80	8.99	6.87	6.15
Earnings per Share (HK\$)	1.72	2.00	1.83	0.90	0.31
Earnings per Share (HK\$) (excluding revaluation of properties)	1.36	1.58	1.11	0.53	0.41
Dividends per Share (HK\$)	0.65	0.55	0.45	0.32	0.28
Dividend Payout Ratio (%) (excluding revaluation of properties)	49.80	53.78	40.00	59.88	76.37
Return on Shareholders' Equity (%)	14.57	19.03	23.55	15.01	5.14
Gearing Ratio (net bank borrowings/ shareholders' equity) (%)	5.01	19.64	49.78	43.84	73.97

Notes:

1. 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.
2. The comparative amounts of earnings per share for the previous years have been restated by adjusting the number of ordinary shares for the consolidation of one-for-two rights issue effected during the year ended 31 December 2007.

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Chairman's Statement



Group Results and Dividends

The Group's net profit attributable to shareholders for the financial year ended 31 December 2007 rose to another record high of HK\$1,906 million from HK\$1,346 million in 2006. Excluding investment property revaluation gains net of deferred tax, underlying net profit for 2007 amounted to HK\$1,502 million, an increase of 41.3% over the previous year.

Taking account of the effect of the one-for-two rights issue in February 2007, the underlying earnings per share after the effect of property revaluations for 2007 amounted to HK\$1.36 compared to HK\$1.58 in 2006.

The Board of Directors has recommended the payment of a final dividend per share of HK\$0.48 for 2007, an increase of 14.3% over 2006. Together with the interim dividend per share of HK\$0.17, the full year dividend per share for 2007 will amount to HK\$0.65, an increase of 18.2% over the previous year.

The final dividend will be payable on 22 May 2008 to shareholders registered as at 16 April 2008.

Business Review

The Group's net profit hit a record high in 2007 driven by a broad-based improvement across our major businesses. The Group's core businesses of property development and investment have benefited considerably from the robust economy in the region while the Group's finance and investments division also performed well in 2007.

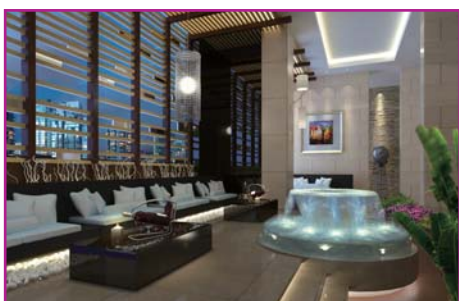
To facilitate the one-for-two rights issue as announced on 19 December 2006, the authorized share capital of the Company was increased by 4 billion new shares of HK\$0.10 each to 5 billion shares of HK\$0.10 each. Upon completion of the rights issue in February 2007, the issued share capital was increased by 383,560,425 shares to 1,150,681,275 shares of HK\$0.10 each. The gross proceeds of HK\$5,293 million substantially strengthened the equity base of the Group and allowed it to capture further investment opportunities.

Major Acquisitions

On 15 May 2007, the Company entered into an interest transfer agreement to transfer equity interests of 30% and 9% respectively in a project subsidiary named "Polytec CITIC Property (Tianjin) Co., Ltd" to two strategic investors – Tianjin CITIC Real Estate Investment Co., Ltd and Tianjin Flying Investment Development Co., Ltd. Simultaneously the same parties entered into a cooperation agreement in relation to a project in Tianjin to which the Company committed in December 2006. Both strategic investors are experienced in the investment and development of real estate in Mainland China and will bring valuable expertise to the project company.

On 22 August 2007, the Group entered into an agreement to acquire 50% of a portfolio of non-performing loans with a principal value of approximately RMB35,500 million for a total consideration of RMB2,190 million from China Orient Asset Management Corporation ("China Orient"), one of the four state asset management companies set up by the Ministry of Finance in 1999 to acquire the non-performing loans of China's four largest state-owned commercial banks and financial institutions. A joint venture company will be formed with China Orient upon completion of the acquisition pursuant to conditions of a joint venture agreement. Both the acquisition and the formation of the joint venture company are subject to regulatory approval.

Property Sales



31 Robinson Road – Skygarden Lounge Area

The Group's total property sales rose to HK\$1,515 million in 2007, an increase of 25.8% over the previous year. The biggest contributor to sales was from the project at 31 Robinson Road, Mid-levels, Hong Kong. The occupation permit for the project was obtained in December 2007 and the internal finishing work will be completed and will be handed over to the buyers in the second quarter of this year.

Together with the final profit recognition from the Group's 80% interest in La Baie du Noble project in Macau, total sales for 2007 produced a combined operating profit of HK\$721 million, an increase of 12.1% over the previous year.

Property Development

As of 31 December 2007, the Group's land bank for development totaled approximately 5 million sq m gross floor area, which consisted of 1 million sq m of properties held for development and 4 million sq m of properties under development across Hong Kong, Mainland China and Macau.

The status of the Group's major development projects in Hong Kong, Mainland China and Macau is as follows:

Hong Kong

Ngau Chi Wan, Hong Kong

In Hong Kong, the Group owns a major site at 35 Clear Water Bay Road in Ngau Chi Wan with gross floor area of approximately 196,400 sq m. The site will be developed into a residential and commercial complex with retail and community facilities. We have been working actively in order to get the final approval from the relevant government departments.

Belcher's Street, Hong Kong

The project covers a site area of 564 sq m and will be developed into a gross floor area of approximately 5,600 sq m consisting of multi-storey high-end residential block with retail, recreational and car parking spaces. The architectural design is under review and construction work is scheduled to commence in the second half of 2008.

Mainland China

Dong Ning District, Shenyang

The relocation and resettlement work is about to complete and the first phase of residential development will be commenced in the second quarter of 2008 and is expected to be completed before the end of 2009.

Nanhai District, Foshan

A ground-breaking ceremony was held in November 2007 to mark the commencement of the first phase construction work of the Foshan project. With the aim of creating a large scale luxury community, the conceptual design for the first phase consists of low density and high quality housing and a five-star hotel surrounded by greenery environment. The sale of the first phase residential development is expected to commence by the end of 2008 or early 2009.

Hedong District, Tianjin

The Tianjin project is located in the central business district of Hedong. The development will be carried out in phases. The master layout design has been completed. Construction work is ready to start when approvals from the relevant government authorities are obtained.

Macau

Following the completion of the La Baie du Noble project, the Group's interest in Macau is held through its listed subsidiary, Polytec Asset Holdings Limited ("Polytec Asset"), 59.52% owned by the Group. Currently Polytec Asset has two major projects, Villa de Mer and Pacifica Garden, under development. The pre-sale of the project in the Orient Pearl District, Villa de Mer, has been encouraging, with approximately 80% of residential units being sold as of 31 December 2007 while for the project in Taipa, Pacifica Garden, all residential units were sold in early 2007.

Villa de Mer, The Orient Pearl District

Villa de Mer, 80% interest held by Polytec Asset under a co-investment agreement, covers a gross floor area of approximately 126,400 sq m and comprises 5 towers with a total of about 1,300 residential units and a number of retail shops on the ground floor. The foundation work has been completed. The project is expected to complete in end of 2009 or early 2010.

Pacifica Garden, Taipa

Pacifica Garden is Polytec Asset's 58% owned residential and commercial project in Taipa, Macau, with a gross floor area of approximately 35,900 sq m, comprising two buildings with a total of 295 residential units and a number of retail shops on the ground floor. The foundation work has been completed and the superstructure is now in progress. The project is expected to be completed in end of 2008 or early 2009.

Property Investment

The Group's gross rental income for 2007 from its property investment portfolio amounted to HK\$234 million, an increase of 4.5% over the previous year. Overall occupancy rate of the Group's property portfolio remained high for 2007 at over 90% with the average occupancy rate of the retail spaces at Pioneer Centre, the Group's flagship property, improving to 98.6% from 93.9% in 2006.

Property Management

While the property management section contributed insignificantly to the Group's profit, it is intended to complement the Group's principal business in property development. The Group operates a property management company which offers high quality property management services.

Finance and Investments

With favourable market conditions, the performance of the finance and investments division improved in 2007, with its combined activities contributing HK\$723 million to the Group's net profit compared to HK\$242 million in 2006.

Shenzhen Properties

In relation to the acquisition of Shenzhen Properties & Resources Development (Group) Limited ("Shenzhen Properties"), a ruling was awarded in favour of the Group by the China International Economic and Trade Arbitration Commission on 25 October 2007 stating that the sale and purchase agreement is legally binding and will continue to be of effect and that the sellers are required to continue to perform their obligations of selling their interest in Shenzhen Properties to the Group. The Company is still seeking implementation of the agreement by the relevant government authorities for the continuation of the general offer obligation before 30 June 2008.

Polytec Asset Holdings Limited

Polytec Asset contributed HK\$80 million to the Group's net profit in 2007 compared to HK\$8 million in previous year.

Prospects

The impact of the Chinese government's macroeconomic controls in relation to the property sector put in place over the past few years has finally emerged in the fourth quarter following the even more intensified measures taken during the course of 2007. In general, a correction in the property market was observed in cities where transaction volume and prices once soared, while cities with relatively moderate price increases were less affected.

The cost of the three major pieces of land acquired by the Group in 2006 still represents a considerable discount to the current land prices, which will keep the Group well-positioned over the medium to the long run. The Foshan project is underway while the Shenyang project is expected to be commenced in the second quarter this year. The initial master layout design for the Tianjin project has been completed and the project is immediately available for development in a disciplined manner subject to the approval by the relevant government authorities.

In Hong Kong, the decline in new private housing supply, together with falling interest rates and continued economic growth, has boosted the demand for housing and property prices. The project at Robinson Road was launched in September 2007 and has been well received with satisfactory transaction prices recorded for certain units. The remaining units will be launched for sale in stages and are expected to have a significant contribution to the Group's earnings in 2008. The negotiation in relation to the Ngau Chi Wan project with the relevant government departments is still underway and we will endeavour to reach an agreement as soon as possible.



31 Robinson Road – Clubhouse Lobby

Undoubtedly, the economy remained robust in Macau last year. Looking forward, the economy is expected to continue to be fuelled by foreign and local investment and a number of large government infrastructure projects scheduled for the next few years. In particular, the Group will benefit from its sizeable land bank for property projects adjacent to the location of the Hong Kong-Zhuhai-Macau Bridge. We are indeed optimistic about the outlook for the Macau economy.

The Group's finance and investments segment recorded significant earnings in 2007 due to the favourable market conditions during the year. However, such environment has been reversed in early 2008 as the world's economy has slowed down substantially. As such, we do not expect the performance of this segment to match that of the previous year. Nonetheless, the Group's earnings in the next two years will be supported by sales of the remaining units of the Robinson Road project and the sales of the two Macau projects, Pacifica Garden in Taipa and Villa de Mer in the Orient Pearl District, which recorded a total of pre-sale proceeds exceeding HK\$4 billion as of 31 December 2007.

Looking forward, we expect that our development projects in Mainland China will start to make a meaningful contribution to the Group's earnings from 2009 onwards.

Appreciation

I would like to take this opportunity to express my gratitude to my fellow directors for their advice and all the staff members of the Group for their hard work and dedication.

Or Wai Sheun
Chairman

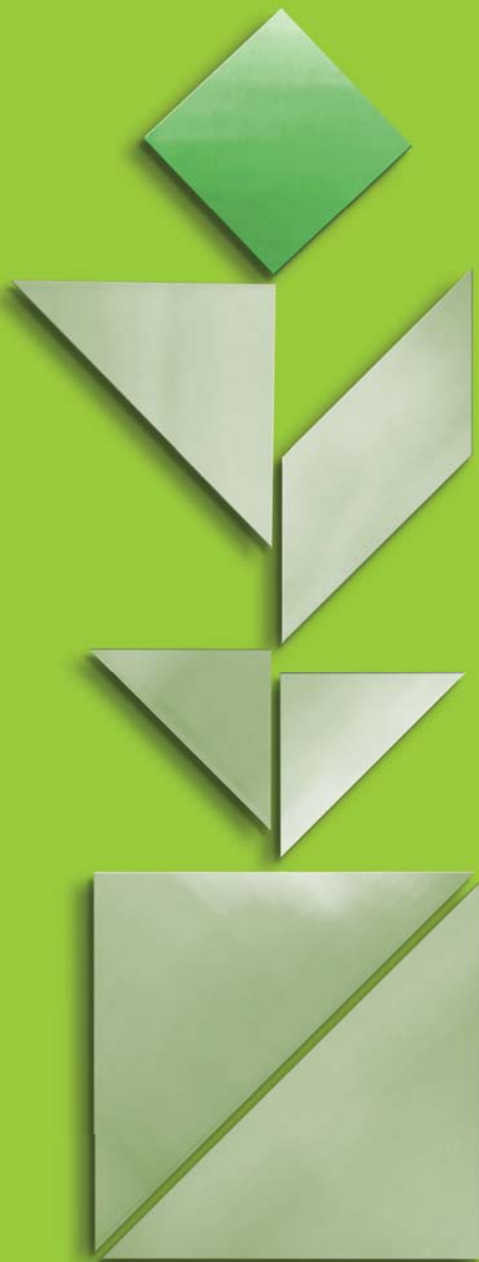
Hong Kong, 17 March 2008

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Review of Operations



Property Sales and Development

Property sales accounted for 35.7% of the operating profits of the Group for the year ended 31 December 2007.

Overview of projects:

31 Robinson Road, Mid-Levels, Hong Kong

Location	No. 31 Robinson Road, Mid-Levels, Hong Kong
Usage	Residential
Group's Interest (%)	100
Approx. Total Gross Floor Area (sq m)	11,900
Status	For sale – more than 50% sold

As a prestigious residential building in a prime location with, occupation permit obtained in December 2007, the development provides residents with comprehensive recreational facilities including swimming pool, sky garden and deluxe clubhouse. Over 50% of the total residential units (mainly on lower floors) were sold by the end of 2007. The internal finishing work will be completed and will be handed over to the buyers in the second quarter of 2008.



31 Robinson Road – Massage and Spa Room

▶ 35 Clear Water Bay Road, Ngau Chi Wan, Kowloon, Hong Kong

Location	No. 35 Clear Water Bay Road, Ngau Chi Wan, Kowloon, Hong Kong
Usage	Residential and Commercial
Group's Interest (%)	100
Approx. Total Gross Floor Area (sq m)	196,400
Status	Land exchange under process
Expected Date of Completion	2011/2012

The site will be developed into a residential and commercial complex with retail and community facilities. We have been working actively in order to get the final approval from the relevant government departments.

▶ Belcher's Street, Kennedy Town, Hong Kong

Location	Belcher's Street, Kennedy Town, Hong Kong
Usage	Residential and Commercial
Group's Interest (%)	100
Approx. Total Gross Floor Area (sq m)	5,600
Status	Foundation work to commence soon
Expected Date of Completion	2009/2010

The construction works for redevelopment of Belcher's Street on Hong Kong Island is scheduled to commence in the second half of 2008. The project site area is 564 sq m and will be developed into multi-storey high-end residential block with retail, recreational and car parking spaces.

▶ Dong Ning District, Shenyang, the PRC

Location	West of Daba Road, Dong Ning District, Shenyang, the PRC
Usage	Residential and Commercial
Group's Interest (%)	100
Approx. Total Gross Floor Area (sq m)	2,900,000
Status	Site clearance work in progress
Expected Date of Completion	2009 (first phase)

The relocation and resettlement work is close to the stage of completion. The first phase of the residential development will commence in the second quarter of 2008 and is expected to be completed before the end of 2009.



Liaoning Market Creditworthy Award jointly presented by the Enterprise Prestige Inquisition Department of Chinese Institute of Social and Economic Survey and the Business Enterprise Reputation Inquisition Centre of Liaoning Provincial Regional Economic Research Association

Nanhai District, Foshan, the PRC	
Location	Heshun Meijing Shuiku Sector, Lishui Town, Nanhai District, Foshan, the PRC
Usage	Residential and Commercial
Group's Interest (%)	50
Approx. Total Gross Floor Area (sq m)	1,600,000
Status	Overall layout design and site formation work in progress
Expected Date of Completion	2009 (first phase)

The project was acquired jointly with CITIC South China (Group) Co., Ltd on a 50:50 basis in 2006. A ground-breaking ceremony was held in November 2007 to mark the official commencement of construction work. Detailed plans for the first phase development were approved. Upon completion, the project will provide a top-quality environment consisting of low density high quality housing and a five-star hotel surrounded by greenery environment. The sale of the first phase residential development is expected to commence by the end of 2008 or early 2009.



