

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies

### (a) Statement of compliance

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

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

### (b) Measurement basis

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

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

### (c) Basis of consolidation

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies *(continued)*

### (d) Goodwill

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

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

### (e) Interest in subsidiaries

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies *(continued)*

### (e) Interest in subsidiaries *(continued)*

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

### (f) Interest in associated companies

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

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

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

### (g) Interest in joint ventures

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies *(continued)*

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

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

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

### (h) Properties

#### (i) *Investment properties*

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

#### (ii) *Land held for future development*

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies *(continued)*

### (h) Properties *(continued)*

#### (iii) *Interest in property development*

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

#### (iv) *Properties under development*

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

#### (v) *Properties held for sale*

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies *(continued)*

### (i) Trade and other receivables

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

### (j) Financial instruments

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

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

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies *(continued)*

### (k) Trade and other payables

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

### (l) Borrowings

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

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

### (m) Depreciation and amortization

#### (i) *Leasehold land and buildings*

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies *(continued)*

### (m) Depreciation and amortization *(continued)*

#### (ii) Other fixed assets

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

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

### (n) Impairment of assets

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

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

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

#### (i) Investments in debt and equity securities

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



# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies *(continued)*

### (n) Impairment of assets *(continued)*

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

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

#### (ii) Other assets

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

### (o) Deferred taxation

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies *(continued)*

### (p) Recognition of revenue

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

#### (i) *Rental income from operating leases*

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

#### (ii) *Sale of properties*

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

#### (iii) *Income from interest in property development*

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

#### (iv) *Sale of investments in securities*

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

#### (v) *Interest income*

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies *(continued)*

### (q) Translation of foreign currencies

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

### (r) Related parties

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

### (s) Segment reporting

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

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

## 2 Changes in accounting policies

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies *(continued)*

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

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

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

#### Group

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies *(continued)*

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

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

##### Company

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

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

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

##### Group

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies *(continued)*

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

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

#### Company

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies *(continued)*

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies *(continued)*

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

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

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

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



# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies *(continued)*

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies *(continued)*

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

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

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

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

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

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

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies *(continued)*

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

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

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

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

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

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

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies *(continued)*

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

#### (i) *Derivatives and hedging*

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

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

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies *(continued)*

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

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

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

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

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

In prior periods:

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 2 Changes in accounting policies *(continued)*

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

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

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

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 3 Segment information

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

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

### (a) Business segments

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 3 Segment information *(continued)*

### (a) Business segments *(continued)*

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

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



# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 3 Segment information *(continued)*

### (b) Geographical segments

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

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

### (c) Major customers and suppliers

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 4 Profit before taxation

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

### (a) Finance costs

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

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

### (b) Other items

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 4 Profit before taxation (continued)

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

## 5 Directors' and management's emoluments

### (a) Directors' emoluments

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

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

### (a) Directors' emoluments (continued)

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

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

### (b) Individuals with highest emoluments

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 6 Income tax in the consolidated income statement

### (a) Taxation in the consolidated income statement represents:

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 7 Profit attributable to shareholders

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

## 8 Earnings per share

### (a) Basic earnings per share

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

### (b) Diluted earnings per share

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

### (c) Number of shares

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

## 9 Dividends

### (a) Dividends attributable to the year

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 9 Dividends *(continued)*

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

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

## 10 Income tax in the balance sheets

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

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



# Notes on the Accounts

(Expressed in Hong Kong dollars)

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

### (b) Deferred taxation

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

#### Group

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

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

### (b) Deferred taxation *(continued)*

#### Company

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

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

### (c) Deferred tax assets not recognized

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 11 Fixed assets

### (a) Group

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 11 Fixed assets (continued)

### (a) Group (continued)

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 11 Fixed assets (continued)

### (b) Company

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 11 Fixed assets (continued)

### (b) Company (continued)

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 11 Fixed assets (continued)

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

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 11 Fixed assets *(continued)*

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

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

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

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

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

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

## 12 Interest in jointly controlled entities

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

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



# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 12 Interest in jointly controlled entities *(continued)*

Details of the jointly controlled entities are as follows:

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

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

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

### *South Bay Centre Company Limited*

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 13 Jointly controlled assets

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

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

## 14 Goodwill

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 15 Interest in subsidiaries

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

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

Details of the principal subsidiaries are shown in note 31.

## 16 Interest in associated companies

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 16 Interest in associated companies *(continued)*

Details of the associated companies are shown as follows:

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

Summary of financial information on significant associated companies:

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 17 Investments in securities

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 18 Derivative financial instruments

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 18 Derivative financial instruments *(continued)*

### (b) Interest rate swaps

#### (i) Hong Kong Dollar Swap

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

#### (ii) US Dollar Swap

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

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

## 19 Interest in property development

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 20 Inventories

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

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

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

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



# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 20 Inventories *(continued)*

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

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

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

## 21 Trade and other receivables

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 21 Trade and other receivables *(continued)*

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

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

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

## 22 Trade and other payables

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 22 Trade and other payables *(continued)*

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

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

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

## 23 Loan from ultimate holding company

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

## 24 Amounts due to minority shareholders

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 25 Bank loans

At 31 December, bank loans were repayable as follows:

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

Bank loans were classified in the balance sheets as follows:

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 26 Total equity

### (a) Group

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 26 Total equity (continued)

### (a) Group (continued)

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 26 Total equity (continued)

### (b) Company

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 26 Total equity (continued)

### (b) Company (continued)

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

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

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

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

### (c) Share capital

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

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



# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 27 Notes to consolidated cash flow statement

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

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

### (b) Acquisition of subsidiaries

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

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

### (b) Acquisition of subsidiaries *(continued)*

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

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

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

## 28 Capital commitments

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 29 Contingent liabilities

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

## 30 Pledge of assets

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

## 31 Subsidiaries

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 31 Subsidiaries *(continued)*

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 31 Subsidiaries *(continued)*

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 31 Subsidiaries *(continued)*

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 31 Subsidiaries (continued)

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



# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 32 Staff retirement scheme

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

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

## 33 Material related party transactions

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

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

# Notes on the Accounts

*(Expressed in Hong Kong dollars)*

## **34 Critical accounting judgements and key sources of estimation uncertainty**

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

### **Depreciation and amortization**

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

### **Allowances for bad and doubtful debts**

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

### **Estimated impairment of goodwill**

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

# Notes on the Accounts

*(Expressed in Hong Kong dollars)*

## 35 Financial risk management objectives and policies

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

### (a) Interest rate risk

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

### (b) Credit risk

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

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

### (c) Liquidity risk

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

## 36 Parent and ultimate holding company

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

# Notes on the Accounts

*(Expressed in Hong Kong dollars)*

## **37 Comparative figures**

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

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

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

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