Foshan project – Ground-breaking ceremony

Hedong District, Tianjin, the PRC	
Location	Lot No. Jin Dong Liu 2004-066, Intersection of Shiyijing Road and Liuwei Road, Hedong District, Tianjin, the PRC
Usage	Residential and Commercial
Group's Interest (%)	61
Approx. Total Gross Floor Area (sq m)	930,000
Status	Site clearance in progress
Expected Date of Completion	2010 (first phase)

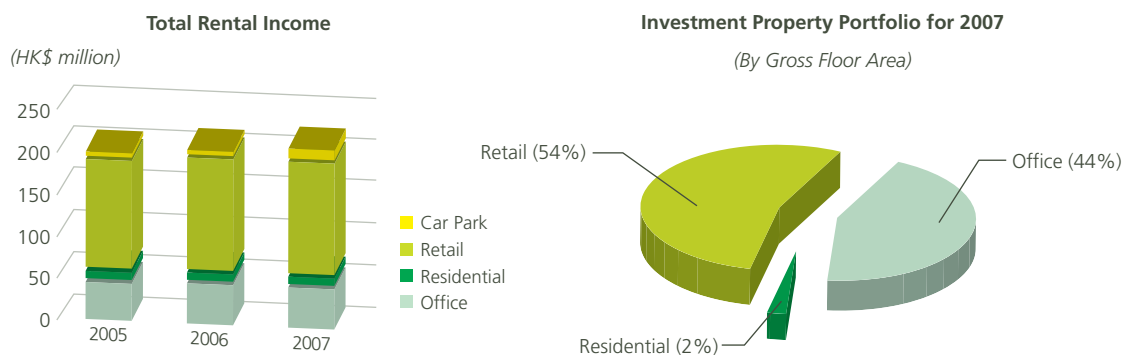
Situated in the central business district of Hedong, the site was acquired in December 2006 and offers a total gross floor area of approximately 930,000 sq m. The master layout design has been completed. Construction work is ready to start when approvals from the relevant government authorities are obtained.

Property Investment

During the financial year, the Group's rental income generated from its portfolio of investment properties in Hong Kong amounted to HK\$234 million (2006: HK\$224 million) and contributed HK\$220 million (2006: HK\$201 million) and accounted for 11% of the operating profit to the Group. This revenue stream provided a stable recurrent income to the Group. A gain of approximately HK\$491 million on the change in the fair value of these properties is recognized in the 2007 annual results of the Group.

Total gross rental income from Pioneer Centre, the Group's flagship property, for the financial year under review registered a stable growth of 4.5% to HK\$187 million (2006: HK\$179 million). The increase in rental income was primarily driven by renewals of some major office tenancies and the rental income rise of some retail tenants.

As at 31 December 2007, the Group's investment property portfolio (excluding that of the listed subsidiary Polytec Asset) had approximately 60,000 sq m of attributable gross floor area divided into sectors as shown in the chart below. Of this portfolio, occupancy of residential, commercial and office properties remained high at 80%, 99% and 97% respectively. (2006: 100%, 98% and 98%).



Property Management

To conform with the Hong Kong Housing Authority's requirements for tendering for service contracts in public sector, the Group restructured the composition of its management companies by disposing of an associated company during the financial year. After the disposal, the Group and its associated companies jointly managed, in the private and public sectors, approximately 479,300 sq m (2006: 1,300,000 sq m) of luxury residential and serviced apartments, commercial premises and public housing estates in addition to projects developed by the Group.

Finance and Investments

Finance and investments activities of the Group contributed approximately HK\$723 million to the Group's net profit as compared with HK\$242 million last year.

Shenzhen Properties

In relation to the acquisition of Shenzhen Properties & Resources Development (Group) Limited (“Shenzhen Properties”), a ruling was awarded in favour of the Group by the China International Economic and Trade Arbitration Commission on 25 October 2007 stating that the sale and purchase agreement is legally binding and will continue to be of effect and the sellers are required to continue to perform their obligations of selling their interest in Shenzhen Properties to the Group. Pursuant to the arbitration award, the Group should also perform its obligations of conducting a general offer on the remaining issued shares in Shenzhen Properties not already owned or contracted to be sold to the Group before 30 June 2008. Efforts are being made to coordinate and communicate with the State-owned Assets Supervision and Administration Commission and the China Securities Regulatory Commission in order to continue with the obligation to make a general offer before 30 June 2008.

Polytec Asset Holdings Limited

For the year ended 31 December 2007, Polytec Asset, contributed HK\$80 million to the Group’s net profit in 2007 compared to HK\$8 million in 2006. The revenue is mainly derived from rental income from its investment portfolio and investment income.

Property Development and Investment

Overview of projects:

▶ Villa de Mer	
Location	Lote V, The Orient Pearl District, Novos Aterros da Areia Preta, Macau
Usage	Residential and Commercial
Group’s Interest (%)	48
Approx. Total Gross Floor Area (sq m)	126,400
Status	Foundation work near completion
Expected Date of Completion	2009/2010

With a gross floor area of approximately 126,400 sq m, the project comprises five deluxe residential towers of approximately 1,300 units sitting on a landscaped podium with retail, recreational and car parking facilities. The superstructure work is scheduled to commence in first half of 2008 and the project is expected to be completed in 2009/2010. Thanks to the strong property market in Macau, over 80% of the total residential units have been sold.



Villa de Mer

Lote P	
Location	Lote P, The Orient Pearl District, Novos Aterros da Areia Preta, Macau
Usage	Residential and Commercial
Group's Interest (%)	48
Approx. Total Gross Floor Area (sq m)	687,700
Status	Building plan approval in progress
Expected Date of Completion	2010/2011 (first phase)

This residential site provides a gross floor area of approximately 687,700 sq m which will be developed into deluxe residential towers with retail, recreational and car parking facilities by phases. The first phase is expected to commence before the end of 2008.

Lotes T and T1	
Location	Lotes T and T1, The Orient Pearl District, Novos Aterros da Areia Preta, Macau
Usage	Residential and Commercial
Group's Interest (%)	48
Approx. Total Gross Floor Area (sq m)	164,200
Status	Building plan approval in progress
Expected Date of Completion	2010/2011

Another prime residential site with sea view and provides a gross floor area of approximately 164,200 sq m. The site will be developed into deluxe residential towers with retail, recreational and car parking facilities. The building plan approval is in progress and the construction of the project is expected to commence before the end of 2008.

Pacifica Garden	
Location	Lotes TN25b and TN26d near Estrada Coronel Nicolau de Mesquita, Taipa, Macau
Usage	Residential and Commercial
Group's Interest (%)	35
Approx. Total Gross Floor Area (sq m)	35,900
Status	Superstructure work in progress
Expected Date of Completion	2008/2009

A composite project in Taipa provides a gross floor area of 35,900 sq m comprising two residential towers of 295 units and retail spaces. The whole development is expected to be completed in late 2008 or early 2009. It has been well received by the market and all residential units were sold by the end of 2007.

A majority of rental income of Polytec Asset group was generated from the Macau Square, a commercial property 50% owned by Polytec Asset group which situated in the central business district of Macau. Total rental income of HK\$26.3 million was recorded for the year, an increase of 37% over the same period last year. The growth was mainly driven by the enhancement of business mix and occupancy rates of both the shopping mall and office spaces.

Situated in the central business district of Macau, China Plaza, is a property with 70.5% interests owned by Polytec Asset group. Certain retail units were sold during the financial year. It is intended to dispose of the remaining retail units in 2008.

Ice and Cold Storage

The ice manufacturing and cold storage business recorded a steady operating profit of HK\$13.5 million for 2007 as compared with HK\$13.6 million in the same period last year.

Human Resources and Remuneration Policy

As at 31 December 2007, the Group has 367 staff members in total (2006: 324 employees) in its various offices in Hong Kong, Macau and Mainland China. The total remuneration during the year was HK\$97 million (2006: HK\$80 million). The Group's remuneration policy is based on the principle of pay for performance with the aim to attract, motivate and retain talented people.

The Group conducted a range of on-going training programmes both in-house and through external institutions, on a on-going basis to strengthen employees' all round skills and knowledge, aiming to well equip them to cope with the Group's development in the ever-changing economy.

Financial Review



Financial Resources and Bank Borrowings

As at 31 December 2007, the Group had total bank borrowings of HK\$1,765 million with HK\$623 million repayable within one year and HK\$292 million repayable more than one year but within two years. The remaining balance of HK\$850 million is repayable after two years but within five years. The net bank borrowing position of the Group as at the year end date was HK\$857 million having taken into account the HK\$908 million of cash and cash equivalents as at 31 December 2007. There was a substantial reduction of 51.8% or HK\$921 million as compared with the net borrowings of HK\$1,778 million at end of 2006 as a result of the fund raising activity during the year under review. In February 2007, the Group raised net proceeds of HK\$3,035 million by issue of 383,560,425 rights share at HK\$13.8 per share after offsetting loans from the ultimate holding company of HK\$2,256 million. The new equity capital has strengthened the financial position of the Group by reducing the Group's gearing ratio (calculated on the basis of net bank borrowings to equity attributable to shareholders of the Company) significantly from 19.6% at 2006 year end to about 5.0% at 2007 year end. Furthermore, the rights issue also strengthened the equity base of the Group. With its strong and sound financial position, the Group is well-positioned to secure new investments whenever appropriate opportunities arise.

The ultimate holding company continued its financial support to the Group with loans outstanding as at 31 December 2007 amounted to HK\$1,398 million (2006: HK\$5,884 million) including the balance and related accrued interest in respect of the acquisition of interests in property developments in Macau. The adjusted gearing ratio was 13.2% as at 31 December 2007 (2006: 84.6%) after taking into account the outstandings due to the ultimate holding company. Of the reduction of HK\$4,486 million due to the ultimate holding company, HK\$2,256 million was offset against the relevant portion of subscription money for the Company's rights shares.

In 2007, the Group increased its investment in property development projects in Mainland China, namely, the Tianjin, Shenyang and Foshan projects, by a further HK\$393 million, HK\$566 million and HK\$620 million respectively. The Group added a net HK\$343 million to its securities investment portfolio during the year. A total of HK\$452 million has been generated from the sale of 31 Robinson Road of which more than 50% of the units have been sold. The total amount received from a fellow subsidiary company in Macau in relation to the pre-sale proceeds of Villa de Mer under a co-investment agreement, was HK\$1,508 million during 2007.

All banking facilities are arranged on a floating rate basis. Management will continue to monitor and manage the Group's exposure to interest rate risks and will engage in relevant hedging arrangements when appropriate. With the several interest rate cuts in the United States recently and the currency peg, interest rates in Hong Kong are expected to remain at a low level in the short and medium term.

With the Group's investment in several property projects in Mainland China, the continuous appreciation of Renminbi will increase the costs for further investment in these projects. Where appropriate and cost efficient, the Group seeks to finance these investments by Renminbi borrowing and as future returns from these investments are denominated in Renminbi, exposure to currency risk is minimised. On the other hand, the Group will benefit from the associated currency gain from the assets' value of the development projects in Mainland China. The Group's exposure to other currency risk is insignificant.

With the financing facilities currently in place, recurrent income from investment properties, readily realizable marketable securities on hand, property sales and the proceeds from the rights issue in February 2007, the Group has sufficient financial resources to satisfy its commitments, working capital requirements and for its future business expansion.

Capital Commitments

As at 31 December 2007, the Group had contracted commitments of HK\$814 million in respect of the acquisition of Shenzhen Properties and development projects in Mainland China. Commitments for construction work amounted to HK\$101 million.

Pledge of Assets

As at 31 December 2007, properties and securities amounted to HK\$6,464 million and time deposits of HK\$582 million were pledged to financial institutions to secure credit facilities and as margin for securities investments. The Group had no contingent liabilities as at 31 December 2007.

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Profile of Directors and Senior Management



Board of Directors

Executive Directors

OR Wai Sheun, aged 56, 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 Asset Holdings Limited (Stock Code: 208), a listed subsidiary of the Company. In addition, he is the chairman of Polytec Holdings International Limited and Intellinsight Holdings Limited and a director of Or Family Trustee Limited Inc., all three companies being substantial shareholders of the Company. Mr Or has over 25 years' experience in property development, industrial and financial investment business in Hong Kong, Macau and the Mainland China. 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 55, is *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 25 years' experience in property development, industrial and financial investment business in Hong Kong, Macau and the Mainland China. 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 43, is *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 (Stock Code: 208), a listed subsidiary of the Company. Mr Lai has over 20 years' experience in finance, accounting, financial and operational management and corporate planning. He graduated from the University of East Anglia in the United Kingdom with a Bachelor's degree in Science. He is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants in the United Kingdom.

OR Pui Kwan, aged 29, is *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 63, 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, Or Family Trustee Limited Inc., a substantial shareholder of the Company, and a founding Partner of the Lantern Group which invests in U.K. property and shares. Mr Holman has over 35 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 64, was appointed director of the Company in January 2002. He 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.

YEUNG Kwok Kwong, aged 49, was appointed director of the Company in January 2002. He is the managing director of Polytec Asset Holdings Limited (Stock Code: 208), a listed subsidiary of the Company. Mr Yeung has over 25 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.

Independent Non-executive Directors

LI Kwok Sing, Aubrey, aged 58, was appointed director of the Company in January 2002. Mr Li is a director of MCL 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 The Bank of East Asia, Limited (Stock Code: 23) and an independent non-executive director of ABC Communications (Holdings) Limited (Stock Code: 30), Café de Coral Holdings Limited (Stock Code: 341), China Everbright International Limited (Stock Code: 257), CNPC (Hong Kong) Limited (Stock Code: 135) and Pokfulam Development Company Limited (Stock Code: 225) 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.

LOK Kung Chin, Hardy, aged 58, was appointed director of the Company in January 2002. He is the Managing Director of The Sun Company, Limited and has over 35 years' experience in building and engineering construction work. He graduated in Civil Engineering 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.

SETO Gin Chung, John, aged 59, was appointed director of the Company in January 2002. He is an independent non-executive director of China Everbright Limited (Stock Code: 165) and Hop Hing Holdings Limited (Stock Code: 47) and a director of Pacific Eagle Asset Management Limited. He was a non-executive director of Hong Kong Exchanges and Clearing Limited (Stock Code: 388) from 2000 to 2003 and was the chief executive officer of HSBC Broking Services (Asia) Limited from 1982 to 2001. 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 the chairman and a non-executive director of International Financial Network Holdings Ltd. (Stock Code: 8123) (formerly known as "Stockmartnet Holdings Limited") from 2001 to 2005. He holds a Master of Business Administration degree from New York University, US and has over 35 years of experience in the securities and futures industry.

David John SHAW, aged 61, was appointed director of the Company in June 2007. He is employed by the HSBC Group as Adviser to the board of HSBC Holdings plc (Stock Code: 5), a London-based appointment which he took up in June 1998. He is a non-executive director of HSBC Private Banking Holdings (Suisse) SA and The Bank of Bermuda Limited, which are companies within HSBC Group. He is also an independent non-executive director of Shui On Land Limited (Stock Code: 272). Mr Shaw is a solicitor, admitted in England and Wales and in Hong Kong. He was a partner of Norton Rose from 1973 until 1998 and during that period spent approximately 20 years working in Hong Kong. Mr Shaw obtained a law degree from Cambridge University.

Senior Management

AU YEUNG Chi Hung, Alex, aged 48, is *General Project Manager, Property Development* of the Company. Mr Au Yeung has over 20 years' experience in large scale infrastructure and property development projects in Hong Kong, Macau, the Mainland China and Singapore. Prior to joining the Company in 2002, he was 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.

LAW Yu Wing, Steven, aged 51, is *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 the Mainland China.

LIU Bik Yuk, aged 38, is *Executive Assistant to Chairman* of the Company. Ms Liu has solid experience in leasing, sales, marketing and promotion. She has joined the Company initially as Leasing Manager and has been promoted to the existing position in 2007. Prior to joining the Company in 2004, she had worked for the Cheung Kong Group for 8 years. Ms Liu holds a Bachelor of Science degree in Business Administration.

LUI Shan Lai, aged 42, is *General Manager, Finance* of the Company. Ms Lui has over 20 years' experience in finance and accounting. She graduated from the University of Hong Kong with a Bachelor's degree in Social Sciences. Ms Lui was employed by the Company between 1990 and 1993 and has re-joined the Company since 1996. Prior to joining the Company in 1990, she had worked for an international accounting firm for several years. She is an associate member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the Association of Chartered Certified Accountants in the United Kingdom and an associate member of CPA Australia.

MAK Kam Wah, aged 48, is *General Project Manager, Property Development* of the Company. Mr Mak has over 24 years of experience in the field of architectural practice and property development. Prior to joining the Company in 2007, he has worked for a large property development company for 10 years. Mr Mak holds a Bachelor degree of Architecture and a Bachelor degree of Arts in Architectural Studies from the University of Hong Kong. He is an authorized person - List 1 registered under the Buildings Ordinance and a registered architect under the Architects Registration Ordinance. He is a member of the Hong Kong Institute of Architects.

WAI Yuk Hing, Monica, aged 49, is *Assistant General Manager and Company Secretary* of the Company. Ms Wai has over 25 years of experience in finance, management and corporate services. 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. 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 in the United Kingdom and an associate member of CPA Australia.

YIP Kwok Fai, aged 40, is *General Project Manager, Property Development* of the Company. Dr Yip has over 15 years' experience in property development projects in Hong Kong, Macau and the Mainland China. Prior to joining the Company in 2002, he was a project manager in a large property development company and had worked for architectural consultancy firms involved in various large property development projects. Dr Yip graduated from the University of Hong Kong. He holds a degree of Doctor of Business Administration and a Master's degree in Architecture. He is a fellow member of The International Institute of Management and a member of the Royal Institute of British Architects and The Hong Kong Institute of Architects. He is also an authorized person registered under the Buildings Ordinance and a registered professional architect.

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 2007.

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.

Accounts

The profit of the Group for the year ended 31 December 2007 and the state of affairs of the Company and of the Group at that date are set out in the accounts on pages 43 to 111.

Dividends

An interim dividend of HK\$0.17 per share (2006: HK\$0.13 per share) was paid on 11 October 2007. The Directors now recommend that a final dividend of HK\$0.48 per share (2006: HK\$0.42 per share) be paid in respect of the year ended 31 December 2007.

Share Capital

Movements in share capital during the year are set out in note 25 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 25 on the accounts.

Fixed Assets

Movements in fixed assets during the year are set out in note 10 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 2007 are set out in notes 12, 21, 22, 23 and 24 on the accounts.

Finance Costs Capitalized

The amount of finance costs capitalized by the Group during the year is set out in note 3(b) on the accounts.

Donations

Charitable donations made by the Group during the year amounted to HK\$70,840 (2006: HK\$597,340).

Properties

Particulars of properties of the Group are shown on pages 113 to 118 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 4 to 5 of the annual report.

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 23 to 25 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*

Mr Tam Hee Chung, *Non-executive Director*

Mr Yeung Kwok Kwong, *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*

Mr David John Shaw, *Independent Non-executive Director (appointed on 1 June 2007)*

In accordance with article 105 of the Articles of Association of the Company, Mr Lai Ka Fai, Mr Tam Hee Chung and Mr Yeung Kwok Kwong will retire by rotation at the forthcoming Annual General Meeting and, being eligible, offer themselves for re-election.

Mr David John Shaw was appointed as an Independent Non-executive Director on 1 June 2007. In accordance with article 96 of the Articles of Association of the Company, he shall hold office until the forthcoming Annual General Meeting. Mr Shaw, 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 4 on the accounts.

Directors’ Interests and Short Positions

As at 31 December 2007, 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 Interests in Shares, Underlying Shares and Debentures of the Company

Name of directors	Nature of interest	Number of shares		Approx. percentage of total issued shares (Note 1)	Note(s)
		Long position	Short position		
Or Wai Sheun	Beneficiary	689,649,124	–	59.93%	2
	Corporate	277,500	–	0.02%	3
Ng Chi Man	Beneficiary	689,649,124	–	59.93%	4
Or Pui Kwan	Beneficiary	689,649,124	–	59.93%	5
	Personal	10,500	–	0.00%	5
Lok Kung Chin, Hardy	Under trust	1,425,000	–	0.12%	6
Keith Alan Holman	Personal	567,000	–	0.05%	7
Tam Hee Chung	Corporate	300,000	–	0.03%	8
Lai Ka Fai	Personal	468,000	–	0.04%	7
David John Shaw	Personal	133,500	–	0.01%	7
	Family	66,000	–	0.01%	9
Yeung Kwok Kwong	Personal	165,000	–	0.01%	7

Notes:

- (1) The percentage holding is calculated based on the total number of 1,150,681,275 ordinary shares in issue as at 31 December 2007.
- (2) Mr Or Wai Sheun was interested in 689,649,124 shares ultimately and wholly-owned by a discretionary family trust of which Mr Or Wai Sheun is the founder and a beneficiary. These shares were the shares disclosed under Ms Ng Chi Man and Mr Or Pui Kwan in the above table and in the section on “Interests of Substantial Shareholders and Other Persons” below.

- (3) Mr Or Wai Sheun was also interested in 277,500 shares owned by China Dragon Limited due to his corporate interest therein.
- (4) Ms Ng Chi Man is the spouse of Mr Or Wai Sheun. Ms Ng was deemed to be interested in 689,649,124 shares as a beneficiary of the discretionary family trust referred to in Note (2) above.
- (5) Mr Or Pui Kwan is the son of Mr Or Wai Sheun and Ms Ng Chi Man. Mr Or Pui Kwan was the beneficial owner of 10,500 shares and was also deemed to be interested in 689,649,124 shares as a beneficiary of the discretionary family trust referred to in Note (2) above.
- (6) Mr Lok Kung Chin, Hardy was taken to be interested in 1,425,000 shares owned by discretionary trusts of which Mr Lok is the founder and a beneficiary respectively.
- (7) Shares were held by the respective Directors in their capacity as beneficial owners.
- (8) Mr Tam Hee Chung was deemed to be interested in 300,000 shares owned by Larry H.C. Tam & Associates Limited by virtue of his 48% interest therein.
- (9) Shares were held through the family interest of Mr David John Shaw.

2 Interests in Shares, Underlying Shares and Debentures of the Associated Corporation – Polytec Asset Holdings Limited (“Polytec Asset”)

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

Notes:

- (1) The percentage holding is calculated based on the total number of 4,438,967,838 ordinary shares in issue of Polytec Asset as at 31 December 2007.
- (2) Through their respective interests in the Company disclosed under the subsection on “Interests in Shares, Underlying Shares and Debentures of the Company”, and by virtue of 100% interest in Marble King International Limited, an immediate holding company of Polytec Asset, by the Company, Mr Or Wai Sheun, Ms Ng Chi Man and Mr Or Pui Kwan were deemed to be interested in 2,642,064,812 ordinary shares.
- (3) By virtue of a 48% interest in Larry H.C. Tam & Associates Limited which owns such 1,100,000 ordinary shares.

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. Save as disclosed above, none of the Directors (including their spouses and children under the age of 18) had, as at 31 December 2007, 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 19 December 2006, the Company, Intellinsight Holdings Limited ("Intellinsight") and undertaking directors (including Mr Or Wai Sheun, Mr Or Pui Kwan, Mr Tam Hee Chung, Mr Lai Ka Fai, Mr Lok Kung Chin, Hardy, Mr Keith Alan Holman and Mr Yeung Kwok Kwong) entered into an underwriting agreement pursuant to which Intellinsight has undertaken to the Company to subscribe for 224,119,041 rights shares provisionally allotted to it and the undertaking directors in aggregate to subscribe for 1,211,000 rights shares provisionally allotted to them under the one-for-two rights issue at a price of HK\$13.80 per rights share, which particulars were detailed in the Company's prospectus dated 19 January 2007. The rights issue has become unconditional on 7 February 2007. Each of Intellinsight and undertaking directors had taken up their respective provisional allotment under the underwriting agreement.
- (2) To finance the New Bedford Acquisition as defined below, Polytec Asset issued a total of 2,811,411,970 new shares at HK\$1.98 per share. To maintain the Company's shareholding in Polytec Asset, the Company and Polytec Asset entered into a subscription agreement on 5 May 2006 under which the Company subscribed 1,598,000,000 new shares in Polytec Asset at HK\$1.98 per share. The Company financed such subscription by way of a top-up placement of 113,353,000 new shares of the Company at a price of HK\$12.40 per share and a shareholder's loan of approximately HK\$2,194 million from its ultimate holding company. Particulars of such placements were detailed in the joint announcement of the Company and Polytec Asset dated 8 May 2006. The outstanding balance of such loan had been set off by portion of subscription money for rights issue of the Company as disclosed in the announcement dated 19 December 2006.

The Company is a substantial shareholder of Polytec Asset and hence a connected person of it. The subscription agreement constitutes a connected transaction for Polytec Asset under the Listing Rules and was approved by independent shareholders of the Company on 12 June 2006.

The provision of the loan from ultimate holding company constitute an exempt connected transaction of the Company under Rule 14A.65(4) of the Listing Rules on the ground that it is on normal commercial terms and no security over the assets of the Company will be granted in respect of such loan.

Hantec Securities Co., Limited, a company wholly owned by Mr Or Wai Sheun and so as a connected person of the Company and Polytec Asset, has acted as arranger for 17,641,000 new shares of the Company and 583,311,867 new shares of Polytec Asset and received fee in an amount of HK\$3,828,097 from the Company and HK\$20,211,756 from Polytec Asset. This arrangement constitutes an exempt connected transaction for both the Company and Polytec Asset under the Listing Rules and is subject to the reporting and announcement requirements as set out in Rules 14A.45 to 14A.47.

- (3) On 8 April 2006, Profit Sphere International Limited ("Profit Sphere"), a wholly-owned subsidiary of Polytec Asset, entered into an agreement pursuant to which Profit Sphere agreed to acquire from Polytec Holdings International Limited ("Polytec Holdings"), which 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 entire issued share capital of New Bedford Properties Limited ("New Bedford") at an aggregate consideration of HK\$8,448 million ("New Bedford Acquisition").

The New Bedford Acquisition constitutes a very substantial acquisition and connected transaction both for the Company and for Polytec Asset under the Listing Rules. The provision of loans by New Bedford to Polytec Corporation Limited (“Polytex”), a wholly-owned subsidiary of Polytec Holdings, and to Fok Kiu – Properties Investment Limited, an indirect wholly-owned subsidiary of Polytec Holdings, relating to participation in the development of three property projects in Macau after completion of the New Bedford Acquisition constitutes connected transactions for the Company and Polytec Asset under the Listing Rules. The New Bedford Acquisition and the provision of loans by New Bedford both were approved by the independent shareholders of the Company on 12 June 2006. The New Bedford Acquisition was completed on 15 June 2006 and pursuant to the agreement, the settlement of consideration was extended and the outstanding balance due to Polytec Holdings by Polytec Asset was HK\$902,020,000 as at the financial year ended 31 December 2007.

- (4) On 7 January 2004, Future Star International Limited (“Future Star”), a wholly-owned subsidiary of the Company, and 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 (“Future Star Acquisition”) at an aggregate consideration of HK\$400 million.

Top Milestone had entered into a co-investment agreement (“Co-Investment Agreement”) with Polytex, 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 Future Star Acquisition and the provision of loans by Top Milestone to Polytex pursuant to the Co-Investment Agreement after completion of the Future Star 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 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 Future Star Acquisition. The signing of the said loan agreement is a connected transaction exempted by virtue of Rule 14.24(8) of the then Listing Rules. The Future Star 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. The final account on the property project under the co-investment has been agreed by Polytex and Top Milestone as at 31 December 2007.

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 on 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.

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 2007, 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, or otherwise known to the Directors, were as follows:

Name of shareholders	Nature of interest	Number of shares		Approx. percentage of total issued shares (Note 1)	Note(s)
		Long position	Short position		
HSBC International Trustee Limited	Trustee	690,366,624	–	59.99%	2
Or Family Trustee Limited Inc.	Trust	689,649,124	–	59.93%	2

Notes:

- (1) The percentage holding is calculated based on the total number of 1,150,681,275 shares in issue of the Company as at 31 December 2007.
- (2) Out of the 690,366,624 shares in which HSBC International Trustee Limited was interested as trustee of certain discretionary trusts that it manages, 689,649,124 shares were the shares held by the Or Family Trustee Limited Inc. as trustee disclosed in the above table and referred in the section "Directors' Interests and Short Positions". Mr Or Wai Sheun and Mr Keith Alan Holman are directors of Or Family Trustee Limited Inc.

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.

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 4.20% 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 35 to 41.

Review of Accounts

The Audit Committee has reviewed the Group's consolidated accounts for the year ended 31 December 2007, 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 Tuesday, 15 April 2008 to Wednesday, 16 April 2008, 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 Rooms 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 pm on Monday, 14 April 2008.

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, 17 March 2008

Corporate Governance Report



Corporate Governance Practices

The Company recognizes the importance of and benefit from good corporate governance practices which assists the Company in effective supervision and further enhance the corporate and shareholders value, by making continuous improvement to promoting corporate governance and 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 throughout the financial year ended 31 December 2007, save for Code Provision A.2.1.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

Under the existing corporate structure, both the positions of the Chairman and chief executive officer are held by Mr Or Wai Sheun. 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 experienced and high calibre individuals. Hence, the operations of the 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.

The Board

As at 31 December 2007, the Board comprises eleven members including four Executive Directors, being Mr Or Wai Sheun, Chairman of the Company, 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 Li Kwok Sing, Aubrey, Mr Lok Kung Chin, Hardy, Mr Seto Gin Chung, John and Mr David John Shaw who was appointed on 1 June 2007. 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.

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. At least 14 days formal notice is given before each regular meeting. 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.

The Board 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 as the Group's code of conduct regarding Directors' securities transactions. Specific employees who are likely to be in possession of unpublished price sensitive information have also been requested to comply with the provisions of the Model Code. All Directors confirmed that they have complied with the Model Code in their securities transactions throughout 2007 and no incidence of non-compliance was noted by the Company.

Appointment 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.

All Non-executive Directors have a formal letter of appointment, modeled on the letter of appointment in the "Higgs Report" in the U.K. on the "Review of the Role and Effectiveness of Non-executive Directors".

Re-election of Directors

Newly appointed Directors are subject to election by shareholders at the annual general meeting in their first year of appointment. The Company's Articles of Association provide that each Director is required to retire by rotation at the conclusion of the third annual general meeting after his last election or re-election. Retiring Directors shall be eligible for re-election at the annual general meeting of the Company.

Remuneration Committee

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 Remuneration Committee met on three occasions in 2007. The work performed during the year under review and at the Committee's subsequent meeting on 13 March 2008 included:

- review of existing remuneration policy, business activities and human resources issues, headcounts and staff costs of the Group;
- review and approval of salary revision of the Group in 2007;
- consideration and approval of remuneration package of new members of the senior management;
- review and approval of remuneration of Executive Directors and senior management for the financial years 2006 and 2007;
- review of management's proposal on fees payable to Non-executive Directors for 2007 and passed the same to the Board for approval;
- review of survey of remuneration benchmarks in the industry and related market trends and information; and
- compliance review of 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.

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 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 Audit Committee met on two occasions in 2007. The work performed by the Audit Committee during the year under review and at the Committee's subsequent meeting on 13 March 2008 included the following:

- review of the selection and adoption of applicable accounting policies and standards;
- review of the audited accounts and annual results announcement for the financial years 2006 and 2007;
- review of the interim report and interim results announcement for the six months ended 30 June 2007;
- consideration of the Corporate Governance Report to be included in the Annual Reports of 2006 and 2007;
- meeting with the auditors and management to discuss issues arising from the audit of annual accounts and review of interim accounts;
- review of the engagement of auditors to supply non-audit services and approval of their remuneration in respect of audit and non-audit services provided;
- review of the effectiveness of the system of internal control covering financial, operational and compliance controls and risk management; and
- review of auditor's independence, objectivity and effectiveness of the audit process.

Directors' Attendance Records

For meetings held during the financial year ended 31 December 2007

	Number of Meetings Attended/Held			
	Board	Remuneration Committee	Audit Committee	2007 Annual General Meeting
Executive Directors				
Or Wai Sheun (<i>Chairman</i>)	4/4	N/A	N/A	1/1
Ng Chi Man	4/4	N/A	N/A	1/1
Lai Ka Fai	3/4	3/3	N/A	1/1
Or Pui Kwan	4/4	N/A	N/A	1/1
Non-executive Directors				
Keith Alan Holman (<i>Deputy Chairman</i>)	4/4	N/A	N/A	1/1
Tam Hee Chung	4/4	N/A	N/A	1/1
Yeung Kwok Kwong	4/4	N/A	2/2	1/1
Independent Non-executive Directors				
Li Kwok Sing, Aubrey	4/4	3/3	2/2	1/1
Lok Kung Chin, Hardy	4/4	3/3	2/2	1/1
Seto Gin Chung, John	4/4	3/3	2/2	0/1
David John Shaw (appointed on 1 June 2007)	3/3	N/A	N/A	N/A
Total Number of Meetings Held in 2007	4	3	2	1
Average Attendance Rate	98%	100%	100%	90%

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:

- adopted all applicable Hong Kong Financial Reporting Standards in all material respects;
- selected and applied consistently appropriate accounting policies and standards;
- made judgements and estimates that are prudent and reasonable; and
- ensured that the accounts were prepared on the going concern basis.

The Company recognizes that high quality, transparent and timely presentation of financial reports is crucial in maintaining confidence of stakeholders in the Company. The Company aims to present a clear, balanced and understandable assessment of its financial position and prospects. Financial results are announced as early as possible, and the annual and interim reports are published within three months after the end of the relevant periods.

A statement by the auditors about their reporting responsibilities is included in the Independent Auditors' Report on page 112 of the Annual Report.

Auditors' Remuneration

In respect of the financial year 2007, the following remuneration was paid or is payable to the Company's auditors in 2007:

Fees for audit services		HK\$2,258,000
<hr/>		
Fees for non-audit services		HK\$1,321,781
<hr/>		
Review of interim accounts	HK\$353,100	
Ad hoc projects (issuance of circulars re corporate transactions)	HK\$764,190	
Other services (mainly taxation related)	HK\$204,491	
		<hr/>
		HK\$3,579,781
<hr/>		

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 assist 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 provide reasonable, but not absolute, assurance against material misstatement or loss and to manage instead of eliminate risks of failure in operational systems and foster achievement of corporate objectives.

The system of internal control is under regular review by the management and is modified from time to time to ensure it remains efficient and effective. The Board through the Audit Committee assesses the effectiveness of the Group's internal control system by reviewing the work, findings and rectification done as reported by the management. These reviews and reports are taken into consideration by the Audit Committee when it makes its recommendation to the Board for approval of the Group's financial statements.

Management has reviewed the need for an internal audit function and concluded that the function is necessary in view of the diversified geographical coverage, nature and growth of the Group's business and operations. The establishment of this function is in progress.

Shareholders' Rights and Investors Relation

The Company's Articles of Association contain the rights of shareholders to demand and the procedures for a poll voting on resolutions at shareholders' meeting. Details of such rights to demand a poll and the poll procedures are included in all circulars in relation to shareholders' meetings and will be explained during the proceedings of shareholders' meetings. In case poll voting is conducted, the poll results will be posted on the websites of The Stock Exchange of Hong Kong Limited and the Company.

The general meetings of the Company provide a forum for communication between the shareholders and the Board. The Chairman of the Board and the Chairmen of all the committees, or in their absence, other members of the respective committees, are available to answer questions at the shareholders' meeting.

As a channel to further promote effective communication, the Company maintains a website (www.kdc.com.hk) where announcements, business developments and operations, financial information, corporate governance practices and other information are posted.

Corporate Citizenship

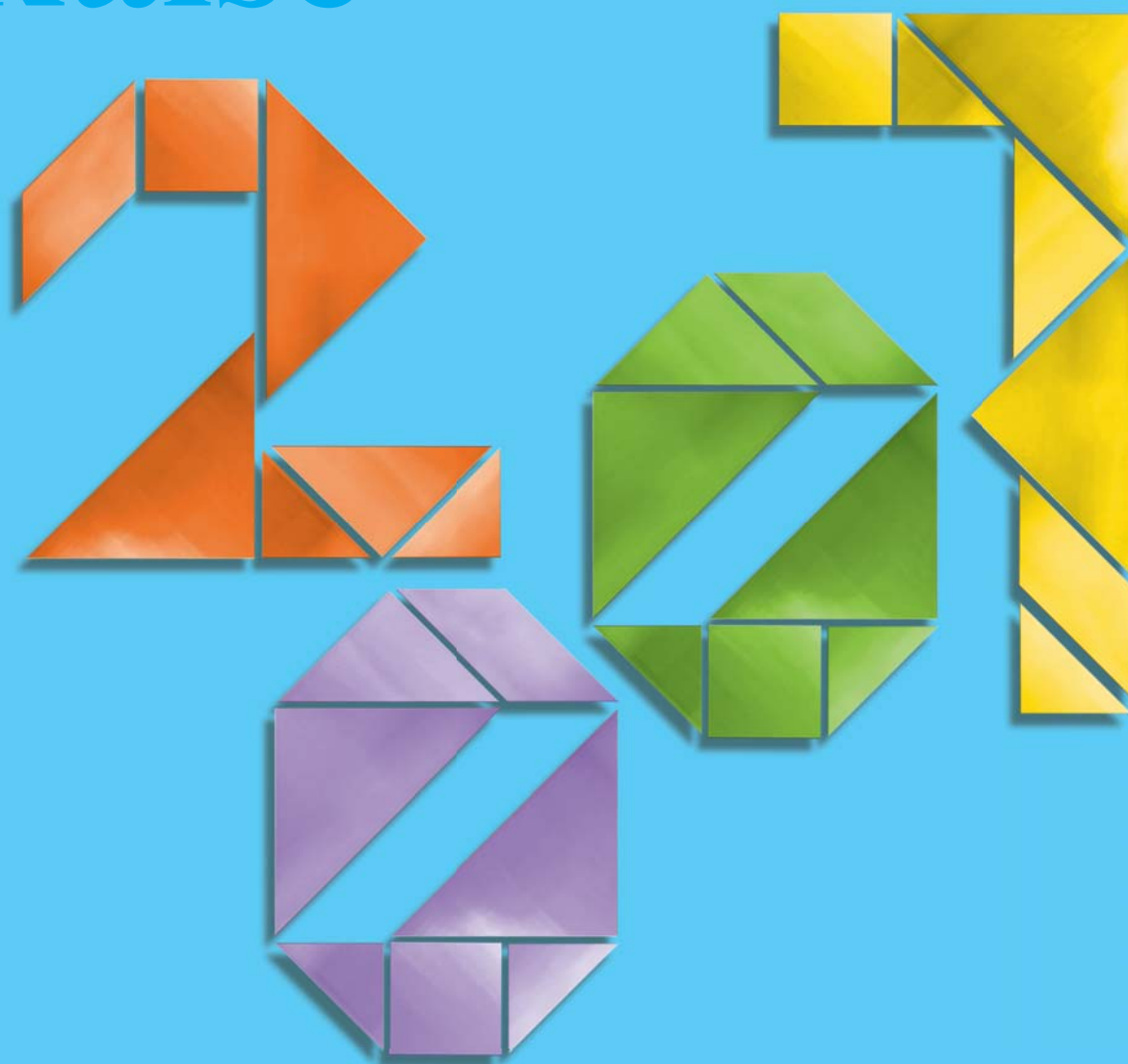
We are committed to enhance corporate citizenship and the Company was awarded 2007 silver member by the World Wide Fund For Nature Hong Kong, recognizing its contribution in supporting environmental protection.



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Consolidated Income Statement

for the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 \$'000	2006 \$'000
Turnover	2	10,384,080	2,908,171
Cost of sales		(8,211,550)	(1,742,805)
Other revenue		10,430	14,125
Other net (expenses)/income	3(a)	(46,013)	115,845
Depreciation and amortization		(10,280)	(9,646)
Staff costs		(97,048)	(79,994)
Fair value changes on investment properties	10	490,922	346,608
Other operating expenses		(93,867)	(69,462)
Profit from operations		2,426,674	1,482,842
Finance costs	3(b)	(81,685)	(178,400)
Profit on disposal of an associated company	15	–	47,090
Share of profits of associated companies	3(d)	1,396	1,324
Share of profits less losses of jointly controlled entities	3(e)	11,886	3,982
Negative goodwill	3(f)	–	162,876
Profit before taxation	3	2,358,271	1,519,714
Income tax	5(a)	(385,367)	(153,708)
Profit for the year		1,972,904	1,366,006
Attributable to:			
Shareholders of the Company	25	1,906,398	1,346,261
Minority interests	25	66,506	19,745
Profit for the year		1,972,904	1,366,006
Earnings per share – Basic	7(a)	\$1.72	\$2.00
<i>Earnings per share – Basic (excluding fair value changes on investment properties net of deferred tax)</i>	7(b)	\$1.36	\$1.58
Dividend per share	8(a)	\$0.65	\$0.55

The notes on pages 49 to 111 form part of these accounts.

Consolidated Balance Sheet

at 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007		2006	
		\$'000	\$'000	\$'000	\$'000
Non-current assets					
Fixed assets					
– Investment properties			4,991,830		4,494,630
– Leasehold land held for own use			252,492		259,022
– Other property, plant and equipment			39,710		40,740
	10		<u>5,284,032</u>		<u>4,794,392</u>
Goodwill	11		–		16,994
Interests in property development	13		12,013,954		9,490,063
Interest in jointly controlled entities	14		1,072,470		789,209
Interest in associated companies	15		7,378		12,040
Financial investments	16		148,329		150,635
Loans and advances	18		27,654		40,430
Deferred tax assets	9(a)		9,028		3,970
			<u>18,562,845</u>		<u>15,297,733</u>
Current assets					
Interest in property development	13		–	122,124	
Inventories	17		4,331,389	4,054,734	
Trade and other receivables	18		2,935,869	1,045,889	
Loans and advances	18		47,708	56,942	
Amounts due from jointly controlled entities	14		608,480	258,053	
Amount due from an associated company			–	185	
Derivative financial instruments	19		40,335	36,074	
Financial investments	16		1,603,789	1,258,752	
Time deposits (pledged)	30		582,473	65,994	
Cash and cash equivalents			907,961	401,830	
			<u>11,058,004</u>	<u>7,300,577</u>	
Current liabilities					
Trade and other payables	20		1,413,068	1,087,207	
Amount due to ultimate holding company			2,662	4,985	
Amounts due to minority shareholders	21		333,305	25,082	
Derivative financial instruments	19		216,978	16,590	
Bank loans	24		623,000	888,843	
Current taxation			368,927	94,363	
			<u>2,957,940</u>	<u>2,117,070</u>	
Net current assets			<u>8,100,064</u>		<u>5,183,507</u>
Total assets less current liabilities			<u>26,662,909</u>		<u>20,481,240</u>

	Note	2007		2006	
		\$'000	\$'000	\$'000	\$'000
Non-current liabilities					
Other payable	33(e)	1,508,000		–	
Loan from ultimate holding company	22	495,964		2,857,548	
Amount payable to ultimate holding company	23	902,020		3,026,231	
Bank loans	24	1,141,700		1,290,700	
Deferred tax liabilities	9(a)	795,941		734,230	
			<u>4,843,625</u>		<u>7,908,709</u>
Net assets			<u>21,819,284</u>		<u>12,572,531</u>
Capital and reserves					
Share capital			115,068		76,712
Reserves			<u>16,992,195</u>		<u>8,976,072</u>
Total equity attributable to the shareholders of the Company			<u>17,107,263</u>		<u>9,052,784</u>
Minority interests			<u>4,712,021</u>		<u>3,519,747</u>
Total equity	25		<u>21,819,284</u>		<u>12,572,531</u>

Approved and authorized for issue by the board of directors on 17 March 2008.



Or Wai Sheun
Director



Lai Ka Fai
Director

The notes on pages 49 to 111 form part of these accounts.

Balance Sheet

at 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007		2006	
		\$'000	\$'000	\$'000	\$'000
Non-current assets					
Fixed assets					
– Investment properties			3,968,000		3,500,000
– Other property, plant and equipment			1,868		1,263
	10		<u>3,969,868</u>		<u>3,501,263</u>
Interest in subsidiaries	12		10,070,344		6,708,360
Interest in jointly controlled entity	14		584,079		389,045
			<u>14,624,291</u>		<u>10,598,668</u>
Current assets					
Trade and other receivables	18	335,218		511,178	
Amount due from jointly controlled entity	14	2,120		1,437	
Cash and cash equivalents		255,630		33,447	
		<u>592,968</u>		<u>546,062</u>	
Current liabilities					
Amount due to ultimate holding company		895		4,985	
Trade and other payables	20	100,088		86,375	
Bank loans	24	255,000		215,000	
Current taxation		31,953		7,580	
		<u>387,936</u>		<u>313,940</u>	
Net current assets			<u>205,032</u>		<u>232,122</u>
Total assets less current liabilities			<u>14,829,323</u>		<u>10,830,790</u>
Non-current liabilities					
Loan from ultimate holding company	22	495,964		2,847,070	
Bank loans	24	1,105,000		1,236,000	
Deferred tax liabilities	9(a)	578,743		495,072	
			<u>2,179,707</u>		<u>4,578,142</u>
Net assets			<u>12,649,616</u>		<u>6,252,648</u>
Capital and reserves					
Share capital			115,068		76,712
Reserves			12,534,548		6,175,936
Total equity	25		<u>12,649,616</u>		<u>6,252,648</u>

Approved and authorized for issue by the board of directors on 17 March 2008.



Or Wai Sheun
Director



Lai Ka Fai
Director

The notes on pages 49 to 111 form part of these accounts.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007		2006	
		\$'000	\$'000	\$'000	\$'000
Total equity at 1 January			12,572,531		5,986,589
Net income for the year recognized directly in equity					
Exchange difference on translation of accounts of overseas subsidiaries and jointly controlled entities	25	128,168		15,148	
Changes in fair value of available-for-sale investments	25	1,927		32,201	
Changes in fair value of interests in property development	25	2,662,047		1,229,135	
Transfer to income statement upon disposal of available-for-sale investments	25	–		(1,870)	
Transfer to income statement upon recognition from interest in property development	25	(234,110)		(444,144)	
Net income for the year recognized directly in equity		2,558,032		830,470	
Net profit for the year	25	1,972,904		1,366,006	
Total net income recognized for the year			4,530,936		2,196,476
Attributable to:					
Shareholders of the Company		3,442,030		1,755,633	
Minority interests		1,088,906		440,843	
		4,530,936		2,196,476	
Issue of shares	25		38,356		20,035
Net share premium on issue of shares	25		5,252,995		2,491,493
Issue of shares of a subsidiary attributable to minority interests	25		55,373		2,383,492
Final dividend declared and paid	8(b)		(483,286)		(198,369)
Interim dividend declared and paid	8(a)		(195,616)		(88,416)
Dividend paid to minority interests	25		(59,824)		(32,554)
Loan from a minority shareholder	25		3,624		1,665
Increase/(Decrease) in minority interests attributable to a decrease/(increase) in shareholding of a subsidiary	25		104,195		(162,876)
Others	25		–		(25,004)
Total equity at 31 December			21,819,284		12,572,531

The notes on pages 49 to 111 form part of these accounts.

Consolidated Cash Flow Statement

for the year ended 31 December 2007
(Expressed in Hong Kong dollars)

	Note	2007 \$'000	2006 \$'000
Net cash used in operating activities	27(a)	(655,206)	(712,770)
Investing activities			
Sale of fixed assets		155	17
Additions to fixed assets and properties		(9,429)	(10,099)
Additional investment in jointly controlled entities		(195,033)	(389,045)
Proceeds on disposal of an associated company		–	89,954
Decrease in loan to an associated company		4,098	788
Dividend received from an associated company		1,960	2,200
Increase in loan to a jointly controlled entity		(36,000)	–
Acquisition of subsidiaries	27(b)	(3,978)	(3,295,510)
Net cash used in investing activities		(238,227)	(3,601,695)
Financing activities			
Decrease in bank loans		(414,843)	(462,470)
(Decrease)/Increase in loan from ultimate holding company	27(c)	(105,514)	660,873
Decrease in amount due to a major shareholder		–	(140,791)
Decrease in amount payable to ultimate holding company	27(c)	(548,430)	–
Net proceeds from shares issued by the Company	27(c)	3,035,281	2,511,528
Net proceeds from shares issued by a subsidiary		159,568	2,358,488
Dividend paid to shareholders of the Company		(678,240)	(286,297)
Dividend paid to minority shareholders		(59,824)	(32,554)
Increase in loan from a minority shareholder	25(a)	3,624	1,665
Net cash from financing activities		1,391,622	4,610,442
Net increase in cash and cash equivalents		498,189	295,977
Cash and cash equivalents at 1 January		401,830	104,706
Effect of foreign exchange rate changes		7,942	1,147
Cash and cash equivalents at 31 December		907,961	401,830

The notes on pages 49 to 111 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 and Interpretations that are first effective or available for early adoption for the current accounting period of the Group and the Company.

There have been no significant changes to the accounting policies applied in these accounts for the years presented as a result of these developments. However, as a result of the adoption of HKFRS 7, “Financial instruments: Disclosures” and the amendment to HKAS 1, “Presentation of financial statements: Capital disclosures”, there have been some additional disclosures provided as follows:

As a result of the adoption of HKFRS 7, the accounts include expanded disclosure about the significance of the Group’s financial instruments and the nature and extent of risks arising from those instruments, compared with the information previously required to be disclosed by HKAS 32, “Financial instruments: Disclosure and presentation”. These disclosures are provided throughout these accounts, in particular in note 36.

The amendment to HKAS 1 introduces additional disclosure requirements to provide information about the level of capital and the Group’s and the Company’s objectives, policies and processes for managing capital. These new disclosures are set out in note 25(d).

Both HKFRS 7 and the amendment to HKAS 1 do not have any material impact on the classification, recognition and measurement of the amounts recognized in the financial statements.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 38).

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(Continued)*

(b) Measurement basis

The measurement basis used in the preparation of the accounts is the historical cost basis except for the investment properties, interests in property development, derivative financial instruments and financial instruments classified as held for trading and available-for-sale investments, 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 35.

(c) Basis of consolidation

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

(d) Goodwill

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

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

1 Significant accounting policies *(Continued)*

(e) Interest in subsidiaries and minority interests

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

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

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

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

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

(f) Interest in associated companies

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

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(Continued)*

(g) Interest in joint ventures

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

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

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

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

(h) Properties

(i) *Investment properties*

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

All changes in fair value of investment properties are recognized directly in the income statement.

1 Significant accounting policies *(Continued)*

(h) Properties *(Continued)*

(ii) Land held for future development

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

(iii) Interests in property development

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

(iv) Properties under development

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

(v) Properties held for sale

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

(vi) Leasehold land and buildings held for own use

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

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

(i) Trade and other receivables

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(Continued)*

(j) Financial assets

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

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

Financial investments held for trading are classified as current assets and stated at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognized in the income statement. The net gain or loss recognized in the income statement does not include any dividends or interest earned on these investments as they are recognized in accordance with the policies set out in note 1(q)(v) and (vi).

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

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

Financial assets which do not fall into any of the above categories are classified as available-for-sale investments and are initially recognized at fair value. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognized directly in equity, except for impairment losses. Income from these investments is recognized in the income statement in accordance with the policies set out in note 1(q)(iii) and (v) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognized in the income statement in accordance with the policy set out in note 1(q)(vi). When these investments are derecognized or impaired, the cumulative gain or loss previously recognized directly in equity is recognized in the income statement.

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

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

1 Significant accounting policies *(Continued)*

(k) Trade and other payables

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

(l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(m) Borrowings

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

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

(n) Depreciation and amortization

(i) Leasehold land and buildings

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies (Continued)

(n) 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 |

(o) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased.

An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use (if any).

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

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

(i) Financial assets

- For unquoted equity investments, 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.

1 Significant accounting policies (Continued)

(o) Impairment of assets (Continued)

(i) Financial assets (Continued)

- For available-for-sale equity investments, 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 investments, reversal of an impairment loss is recognized in the income statement.

(ii) Other assets

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

(iii) Interim financial reporting and impairment

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

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

(p) Income tax

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(Continued)*

(p) Income tax *(Continued)*

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

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

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

(q) Recognition of revenue

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

(i) *Rental income from operating leases*

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

(ii) *Sale of properties*

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

(iii) *Income from interests in property development*

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

(iv) *Sale of financial investments*

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

1 Significant accounting policies *(Continued)*

(q) Recognition of revenue *(Continued)*

(v) *Dividends*

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

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

(vi) *Interest income*

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

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognized in the income statement.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognized directly in a separate component of equity.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognized in equity which relate to that foreign operation is included in the calculation of the profit or loss on disposal.

(s) Financial guarantees issued, provisions and contingent liabilities

(i) *Financial guarantees issued*

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

1 Significant accounting policies *(Continued)*

(s) Financial guarantees issued, provisions and contingent liabilities *(Continued)*

(i) *Financial guarantees issued (Continued)*

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

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

(ii) *Other provisions and contingent liabilities*

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

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

(t) Related parties

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

1 Significant accounting policies *(Continued)*

(u) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(v) Segment reporting

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

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

2 Segment information

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

2 Segment information (Continued)

(a) Business segments

	2007				
	Consolidated \$'000	Property development \$'000	Property investment \$'000	Finance and investments \$'000	Others \$'000
Turnover	10,384,080	1,514,777	234,171	8,555,927	79,205
Contribution from operations	2,020,027	721,480	219,844	1,046,271	32,432
Fair value changes on investment properties	490,922	-	490,922	-	-
Unallocated group expenses	(84,275)				
Profit from operations	2,426,674				
Finance costs	(81,685)				
Share of profits of associated companies	1,396	-	-	-	1,396
Share of profits less losses of jointly controlled entities	11,886	(2,887)	14,773	-	-
Profit before taxation	2,358,271				
Income tax	(385,367)				
Profit for the year	1,972,904				
Segment assets	26,658,587	18,890,836	4,999,552	2,474,288	293,911
Interest in jointly controlled entities	1,680,950	1,050,807	630,143	-	-
Interest in associated companies	7,378	-	-	-	7,378
Unallocated	1,273,934				
Total assets	29,620,849				
Segment liabilities	3,066,533	2,511,849	81,391	452,339	20,954
Unallocated	4,735,032				
Total liabilities	7,801,565				
Capital expenditure incurred during the year	6,709	-	6,566	-	143
Fair value changes on financial investments and derivative financial instruments	46,013	-	-	46,013	-
Depreciation and amortization for the year	10,280	-	-	-	10,280
Impairment loss on inventories	13,531	13,531	-	-	-
Impairment loss on goodwill	16,994				

2 Segment information (Continued)

(a) Business segments (Continued)

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

2 Segment information *(Continued)*

(a) Business segments *(Continued)*

An asset amount of \$225,743,000 (2006: \$225,743,000) represented the deposit paid for the acquisition of approximately 70.3% of the issued shares of Shenzhen Properties & Resources Development (Group) Limited ("Shenzhen Properties") and \$120,000,000 (2006: \$120,000,000) represented the deposit paid for general offer for the remaining 29.7% of the issued shares of Shenzhen Properties were not allocated to business segments as the transaction was not yet completed.

(b) Geographical segments

	Group turnover		Group profit from operations	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Hong Kong	9,943,948	2,244,506	2,201,466	977,980
Macau	369,040	472,093	193,879	444,589
People's Republic of China	2,821	132,239	(12,038)	26,617
North America	52,919	52,273	28,474	27,989
Others	15,352	7,060	14,893	5,667
	10,384,080	2,908,171	2,426,674	1,482,842

	Segment assets		Capital expenditure incurred during the year	
	2007	2006	2007	2006
	\$'000	\$'000	\$'000	\$'000
Hong Kong	10,715,497	8,487,571	6,709	3,680
Macau	13,105,358	10,576,546	–	–
People's Republic of China	2,627,367	1,468,770	–	488
North America	208,417	234,218	–	–
Others	1,948	3,902	–	–
	26,658,587	20,771,007	6,709	4,168

(c) Major customers and suppliers

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

3 Profit before taxation

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

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

- (b) Finance costs

	2007 \$'000	2006 \$'000
Interest on bank loans and overdrafts	99,056	106,876
Interest on loan from/amount payable to ultimate holding company	89,463	149,178
Less: Amount capitalized (<i>Note</i>)	(106,834)	(76,135)
	81,685	179,919
Less: Interest expense included as other operating expenses	–	(1,519)
	81,685	178,400

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

3 Profit before taxation *(Continued)*

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

(c) Other items

	2007 \$'000	2006 \$'000
Auditors' remuneration	2,209	1,918
Impairment loss for bad and doubtful debts	63	5,007
Impairment loss on goodwill	16,994	–
Impairment loss on inventories	13,531	–
Rentals receivable under operating leases less outgoings	(219,669)	(201,024)
Rental income	(234,171)	(224,468)
Less: Outgoings	14,502	23,444
Interest income	(24,433)	(7,929)
Dividend income from available-for-sale investments	(163)	(500)
Dividend income from other listed investments	(18,821)	(16,644)
Income from held-to-maturity notes	–	(1,281)
Income from other unlisted investments	(10,036)	(44,121)
Income from other listed investments	(7,615)	(2,288)
Realized gain on other listed investments	(998,009)	(123,719)
Realized gain on available-for-sale investments	–	(3,257)
Impairment loss for bad and doubtful debts written back	(4,031)	(1,021)

(d) The Group's share of profits for the year, after minority interests and after taxation, retained by the associated companies was \$1,396,000 (2006: \$1,324,000) less a dividend paid of \$1,960,000 (2006: \$Nil).

(e) The Group's share of profits less losses for the year, after minority interests and after the declaration of dividend and taxation, retained by the jointly controlled entities was \$5,906,000 (2006: \$2,190,000).

(f) In 2006, negative goodwill of \$162,876,000 was recorded on the conversion of convertible preference shares of Polytec Asset Holdings Limited ("Polytec Asset"), a listed subsidiary of the Company, held by the Group into 275,191,901 ordinary shares of Polytec Asset.

4 Directors' and management's emoluments

(a) Directors' emoluments

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

2007

	Directors' fees \$'000	Salaries and allowances \$'000	Performance related bonuses \$'000	Provident fund contributions \$'000	Total \$'000
<i>Executive directors</i>					
Or Wai Sheun	-	-	-	-	-
Ng Chi Man	-	-	-	-	-
Lai Ka Fai	120	1,439	1,200	132	2,891
Or Pui Kwan	-	561	1,200	18	1,779
<i>Non-executive directors</i>					
Keith Alan Holman	200	364	-	-	564
Tam Hee Chung	200	-	-	-	200
Yeung Kwok Kwong	200	1,672	680	163	2,715
<i>Independent non-executive directors</i>					
Li Kwok Sing, Aubrey	200	-	-	-	200
Lok Kung Chin, Hardy	200	-	-	-	200
Seto Gin Chung, John	200	-	-	-	200
David John Shaw (Note)	117	-	-	-	117
	1,437	4,036	3,080	313	8,866

Note: Mr. David John Shaw has been appointed as an independent non-executive director of the Company with effective from 1 June 2007.

Notes on the Accounts

(Expressed in Hong Kong dollars)

4 Directors' and management's emoluments (Continued)

(a) Directors' emoluments (Continued)

2006

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

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

(b) Individuals with highest emoluments

Of the five individuals with the highest emoluments, three (2006: two) are directors whose emoluments are disclosed in note 4(a). The aggregate of the emoluments in respect of the remaining two (2006: three) individuals are as follows:

	2007 \$'000	2006 \$'000
Salaries and allowances	2,380	3,325
Performance related bonuses	940	1,262
Provident fund contributions	12	125
	3,332	4,712

4 Directors' and management's emoluments *(Continued)*

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

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

	2007	2006
\$0 – \$1,000,000	–	–
\$1,000,001 – \$1,500,000	1	1
\$1,500,001 – \$2,000,000	1	2

5 Income tax

(a) Taxation in the consolidated income statement represents:

	2007 \$'000	2006 \$'000
Current tax – Hong Kong profits tax		
Provision for the year	306,849	85,737
Under/(Over) provision in respect of prior years	11,031	(6,886)
	<u>317,880</u>	<u>78,851</u>
Current tax – Overseas		
Provision for the year	11,695	3,234
	<u>11,695</u>	<u>3,234</u>
Deferred tax		
Origination and reversal of temporary differences	(29,820)	10,967
Change in fair value of investment properties	85,612	60,656
	<u>55,792</u>	<u>71,623</u>
	<u>385,367</u>	<u>153,708</u>

The provision for Hong Kong profits tax for 2007 is calculated at 17.5% (2006: 17.5%) on the estimated assessable profits for the year. Overseas tax is calculated at the applicable tax rates ruling in the respective jurisdictions.

Notes on the Accounts

(Expressed in Hong Kong dollars)

5 Income tax (Continued)

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

	2007 \$'000	2006 \$'000
Profit before taxation	2,358,271	1,519,714
Tax at applicable tax rates	420,526	274,475
Non-deductible expenses	9,598	14,272
Non-taxable revenue	(54,301)	(127,365)
Under/(Over) provision in respect of prior years	11,031	(6,886)
Unrecognized tax losses	1,992	1,264
Previously unrecognized tax losses utilized	(2,006)	(1,620)
Previously unrecognized tax losses now recognized	(1,157)	(5,845)
Others	(316)	5,413
Actual tax expense	385,367	153,708

6 Profit attributable to shareholders

The consolidated profit attributable to shareholders of the Company includes a profit of \$1,406,819,000 (2006: \$282,378,000) which has been dealt with in the accounts of the Company.

7 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of \$1,906,398,000 (2006: \$1,346,261,000) and weighted average number of shares in issue during the year of 1,108,345,343 (2006 as restated: 674,313,626).

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

The calculation of basic earnings per share excluding fair value changes on investment properties net of deferred tax is based on the adjusted profit attributable to shareholders of the Company of \$1,501,989,000 (2006: \$1,063,086,000).

7 Earnings per share *(Continued)*

- (c) Diluted earnings per share
No diluted earnings per share for 2006 and 2007 has been presented as the Company had no dilutive potential shares for both years.
- (d) The comparative amount of earnings per share has been restated, as the number of ordinary shares in prior year has been adjusted for the consolidation of one-for-two rights issue effected during the year ended 31 December 2007.

8 Dividends

- (a) Dividends attributable to the year

	2007 \$'000	2006 \$'000
Interim dividend declared and paid of \$0.17 (2006: \$0.13) per share on 1,150,681,275 shares (2006: 680,120,850 shares)	195,616	88,416
Final dividend proposed after the balance sheet date of \$0.48 (2006: \$0.42) per share on 1,150,681,275 shares	552,327	483,286
	<u>747,943</u>	<u>571,702</u>

The final dividend declared after the year end has not been recognized as a liability at 31 December. In 2006, the final dividend payable was calculated on 1,150,681,275 shares in issue by the Company after the rights issue of 383,560,425 shares in February 2007.

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

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

9 Deferred taxation

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

Group

	Future benefit of tax losses \$'000	Revaluation of properties \$'000	Accelerated depreciation allowances \$'000	Others \$'000	Total \$'000
At 1 January 2006	8,566	(640,334)	(27,700)	831	(658,637)
Credited/(Charged) to income statement	6,008	(58,012)	(3,837)	(15,782)	(71,623)
At 31 December 2006	14,574	(698,346)	(31,537)	(14,951)	(730,260)
At 1 January 2007	14,574	(698,346)	(31,537)	(14,951)	(730,260)
Through acquisition of a subsidiary	-	(861)	-	-	(861)
Credited/(Charged) to income statement	1,213	(71,410)	(3,321)	17,726	(55,792)
At 31 December 2007	15,787	(770,617)	(34,858)	2,775	(786,913)

Company

	Revaluation of properties \$'000	Accelerated depreciation allowances \$'000	Total \$'000
At 1 January 2006	(427,175)	(18,977)	(446,152)
Charged to income statement	(46,364)	(2,556)	(48,920)
At 31 December 2006	(473,539)	(21,533)	(495,072)
At 1 January 2007	(473,539)	(21,533)	(495,072)
Charged to income statement	(81,023)	(2,648)	(83,671)
At 31 December 2007	(554,562)	(24,181)	(578,743)

9 Deferred taxation *(Continued)*

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

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Net deferred tax asset recognized on the balance sheet	9,028	3,970	–	–
Net deferred tax liability recognized on the balance sheet	(795,941)	(734,230)	(578,743)	(495,072)
	(786,913)	(730,260)	(578,743)	(495,072)

- (b) Deferred tax assets not recognized

The Group has not recognized deferred tax assets in respect of tax losses of \$68,032,000 (2006: \$84,487,000) 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)

10 Fixed assets

(a) Group

	Investment	Leasehold	Other property,		Total
	properties	land held	Buildings	Others	
	\$'000	\$'000	\$'000	\$'000	\$'000
Cost or valuation					
At 1 January 2006	4,147,630	270,206	33,060	36,626	4,487,522
Additions	392	–	–	4,356	4,748
Disposals	–	–	–	(1,519)	(1,519)
Revaluation surplus	346,608	–	–	–	346,608
At 31 December 2006	4,494,630	270,206	33,060	39,463	4,837,359
<i>Representing</i>					
Professional valuation	4,494,630	–	–	–	4,494,630
Cost	–	270,206	33,060	39,463	342,729
	4,494,630	270,206	33,060	39,463	4,837,359
At 1 January 2007					
At 1 January 2007	4,494,630	270,206	33,060	39,463	4,837,359
Exchange adjustments	–	–	–	21	21
Additions	6,278	–	–	2,721	8,999
Disposals	–	–	–	(599)	(599)
Revaluation surplus	490,922	–	–	–	490,922
At 31 December 2007	4,991,830	270,206	33,060	41,606	5,336,702
<i>Representing</i>					
Professional valuation	4,991,830	–	–	–	4,991,830
Cost	–	270,206	33,060	41,606	344,872
	4,991,830	270,206	33,060	41,606	5,336,702

10 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 2006	–	4,653	1,489	28,694	34,836
Charge for the year	–	6,531	785	2,330	9,646
Written back on disposals	–	–	–	(1,515)	(1,515)
At 31 December 2006	–	11,184	2,274	29,509	42,967
At 1 January 2007	–	11,184	2,274	29,509	42,967
Exchange adjustments	–	–	–	1	1
Charge for the year	–	6,530	786	2,964	10,280
Written back on disposals	–	–	–	(578)	(578)
At 31 December 2007	–	17,714	3,060	31,896	52,670
Carrying value					
At 31 December 2007	4,991,830	252,492	30,000	9,710	5,284,032
At 31 December 2006	4,494,630	259,022	30,786	9,954	4,794,392

Notes on the Accounts

(Expressed in Hong Kong dollars)

10 Fixed assets (Continued)

(b) Company

	Investment properties \$'000	Other property, plant and equipment \$'000	Total \$'000
Cost or valuation			
At 1 January 2006	3,235,000	22,874	3,257,874
Additions	67	687	754
Disposals	–	(1,477)	(1,477)
Revaluation surplus	264,933	–	264,933
At 31 December 2006	3,500,000	22,084	3,522,084
<i>Representing</i>			
Professional valuation	3,500,000	–	3,500,000
Cost	–	22,084	22,084
	3,500,000	22,084	3,522,084
At 1 January 2007	3,500,000	22,084	3,522,084
Additions	5,009	1,065	6,074
Disposals	–	(402)	(402)
Revaluation surplus	462,991	–	462,991
At 31 December 2007	3,968,000	22,747	3,990,747
<i>Representing</i>			
Professional valuation	3,968,000	–	3,968,000
Cost	–	22,747	22,747
	3,968,000	22,747	3,990,747

10 Fixed assets *(Continued)*

(b) Company *(Continued)*

	Investment properties \$'000	Other property, plant and equipment \$'000	Total \$'000
Aggregate depreciation and amortization			
At 1 January 2006	–	21,971	21,971
Charge for the year	–	324	324
Written back on disposals	–	(1,474)	(1,474)
At 31 December 2006	–	20,821	20,821
At 1 January 2007	–	20,821	20,821
Charge for the year	–	452	452
Written back on disposals	–	(394)	(394)
At 31 December 2007	–	20,879	20,879
Carrying value			
At 31 December 2007	3,968,000	1,868	3,969,868
At 31 December 2006	3,500,000	1,263	3,501,263

Notes on the Accounts

(Expressed in Hong Kong dollars)

10 Fixed assets (Continued)

(c) Analysis of carrying value of properties

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Investment properties				
In Hong Kong				
– Long leases	4,557,530	4,308,630	3,968,000	3,500,000
– Medium-term leases	284,300	36,000	–	–
Outside Hong Kong				
– Medium-term leases	150,000	150,000	–	–
	4,991,830	4,494,630	3,968,000	3,500,000
Other properties				
In Hong Kong				
– Long leases	972	981	–	–
– Medium-term leases	281,520	288,827	–	–
	282,492	289,808	–	–

The investment properties of the Group and of the Company were revalued at 31 December 2007 by Vigers Appraisal and Consulting Limited and DTZ Debenham Tie Leung Ltd, independent qualified professional valuers, who have appropriate qualifications and experiences in the valuation of similar properties in the relevant locations, on an open market value basis calculated by reference to net rental income allowing for reversionary income potential.

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 \$560,000 was recognized in 2007 (2006: \$241,000).

10 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 \$4,991,830,000 (2006: \$4,494,630,000). The gross carrying amounts of other fixed assets of the Group held for use in operating leases were \$6,899,000 (2006: \$7,035,000) and the related accumulated depreciation charges were \$6,847,000 (2006: \$6,966,000).

The gross carrying amounts of investment properties of the Company held for use in operating leases were \$3,968,000,000 (2006: \$3,500,000,000). The gross carrying amounts of other fixed assets of the Company held for use in operating leases were \$956,000 (2006: \$954,000) and the related accumulated depreciation charges were \$953,000 (2006: \$952,000).

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

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

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Within 1 year	205,007	166,817	169,141	132,608
After 1 year but within 5 years	241,315	88,626	207,203	68,016
After 5 years	3,307	–	3,307	–
	449,629	255,443	379,651	200,624

Notes on the Accounts

(Expressed in Hong Kong dollars)

11 Goodwill

As at 31 December, goodwill on acquisition of subsidiaries was tested for impairment by estimating the recoverable amount of the cash generating unit based on value in use calculation. The goodwill is fully impaired during the year ended 31 December 2007.

12 Interest in subsidiaries

	Company	
	2007 \$'000	2006 \$'000
Unlisted shares, at cost	1,748,932	1,530,460
Loans to subsidiaries		
– interest free	5,970,087	4,767,864
– interest bearing	3,041,567	1,422,513
Loans from subsidiaries		
– interest free	(415,611)	(736,917)
– interest bearing	(109,110)	(110,864)
Amounts due from subsidiaries	250	368
Impairment losses on subsidiaries	(165,771)	(165,064)
	10,070,344	6,708,360

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.

13 Interests in property development

Interests in property development represent the Group's interests in the development of various properties in Macau under the co-investment agreements with wholly owned subsidiaries of the ultimate holding company, Polytec Holdings International Ltd ("Polytec Holdings"). The basis and estimations for arriving at the fair value of the interests in property development are further described in note 35(c).

14 Interest in jointly controlled entities

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Unlisted shares, at cost	–	–	584,079	389,045
Share of net assets	1,036,470	789,209	–	–
Loan to a jointly controlled entity	36,000	–	–	–
	1,072,470	789,209	584,079	389,045
Amounts due from jointly controlled entities	608,480	258,053	2,120	1,437
	1,680,950	1,047,262	586,199	390,482

Loan to a jointly controlled entity is unsecured, interest bearing at bank lending rate and is not expected to repay within one year.

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

Details of the jointly controlled entities are as follows:

Jointly controlled entity	Business structure	Place of incorporation and operation	Proportion of nominal value of ordinary shares held			Principal activities
			Group's effective interest	held by the Company	held by a subsidiary	
CITIC Polytec Property (Foshan) Company Limited (Note 1)	Corporate	People's Republic of China	50.00% (Note 2)	50.00% (Note 2)	–	Property development
South Bay Centre Company Limited	Corporate	Macau	29.76%	–	50.00%	Property investment and trading

Notes:

- (1) Equity joint venture in the People's Republic of China.
- (2) Percentage represented the Group's equity interest of the jointly controlled entities.

Notes on the Accounts

(Expressed in Hong Kong dollars)

14 Interest in jointly controlled entities *(Continued)*

Eastford Development Limited was formerly a jointly controlled entity of the Group and became a subsidiary of the Group in June 2007.

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

	2007	2006
	\$'000	\$'000
Income Statement		
Revenue	19,795	12,371
Expenses	(14,738)	(7,421)
	2007	2006
	\$'000	\$'000
Balance Sheet		
Non-current assets	429,260	426,864
Current assets	1,718,735	1,556,951
Current liabilities	(1,000,276)	(702,657)
Non-current liabilities	(278,720)	(653,178)
Net assets	868,999	627,980

15 Interest in associated companies

	Group	
	2007	2006
	\$'000	\$'000
Share of net assets	7,378	7,942
Loan to an associated company	–	4,098
	<u>7,378</u>	<u>12,040</u>

Loan to an associated company was unsecured, interest bearing at prevailing prime rate and fully repaid during the year.

In 2006, the Group disposed of its entire 20% interest in an associated company for a consideration of approximately \$90 million and a gain of approximately \$47 million was recognized in the year accordingly.

Details of the associated companies are shown as follows:

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

15 Interest in associated companies (Continued)

Summary of financial information on a significant associated company:

	Assets \$'000	Liabilities \$'000	Equity \$'000	Revenue \$'000	Profit \$'000
2007					
Aggregate on associated company's accounts	21,181	6,125	15,056	57,538	2,849
Group's effective interest	10,379	3,001	7,378	28,194	1,396
2006					
Aggregate on associated company's accounts	31,331	15,124	16,207	56,362	1,930
Group's effective interest	15,353	7,411	7,942	27,617	946

16 Financial investments

	Group	
	2007 \$'000	2006 \$'000
Non-current assets		
Available-for-sale investments		
– Equity shares, listed in Hong Kong	108,920	108,080
– Investment fund, unlisted	39,409	42,555
	<u>148,329</u>	<u>150,635</u>
Current assets		
Other listed investments		
– Equity shares, listed in Hong Kong	1,437,662	1,069,954
– Equity shares, listed outside Hong Kong	–	31,578
– Bonds, listed outside Hong Kong	166,127	157,220
	<u>1,603,789</u>	<u>1,258,752</u>
	<u>1,752,118</u>	<u>1,409,387</u>
Market value of financial investments		
– Listed in Hong Kong	1,546,582	1,178,034
– Listed outside Hong Kong	166,127	188,798
	<u>1,712,709</u>	<u>1,366,832</u>

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

17 Inventories

	Group	
	2007 \$'000	2006 \$'000
Land held for future development	16,475	190,526
Properties under development	3,747,354	3,552,329
Properties held for sale	565,312	310,319
Trading goods	2,248	1,560
	4,331,389	4,054,734

Included in properties under development is an amount of \$1,564,768,000 (2006: \$1,510,604,000), which represents the accumulated costs incurred by the Group for the development of a property in Ngau Chi Wan. The Group has been granted the exclusive right for the development by The Little Sisters of the Poor ("The Little Sisters"). Pursuant to the development agreement with The Little Sisters, the Group is responsible for bearing all costs and expenses of carrying out the development and in return, the Group is entitled to all sales proceeds derived from the completed development. As at 31 December 2007, the Group had an outstanding payable to The Little Sisters under the development agreement of approximately \$4 million (2006: \$88 million).

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

	Group	
	2007 \$'000	2006 \$'000
In Hong Kong		
– Long Leases	361,541	521,363
– Medium-term leases	1,268,792	1,268,792
	1,630,333	1,790,155
Outside Hong Kong		
– Freehold/Unspecified	502,108	590,252
– Medium-term leases	1,430,422	940,666
	1,932,530	1,530,918
	3,562,863	3,321,073

Notes on the Accounts

(Expressed in Hong Kong dollars)

17 Inventories (Continued)

The amount of properties held for future development and under development expected to be recovered after more than one year is \$16,475,000 and \$3,247,531,000 respectively (2006: \$190,526,000 and \$2,922,110,000). 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 2007, total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	Group	
	2007 \$'000	2006 \$'000
Within 1 year	2,348	4,299
After 1 year but within 5 years	28	583
	2,376	4,882

18 Receivables

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

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current	1,331,699	100,291	–	–
Less than 3 months past due	20,979	12,921	775	1,432
3 months to 6 months past due	637	1,521	38	30
More than 6 months past due	9,181	7,973	2	3
Amounts past due	30,797	22,415	815	1,465
Trade receivables	1,362,496	122,706	815	1,465
Utility and other deposits	4,721	5,266	1,976	1,936
Other receivables and prepayments	1,568,652	917,917	332,427	507,777
	2,935,869	1,045,889	335,218	511,178

18 Receivables *(Continued)*

- (a) The following is an ageing analysis of trade receivables at 31 December: *(Continued)*

Trade receivables of the Group of an amount of \$300,527,000 (2006: \$40,246,000) represents the receivable from a subsidiary of Polytec Holdings being entitlement of one of the Group's interest in property development in Macau.

Utility and other deposits of the Group and of the Company of \$4,277,000 (2006: \$3,687,000) and \$1,908,000 (2006: \$1,889,000) respectively are expected to be recovered after more than one year.

Prepayments of the Group of an amount of \$225,743,000 (2006: \$225,743,000) represents the deposit paid for the acquisition of approximately 70.3% of the issued shares of Shenzhen Properties and \$120,000,000 (2006: \$120,000,000) represents deposit paid for general offer for the remaining 29.7% of the issued shares of Shenzhen Properties. The acquisition was approved by the shareholders of the Company on 20 July 2005 and the completion of the acquisition is subject to the approval by the relevant regulatory authorities in the People's Republic of China ("PRC").

Prepayments of the Group and of the Company of an amount of approximately \$1,152,406,000 (2006: \$498,256,000) and \$303,392,000 (2006: \$498,000,000) respectively represents payments made for the acquisition of a composite property development site located in Tianjin of the PRC. During the year, the Group's interest in this property development project has reduced from 100% to 61% with the transfer of the Group's 39% interest to two strategic partners.

Receivables and prepayments of the Group and of the Company of \$1,094,000 (2006: \$1,593,000) and \$813,000 (2006: \$1,313,000) respectively are expected to be recovered after more than one year.

- (b) Allowance for doubtful debts

Impairment losses in respect of trade and other receivables and loans and advances are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade and other receivables and loans and advances directly.

Notes on the Accounts

(Expressed in Hong Kong dollars)

18 Receivables (Continued)

(b) Allowance for doubtful debts (Continued)

The movement for the Group in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows while the Company has insignificant allowance for doubtful debts:

	Group	
	2007	2006
	\$'000	\$'000
At 1 January	26,291	22,530
Impairment loss recognized	63	5,007
Impairment loss written back	(4,031)	(1,021)
Uncollectible amounts written off	(17)	(225)
At 31 December	<u>22,306</u>	<u>26,291</u>

At 31 December 2007, the Group's trade and other receivables and loans and advances of \$32,386,000 (2006: \$36,636,000) was individually determined to be impaired. Consequently, specific allowances for doubtful debts of \$19,272,000 (2006: \$22,357,000) was recognized.

(c) Trade and other receivables and loans and advances that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Trade and other receivables and loans and advances that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

19 Derivative financial instruments

	Group			
	2007		2006	
	Assets \$'000	Liabilities \$'000	Assets \$'000	Liabilities \$'000
Over-the-counter contingent forward transactions	40,335	216,978	31,407	16,590
Hong Kong Dollars interest rate swaps	–	–	4,667	–
	40,335	216,978	36,074	16,590

(a) Over-the-counter contingent forward transactions

The Group has entered into several forward agreements to purchase certain listed equity investments 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 investments rises to a pre-determined price level. As at the balance sheet date, the aggregated maximum purchase commitments of the Group under the agreements were \$10.1 billion (2006: \$2.4 billion) of which \$2.6 billion (2006: \$1.7 billion) will not be crystallized up to the date of issue of the accounts. The market price of the underlying equity investments for some of the forward agreements has reached the pre-determined price level and some of the agreements were terminated subsequently after the balance sheet date.

(b) Hong Kong Dollars interest rate swaps

The Group engaged in two Hong Kong Dollar interest rate swaps with a total notional amount of \$700 million as at 31 December 2006. 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 matured in 2007.

Notes on the Accounts

(Expressed in Hong Kong dollars)

20 Trade and other payables

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

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Not yet due or on demand	487,083	561,702	522	587
Within 3 months	35,197	4,427	1,688	1,662
3 months to 6 months	658	104	–	104
More than 6 months	272	–	–	–
Trade payables	523,210	566,233	2,210	2,353
Rental and other deposits	53,926	50,668	38,359	36,196
Other payables and accrued expenses	416,298	193,660	59,519	47,826
Deposits received on sale of properties	419,634	276,646	–	–
	1,413,068	1,087,207	100,088	86,375

Rental and other deposits of the Group and of the Company of \$50,129,000 (2006: \$47,239,000) and \$37,937,000 (2006: \$35,882,000) respectively are expected to be refunded after more than one year.

Trade payables of the Group of an amount of \$212,831,000 (2006: \$428,535,000) represent outstanding consideration for the acquisition of a piece of land in the PRC, the payment of which is not yet due and is payable within one year.

Other payables and accrued expenses of the Group and of the Company of \$8,169,000 (2006: \$154,000) and \$86,000 (2006: \$86,000) respectively are expected to be settled after more than one year.

Deposits received on sale of properties of the Group of \$Nil (2006: \$276,646,000) are expected to be recognized as income after more than one year.

21 Amounts due to minority shareholders

The amounts due to minority shareholders of subsidiaries are unsecured and have no fixed terms of repayment, of which \$4,913,000 (2006: \$18,700,000) is interest bearing at prevailing market rates and \$328,392,000 (2006: \$6,382,000) is interest free.

22 Loan from ultimate holding company

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

23 Amount payable to ultimate holding company

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

24 Bank loans

At 31 December, bank loans were repayable as follows:

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Within 1 year or on demand	623,000	888,843	255,000	215,000
After 1 year but within 2 years	291,700	223,000	255,000	205,000
After 2 years but within 5 years	850,000	1,067,700	850,000	1,031,000
	1,141,700	1,290,700	1,105,000	1,236,000
	1,764,700	2,179,543	1,360,000	1,451,000

Bank loans were classified in the balance sheets as follows:

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Current liabilities				
Secured	423,000	638,843	255,000	165,000
Unsecured	200,000	250,000	–	50,000
	623,000	888,843	255,000	215,000
Non-current liability				
Secured	1,141,700	1,290,700	1,105,000	1,236,000
	1,764,700	2,179,543	1,360,000	1,451,000

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

Notes on the Accounts

(Expressed in Hong Kong dollars)

25 Total equity

(a) Group

	Attributable to shareholders of the Company							Minority interests	Total equity
	Share capital	Share premium	Capital reserve	Fair value reserves	Exchange reserves	Retained profits	Total		
Note	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
At 1 January 2007	76,712	3,049,409	2,154	731,265	15,148	5,178,096	9,052,784	3,519,747	12,572,531
Issue of shares	38,356	-	-	-	-	-	38,356	-	38,356
Premium on issue of shares	-	5,254,778	-	-	-	-	5,254,778	-	5,254,778
Expenses on issue of shares	-	(1,783)	-	-	-	-	(1,783)	-	(1,783)
Issue of shares of a subsidiary attributable to minority interests	-	-	-	-	-	-	-	55,373	55,373
Exchange difference on translation of accounts of overseas subsidiaries and jointly controlled entities	-	-	-	-	128,168	-	128,168	-	128,168
Changes in fair value of available-for-sale investments	-	-	-	1,927	-	-	1,927	-	1,927
Changes in fair value of interests in property development	-	-	-	1,639,647	-	-	1,639,647	1,022,400	2,662,047
Transfer to income statement upon recognition from interest in property development	-	-	-	(234,110)	-	-	(234,110)	-	(234,110)
Final dividend declared and paid	8(b)	-	-	-	-	(483,286)	(483,286)	-	(483,286)
Interim dividend declared and paid	8(a)	-	-	-	-	(195,616)	(195,616)	-	(195,616)
Dividend paid to minority interests	-	-	-	-	-	-	-	(59,824)	(59,824)
Loan from a minority shareholder	-	-	-	-	-	-	-	3,624	3,624
Increase in minority interests attributable to a decrease in shareholding of a subsidiary	-	-	-	-	-	-	-	104,195	104,195
Profit for the year	-	-	-	-	-	1,906,398	1,906,398	66,506	1,972,904
At 31 December 2007	115,068	8,302,404	2,154	2,138,729	143,316	6,405,592	17,107,263	4,712,021	21,819,284

25 Total equity (Continued)

(a) Group (Continued)

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

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)

25 Total equity (Continued)

(b) Company

	Note	Share capital \$'000	Share premium \$'000	Retained profits \$'000	Total \$'000
At 1 January 2006		56,677	557,916	3,130,934	3,745,527
Issue of shares		20,035	–	–	20,035
Premium on issue of shares		–	2,549,602	–	2,549,602
Expenses on issue of shares		–	(58,109)	–	(58,109)
Final dividend declared and paid	8(b)	–	–	(198,369)	(198,369)
Interim dividend declared and paid	8(a)	–	–	(88,416)	(88,416)
Profit for the year		–	–	282,378	282,378
At 31 December 2006		76,712	3,049,409	3,126,527	6,252,648
At 1 January 2007		76,712	3,049,409	3,126,527	6,252,648
Issue of shares		38,356	–	–	38,356
Premium on issue of shares		–	5,254,778	–	5,254,778
Expenses on issue of shares		–	(1,783)	–	(1,783)
Final dividend declared and paid	8(b)	–	–	(483,286)	(483,286)
Interim dividend declared and paid	8(a)	–	–	(195,616)	(195,616)
Profit for the year		–	–	1,784,519	1,784,519
At 31 December 2007		115,068	8,302,404	4,232,144	12,649,616

The Group's share of losses sustained in the accounts of the associated companies at 31 December 2007 after minority interests were \$509,000 (share of profits retained at 31 December 2006: \$55,000).

The Group's share of profits retained in the accounts of the jointly controlled entities at 31 December 2007 after minority interests were \$12,264,000 (2006: \$6,358,000).

25 Total equity (Continued)

(b) **Company (Continued)**

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

Reserves of the Company available for distribution to shareholders at 31 December 2007 amounted to \$1,617,781,000 (2006: \$894,132,000).

(c) **Share capital**

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

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

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

(d) **Capital management**

The Group manages its capital to ensure that the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The capital structure of the Group consists of bank borrowings, borrowings from ultimate holding company, cash and cash equivalents and equity attributable to shareholders of the Company, comprising issued share capital, reserves and retained profits.

The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new shares issues as well as raising new debts or redemption of existing debts. The Group's overall strategy remains unchanged from prior year.

Notes on the Accounts

(Expressed in Hong Kong dollars)

26 Warrants of a subsidiary

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

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

	Number of warrants	
	2007	2006
Outstanding at the beginning of the year	122,974,508	–
Issued during the year	–	122,981,448
Exercised during the year	(122,542,543)	(6,940)
Expired upon the end of the subscription period	(431,965)	–
Outstanding at the end of the year	–	122,974,508

27 Notes to consolidated cash flow statement

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

	2007 \$'000	2006 \$'000
Profit before taxation	2,358,271	1,519,714
Adjustments for:		
Unclaimed dividend written back	(221)	(363)
Profit on disposal of other fixed assets	(134)	(13)
Profit on disposal of an associated company	–	(47,090)
Share of profits of associated companies	(1,396)	(1,324)
Share of profits less losses of jointly controlled entities	(11,886)	(3,982)
Negative goodwill	–	(162,876)
Impairment loss on goodwill	16,994	–
Impairment loss on inventories	13,531	–
Fair value changes on investment properties	(490,922)	(346,608)
Fair value changes on derivative financial instruments	196,127	(1,414)
Interest income	(24,433)	(7,929)
Interest expenses	81,685	178,400
Depreciation and amortization	10,280	9,646
Operating profit before working capital changes	2,147,896	1,136,161
Decrease in interests in property development	26,170	196,102
Increase in financial investments	(340,804)	(1,071,391)
Decrease in loans and advances	22,010	21,471
Increase in inventories	(66,232)	(771,447)
Increase in trade and other receivables	(1,888,918)	(725,357)
Increase in amounts due from jointly controlled entities	(383,941)	(10,861)
Decrease in amount due from an associated company	185	22
Increase in time deposits (pledged)	(516,479)	(27,789)
Increase in trade and other payables	332,182	747,327
Increase/(Decrease) in amount due to ultimate holding company	1,570	(675)
Increase/(Decrease) in amounts due to minority shareholders	308,223	(6,842)
Cash used in operations	(358,138)	(513,279)
Interest received	24,597	7,950
Interest paid	(266,654)	(174,905)
Profits tax paid	(55,011)	(33,848)
Profits tax refunded	–	1,312
Net cash used in operating activities	(655,206)	(712,770)

Notes on the Accounts

(Expressed in Hong Kong dollars)

27 Notes to consolidated cash flow statement (Continued)

(b) Acquisition of subsidiaries

	2007 \$'000	2006 \$'000
Fair value of assets of the subsidiary acquired:		
Interests in property development	–	8,448,000
Inventories	37,258	–
Trade and other receivables	1,222	–
Cash and cash equivalents	11	–
Trade and other payables	(127)	–
Deferred taxation	(861)	–
Amount due to a fellow subsidiary	(33,514)	–
	<u>3,989</u>	<u>8,448,000</u>
Satisfied by:		
Loan from ultimate holding company	–	2,194,040
Amount payable to ultimate holding company	–	2,958,450
Cash	3,989	3,295,510
	<u>3,989</u>	<u>8,448,000</u>

The acquired subsidiary in 2007 was formerly a jointly controlled entity of the Group and became a subsidiary of the Group on 6 June 2007.

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

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

27 Notes to consolidated cash flow statement (Continued)

- (c) Major non-cash transactions
- (i) During the year ended 31 December 2007, the amount received from property development of \$1,508,000,000 were obtained by offsetting the amount payable to ultimate holding company.
- (ii) During the year ended 31 December 2007, 25,645,837 shares were issued and allotted to the immediate holding company to set-off against the loan from ultimate holding company of \$2,256,070,000.

28 Capital commitments

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

	Group		Company	
	2007 \$'000	2006 \$'000	2007 \$'000	2006 \$'000
Contracted for				
– Capital injection into a jointly controlled entity	–	194,445	–	194,445
– Acquisition/Formation of subsidiaries	813,969	693,293	83,672	8,969
– Investment properties	6,537	1,241	6,537	1,241
	820,506	888,979	90,209	204,655
Authorized but not contracted for				
– Investment properties	94,302	94,067	94,302	94,067

29 Contingent liabilities

The Company has given guarantees in respect of banking facilities and other obligations of certain subsidiaries to the extent of \$672,450,000 (2006: \$1,235,206,000). The banking facilities and other obligations were utilized to the extent of \$352,450,000 (2006: \$951,049,000) at 31 December 2007.

30 Pledge of assets

At 31 December 2007, properties and financial investments of the Group with an aggregate carrying value of approximately \$6,464,446,000 (2006: \$6,039,683,000) and time deposits of \$582,473,000 (2006: \$65,994,000) were pledged to banks under fixed charges to secure general banking facilities granted to the Group or as margin deposits for the Group's over-the-counter contingent forward transactions.

Notes on the Accounts

(Expressed in Hong Kong dollars)

31 Subsidiaries

Details of the principal subsidiaries of Kowloon Development Company Limited were 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	
Able Talent Investments Limited	British Virgin Islands/Macau	US\$1	100%	–	Financial investment
Atlantic Capital Limited	Hong Kong	\$10,000	100%	–	Investment holding
Country House Property Management Limited	Hong Kong	\$10,000	–	100%	Property management and security services
Elegant Florist Limited	British Virgin Islands	US\$1,000	100%	–	Investment holding
Eversound Investments Limited	Hong Kong	\$1,000,000	–	100%	Property investment
Forever Happy Investments Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Future Star International Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Gargantuan Investment Limited	Hong Kong	\$2	100%	–	Financial investment
Good Companion Investments Limited	British Virgin Islands	US\$1	100%	–	Investment holding

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	
Good Companion Investments (Hong Kong) Limited	Hong Kong	\$1	–	100%	Investment holding
Jumbo Power Enterprises Limited	Hong Kong	\$2	–	100%	Property development
Jumbo Star Limited	British Virgin Islands	US\$1	100%	–	Investment holding
King's City Holdings Limited	Hong Kong	\$2	–	100%	Property development
Kowloon Development Engineering Limited	Hong Kong	\$2	100%	–	Construction
Kowloon Development Finance Limited	Hong Kong	\$2,000,000	100%	–	Financial services
Lucky City Investments Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Lucky City Investments (Hong Kong) Limited	Hong Kong	\$1	–	100%	Investment holding
Major Aim Developments Limited	Hong Kong	\$1	–	100%	Investment holding
Manor House Holdings Limited	Hong Kong	\$264,529,125	100%	–	Investment holding
Marble King International Limited	British Virgin Islands	US\$2	100%	–	Investment holding
Pak Hop Shing Company, Limited	Hong Kong	\$1,300,000	–	100%	Property development

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	
Polytec Property Good Companion (Shenyang) Limited (Note 1)	People's Republic of China	US\$109,800,000 (Note 3)	–	100%	Property development
Polytec Property Lucky City (Shenyang) Limited (Note 1)	People's Republic of China	\$102,100,000 (Note 3)	–	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
To Kwa Wan Properties Limited	Hong Kong	\$2	–	100%	Property investment
Top Milestone Developments Limited	British Virgin Islands/Macau	US\$100	–	100%	Project and financial investment
Town House Development Limited	Hong Kong	\$10,000	100%	–	Property investment
Triumph Glory Investments Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Tyleelord Development & Agency Company Limited	Hong Kong	\$100,000	–	100%	Property investment
Un Chau Properties Limited	Hong Kong	\$2	–	100%	Property investment
Units Properties Limited	Hong Kong	\$2	–	100%	Property investment

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	
Union Way Management Limited	Hong Kong	\$2	–	100%	Investment holding
Wealrise Investments Limited	Hong Kong	\$2	–	100%	Property development and investment
Polytec Binhai Property (Tianjin) Co., Ltd (Note 2)	People's Republic of China	US\$2,979,792 (Note 3)	90%	–	Property development
Brilliant Idea Investments Limited	British Virgin Islands	US\$100	85%	–	Investment holding
Golden Princess Amusement Company Limited	Hong Kong	\$100,000	85%	–	Film distribution
Cinema City Company Limited	Hong Kong	\$1,000,000	–	85%	Film distribution
Cinema City (Film Production) Company Limited	Hong Kong	\$5,000,000	–	85%	Film distribution
Golden Princess Film Production Limited	Hong Kong	\$10,000	–	85%	Film distribution
Polytec CITIC Property (Tianjin) Co., Ltd (Note 2)	People's Republic of China	US\$32,768,756 (Note 3)	51% (Note 4)	–	Property development
Polytec Asset Holdings Limited	Cayman Islands/ Hong Kong and Macau	\$443,896,784	–	59.52%	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	
Eastford Development Limited	Hong Kong	\$100	–	59.52%	Property development and investment
Genius Star Investments Limited	British Virgin Islands/Macau	US\$1	–	59.52%	Financial investment
Glentech International Company Limited	Hong Kong	\$2	–	59.52%	Provision of consultancy services
New Bedford Properties Limited	British Virgin Islands	US\$1	–	59.52%	Investment holding
Newcott Limited	British Virgin Islands	US\$10,000	–	59.52%	Investment holding
Noble Prime International Limited	British Virgin Islands	US\$1	–	59.52%	Investment holding
Power Charm International Limited	British Virgin Islands	US\$1	–	59.52%	Investment holding
Power Giant Limited	British Virgin Islands/Macau	US\$1	–	59.52%	Property trading and investment
Profit Sphere International Limited	British Virgin Islands	US\$1	–	59.52%	Investment holding
Sheen Concord Enterprises Limited	Hong Kong	\$2	–	59.52%	Property investment and development
Sinocharm Trading Limited	British Virgin Islands	US\$1	–	59.52%	Investment holding

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	
Success Ever Limited	British Virgin Islands	US\$1	–	59.52%	Investment holding
The Hong Kong Ice & Cold Storage Company Limited	Hong Kong	\$500,000	–	59.52%	Ice manufacturing and provision of cold storage
Top Vision Assets Limited	British Virgin Islands	US\$1	–	59.52%	Investment holding
Century Leader Profits Limited	British Virgin Islands	US\$100	–	54.16%	Property trading and investment
Acestart Investments Limited	British Virgin Islands/Macau	US\$1	–	41.96%	Property trading and investment
Think Bright Limited	British Virgin Islands/Macau	US\$200	–	41.96%	Property trading and investment
Hin Rich International Limited	British Virgin Islands/Macau	US\$1	–	34.52%	Financial investment
Kam Yuen Property Investment Limited	Macau	MOP30,000	–	34.52%	Property investment and development
New Cosmos Holdings Limited	British Virgin Islands	US\$100	–	34.52%	Investment holding
Sunpark International Limited	British Virgin Islands/Macau	US\$1	–	34.52%	General trading

Notes:

- (1) Wholly foreign owned enterprises in the People's Republic of China
- (2) Equity joint ventures in the People's Republic of China
- (3) Amount represented the registered capital paid up
- (4) In accordance with an agreement in relation to the acquisition of a property development site in Tianjin of the PRC, the Group is entitled to 61% of the result of the subsidiary.

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 \$Nil (2006: \$45,000). There were no unutilized forfeited contributions at the balance sheet date of both years. The Group's annual contribution for the year was \$638,000 (2006: \$609,000).

Contributions to the Mandatory Provident Funds of \$2,387,000 (2006: \$2,015,000) 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 17.
- (b) Polytec Holdings has guaranteed the due performance of the Company in respect of its obligations in the property development project in Tianjin, the PRC.
- (c) As at 31 December 2007, an amount of \$300,527,000 was receivable from a subsidiary of Polytec Holdings being distribution of one of the Group's interest in property development in Macau (note 18).
- (d) During the year, interest of \$89,463,000 was paid to Polytec Holdings.
- (e) As at 31 December 2007, an amount of \$1,508,000,000 was received from a subsidiary of Polytec Holdings in respect of the Group's interests in property development in Macau and was recorded under "Other payable" of non-current liabilities. The amount is unsecured, interest-free with no fixed repayment terms.
- (f) As at 31 December 2007, a director of the Company granted a guarantee to a bank to secure the liabilities of a subsidiary to the extent of \$42,718,000.
- (g) As at 31 December 2007, the Group has given guarantees to insurance companies in respect of performance bonds entered into by certain associated companies to the extent of \$6,027,000.

33 Material related party transactions *(Continued)*

- (h) During the year, the remuneration for key management personnel being short term employee benefits amounted to \$12,198,000 (2006: \$12,071,000) as disclosed in notes 4(a) and 4(b). The remuneration of directors and senior management is determined by the Remuneration Committee having regard to the performance and responsibilities of individuals and market trends.
- (i) In December 2006, Intellinsight Holdings Limited (“Intellinsight”), the parent company of the Company and certain directors of the Company, entered into an underwriting agreement pursuant to which Intellinsight and the directors have undertaken to the Company to subscribe for 224,119,041 and 1,211,000 rights shares respectively provisionally allotted to them under the two for one rights issue at a price of \$13.8 per rights share. The rights issue has become unconditional in February 2007. Each of Intellinsight and undertaking directors had taken up their respective provisional allotment under the undertaking agreement.

34 Post balance sheet event

On 27 February 2008, the Financial Secretary of the Hong Kong SAR Government announced his annual Budget which proposes a cut in the profits tax rate from 17.5% to 16.5% with effect from the fiscal year 2008/09. Subject to Legislative Council’s approval and formal adoption of this revised tax rate, the Group’s accumulated deferred tax liabilities and deferred tax assets as at 1 January 2008 would be reduced by \$7,959,000 and \$90,000 respectively. It is impracticable to further estimate the impact on future accounts of the change in tax rate.

35 Critical accounting judgements and key sources of estimation uncertainty

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

- (a) Depreciation and amortization
The Group 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, commencing from the date the equipment is placed into productive use. The estimated useful lives reflect the directors’ estimate of the periods that the Group intends to derive future economic benefits from the use of the Group’s assets.
- (b) Allowances for bad and doubtful debts
The policy for allowances for bad and doubtful debts of the Group is based on the evaluation of collectability, ageing analysis of accounts, realizable values of collateral and on management’s judgement. A considerable amount of judgement is required in assessing the ultimate recoverability of receivables and loans and advances, including making references to the current creditworthiness and the past collection history of each customer.

Notes on the Accounts

(Expressed in Hong Kong dollars)

35 Critical accounting judgements and key sources of estimation uncertainty *(Continued)*

- (c) Estimation of fair value of interests in property development
Interests in property development are stated at its fair value at the balance sheet date. In determining the fair value of interests in property development, the Group estimates the future cash flows expected to arise from the interests in property development and suitable discount rate in order to calculate the present values. Cash flow projections for the interests in property development are based on the past performance, current market conditions, management's expectations for the market development and terms provided under the co-investment agreements.
- (d) Estimation of fair value of over-the-counter contingent forward transactions
Over-the-counter contingent forward transactions are classified as derivative financial instruments and are stated at fair value at the balance sheet date. The Group adopts the valuation of over-the-counter contingent forward transactions as valued by professional valuers with appropriate experience in the valuation of similar transactions, and with reference to market value quotations from financial institutions.

36 Financial risk management

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

- (a) Interest rate risk
The Group is exposed to interest rate risk through the impact of rate changes on interest bearing bank borrowings and borrowings from ultimate holding company. All the borrowings are on a floating rate basis. The risk is mainly concentrated on the fluctuation in Hong Kong dollar interest rates arising from the Group's Hong Kong dollar denominated borrowings.

Interest rate risk is managed by the Group's management with defined policies through regular review to determine the strategy as of funding in floating/fixed rate mix appropriate to its current business profile, and to engage in relevant hedging arrangements in appropriate time.

At 31 December 2007, it is estimated that an increase/decrease in interest rates by 100 basis points, with all other variables held constant, the Group's profit attributable to shareholders of the Company and retained profits would be decreased/increased by approximately \$4 million (2006: \$42 million).

The sensitivity analysis has been determined based on the exposure to interest rates at the balance sheet date. The analysis is prepared assuming the amount of interest-bearing borrowings outstanding at the balance sheet date was outstanding for the whole year. The analysis is performed on the same basis for 2006.

36 Financial risk management *(Continued)*

(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 2007 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 has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(c) Liquidity risk

Cash management of the Company and wholly-owned subsidiaries of the Group are substantially centralised at the Group level. The non wholly-owned subsidiaries are responsible for their own cash management, including the short term investment of cash surpluses with creditworthy financial institutions and the raising of loans to cover expected cash demands, in accordance with the established policies and strategies with the concurrence by the management of the Group. The Group's policy is to regularly monitor current, expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash, readily realizable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

(d) Currency risk

The Group owns assets and conducts its business mainly in Hong Kong, Macau and the PRC.

The Group's primary foreign currency exposures arise from its direct property development and investments in the PRC. The Group is mainly exposed to the effects of fluctuation in Renminbi.

Where appropriate and cost efficient, the Group seeks to finance these investments by Renminbi borrowings and as future returns from these investments are denominated in Renminbi, exposure to foreign currency risk is minimized.

Notes on the Accounts

(Expressed in Hong Kong dollars)

36 Financial risk management *(Continued)*

(e) Price risk

The Group is exposed to equity price risk through its investments in equity investments and derivative financial instruments.

Appropriate measures are implemented under sophisticated risk management policies on a timely and effective manner. These measures covered macroeconomic analysis, securities analysis, trade execution control and portfolio evaluation. The Group controls its market exposure by maintaining investment portfolio of securities with high market liquidity. Currently the Group maintains a diversified investment portfolio.

At 31 December 2007, it is estimated that an increase/decrease of 5% in market value of the Group's equity investments classified as trading securities, with all other variables held constant, profit attributable to shareholders of the Company and retained profits would increase/decrease by \$57 million (2006: \$48 million). The analysis is performed on the same basis for 2006.

At 31 December 2007, it is estimated that an increase/decrease of 5% in market value of the Group's equity investments classified as available-for-sale investments, with all other variables held constant, profit attributable to shareholders of the Company and retained profits would have been unaffected as the equity investments are classified as available-for-sale investments. However, the Group's equity would increase/decrease by \$5 million (2006: \$5 million). The analysis is performed on the same basis for 2006.

At 31 December 2007, it is estimated that an increase/decrease of 5% in market value of the underlying securities of the derivative financial instrument, with all other variables held constant, profit attributable to shareholders of the Company and retained profits would increase/decrease by \$81 million/\$137 million. No comparative sensitivity analysis has been performed for 2006 as the Group's management considers there to be insufficient data available to provide an accurate analysis.

The sensitivity analysis above has been determined assuming that the reasonably possible changes in the equity price had occurred at the balance sheet date and had been applied to the exposure to equity price risk in existence at that date. It is also assumed that the fair values of the Group's equity investments and derivative financial instruments would change in accordance with the historical correlation with the relevant equity price, and that none of the Group's available-for-sale equity investments would be considered impaired as a result of a reasonably possible decrease in the relevant equity price, and that all other variables remain constant.

37 Parent and ultimate holding company

At 31 December 2007, 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.

38 Possible impact of amendments, new standards and interpretations issued but not yet effective for the accounting year ended 31 December 2007

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 2007.

The Group has not early adopted these amendments, new standards and new interpretations in the accounts for the year ended 31 December 2007. 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.

Independent Auditor's Report



Independent auditor's report to the shareholders of
Kowloon Development Company Limited
(Incorporated in Hong Kong with limited liability)

We have audited the consolidated accounts of Kowloon Development Company Limited ("the Company") set out on pages 43 to 111, which comprise the consolidated and Company balance sheets as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the accounts

The directors of the Company are responsible for the preparation and the true and fair presentation of these accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these accounts based on our audit. This report is made 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.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

A handwritten signature in black ink, appearing to read 'KPMG', is written over a light blue background.

KPMG
Certified Public Accountants
8th Floor, Prince's Building, 10 Chater Road, Central, Hong Kong

Hong Kong, 17 March 2008

Particulars of Properties

31 December 2007

A. Major Investment Properties

Location	Usage	Category of Lease	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Hong Kong				
Pioneer Centre No. 750 Nathan Road Mongkok Kowloon	Commercial	Long lease	44,926 sq m and 124 Carparking Spaces	100
127 Shop Units on 1st Floor, 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 lease	9,816	100
20th Floor of Argyle Centre Phase 1 No. 688 Nathan Road and No. 65 Argyle Street Mongkok Kowloon	Commercial	Long lease	1,465	100
2nd to 23rd Floor and the Roof of The Elgin No. 51 Elgin Street Central Hong Kong	Residential	Long lease	1,327	100
The Whole Shop Spaces and 10 Parking Spaces on Basement Peninsula Centre No. 67 Mody Road Tsim Sha Tsui Kowloon	Commercial	Long lease	1,767 sq m and 10 Carparking Spaces	100

Particulars of Properties

31 December 2007

A. Major Investment Properties (Continued)

Location	Usage	Category of Lease	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Hong Kong (Continued)				
51 Shop Units on Basement, Ground Floor, Mezzanine Floor and 1st Floor Sino Centre Nos. 582-592 Nathan Road Mongkok Kowloon	Commercial	Medium-term lease	1,016	100
Macau				
38 Shop Units and 14 Parking Spaces of Va long at Praca da Amizade Nos. 6-52, Avenida do Infante D. Henrique Nos. 25-31 and Avenida Doutor Mario Soares Nos. 227-259 Macau	Commercial	Medium-term lease	1,887 sq m and 14 Carparking Spaces	60

B. Investment Properties of Jointly Controlled Entities

Location	Usage	Category of Lease	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Macau				
208 Shop Units, 208 Office Units and 265 Parking Spaces at The Macau Square, Rua do Dr. Pedro Jose Lobo Nos. 2-16A, Avenida do Infante D. Henrique Nos. 43-53A and Avenida Doutor Mario Soares Nos. 81-113 Macau	Commercial	Medium-term lease	36,553 sq m and 265 Carparking Spaces	30

C. Major Properties Held for Sale

Location	Usage	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Hong Kong			
No. 31 Robinson Road Mid-Levels Hong Kong	Residential	5,025	100
Macau			
61 Shop Units, 3 Office Units and 155 Parking Spaces in China Plaza at Avenida da Praia Grande Nos. 730-804 and Avenida de D. Joao IV Nos. 2-6-B Macau	Commercial	4,392 sq m and 155 Carparking Spaces	42

Particulars of Properties

31 December 2007

D. Major Properties Under Development

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Hong Kong						
Belcher's Street Kennedy Town Hong Kong	Residential and Commercial	564	5,600	Demolition work completed	2009/2010	100
No 35 Clear Water Bay Road Ngau Chi Wan Kowloon Hong Kong	Residential and Commercial	22,373	196,400	Land exchange under process	2011/2012	100
Macau						
Pacifica Garden The Taipa District Macau	Residential and Commercial	5,208	35,900	Superstructure work in progress	2008/2009	35
* Villa de Mer The Orient Pearl District Novos Aterros da Areia Preta Macau	Residential and Commercial	13,699	126,400	Foundation work near completion	2009/2010	48

* The development of these properties are under the co-investment agreements with wholly owned subsidiaries of the ultimate holding company.

D. Major Properties Under Development *(Continued)*

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Mainland China						
West of Daba Road Dong Ning District Shenyang PRC	Residential and Commercial	1,450,000	2,900,000	Site clearance work in progress	2009 (first phase)	100

E. Properties Under Development of Jointly Controlled Entities

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Status	Expected Date of Completion	Group's Interest (%)
Mainland China						
Heshun Meijing Shuiiku Sector Lishui Town Nanhai District Foshan PRC	Residential and Commercial	4,020,743	1,600,000	Site formation work in progress	2009 (first phase)	50

Particulars of Properties

31 December 2007

F. Major Land Held for Future Development

Location	Usage	Approximate Total Site Area (sq m)	Approximate Total Gross Floor Area (sq m)	Group's Interest (%)
Macau				
* Lotes T and T1 The Orient Pearl District Novos Aterros da Areia Preta Macau	Residential and Commercial	17,969	164,200	48
* Lote P The Orient Pearl District Novos Aterros da Areia Preta Macau	Residential and Commercial	68,001	687,700	48
Mainland China				
# Lot No. Jin Dong Liu 2004-066 intersection of Shiyijing Road and Liuwei Road Hedong District Tianjin PRC	Residential and Commercial	137,940	930,000	61
* <i>The development of these properties are under the co-investment agreements with wholly owned subsidiaries of the ultimate holding company.</i>				
# <i>Transfer of title of the composite property development site to project company to be arranged.</i>				



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