

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies

### (a) Statement of compliance

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

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

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies *(continued)*

### (b) Measurement basis

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

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

### (c) Basis of consolidation

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

### (d) Goodwill

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

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

## 1 Significant accounting policies *(continued)*

### (e) Interest in subsidiaries and minority interests

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

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies *(continued)*

### (f) Interest in associated companies

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

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

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

### (g) Interest in joint ventures

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

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

## 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 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) **Interests in property development**

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

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

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

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

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

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

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

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

## 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 assets**

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

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

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

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies *(continued)*

### (j) **Financial assets** *(continued)*

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

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

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

### (l) **Cash and cash equivalents**

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

### (m) **Borrowings**

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

## 1 Significant accounting policies *(continued)*

### (m) **Borrowings** *(continued)*

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

### (n) **Depreciation and amortization**

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

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

#### (ii) **Other fixed assets**

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies *(continued)*

### (o) Impairment of assets

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

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

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

### (i) Financial assets

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

## 1 Significant accounting policies *(continued)*

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

#### (ii) Other assets

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

#### (iii) Interim financial reporting and impairment

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

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

### (p) Income tax

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies *(continued)*

### (p) **Income tax** *(continued)*

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

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

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

### (q) **Recognition of revenue**

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

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

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

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

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

## 1 Significant accounting policies *(continued)*

### (q) **Recognition of revenue** *(continued)*

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

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

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

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

#### (v) **Dividends**

- Dividend income from unlisted investments is recognized when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognized when the share price of the investment goes ex-dividend.

#### (vi) **Interest income**

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

### (r) **Translation of foreign currencies**

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 1 Significant accounting policies *(continued)*

### (s) Financial guarantees issued, provisions and contingent liabilities

#### (i) **Financial guarantees issued**

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

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

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

#### (ii) **Other provisions and contingent liabilities**

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

## 1 Significant accounting policies *(continued)*

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

#### (ii) **Other provisions and contingent liabilities** *(continued)*

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

### (t) **Related parties**

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

### (u) **Segment reporting**

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 2 Segment information

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

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

### (a) Business segments

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

## 2 Segment information *(continued)*

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 2 Segment information *(continued)*

### (b) Geographical segments

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

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

### (c) Major customers and suppliers

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

### 3 Profit before taxation

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

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

(b) **Finance costs**

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

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

(c) **Other items**

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 3 Profit before taxation *(continued)*

- (d) The Group's share of profits for the year, after minority interests and after the declaration of dividend and taxation, retained by the associated companies was \$1,324,362 (2005: \$10,542,300).
- (e) The Group's share of profits less losses for the year, after minority interests and after the declaration of dividend and taxation, retained by the jointly controlled entities was \$2,190,824 (2005: \$4,166,726).
- (f) In 2006, negative goodwill of \$162,876,069 was recorded on the conversion of convertible preference shares of Polytec Asset Holdings Limited ("Polytec Asset"), a listed subsidiary of the Company, held by the Group into 275,191,901 ordinary shares of Polytec Asset (note 32 (k)).

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

## 4 Directors' and management's emoluments

### (a) Directors' emoluments

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

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

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

	2005				Total \$'000
	Directors' fees \$'000	Salaries and allowances \$'000	Performance related bonuses \$'000	Provident fund contributions \$'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
	<u>845</u>	<u>2,023</u>	<u>1,100</u>	<u>110</u>	<u>4,078</u>

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

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

### (b) Individuals with highest emoluments

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

	<b>2006</b>	2005
	<b>\$'000</b>	\$'000
Salaries and allowances	<b>3,325</b>	3,929
Performance related bonuses	<b>1,262</b>	1,688
Provident fund contributions	<b>125</b>	194
	<b><u>4,712</u></b>	<u>5,811</u>

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

	<b>2006</b>	2005
\$0 – \$1,000,000	–	–
\$1,000,001 – \$1,500,000	<b>1</b>	4
\$1,500,001 – \$2,000,000	<b>2</b>	–

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 5 Income tax

(a) Taxation in the consolidated income statement represents:

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

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

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

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

## 6 Profit attributable to shareholders

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

## 7 Earnings per share

### (a) Basic earnings per share

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

### (b) Diluted earnings per share

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

### (c) Number of shares

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

## 8 Dividends

### (a) Dividends attributable to the year

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 8 Dividends (continued)

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

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

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

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

## 9 Deferred taxation

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

### Group

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

## 9 Deferred taxation *(continued)*

### Company

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

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

### (b) Deferred tax assets not recognized

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 10 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 2005	3,461,940	6,446	1,820	31,392	3,501,598
Additions					
– Through acquisition of subsidiaries	150,000	263,760	31,240	5,857	450,857
– Others	29,872	–	–	898	30,770
Disposals	–	–	–	(1,521)	(1,521)
Revaluation surplus	505,818	–	–	–	505,818
At 31 December 2005	<u>4,147,630</u>	<u>270,206</u>	<u>33,060</u>	<u>36,626</u>	<u>4,487,522</u>
<i>Representing</i>					
Professional valuation	4,147,630	–	–	–	4,147,630
Cost	–	270,206	33,060	36,626	339,892
	<u>4,147,630</u>	<u>270,206</u>	<u>33,060</u>	<u>36,626</u>	<u>4,487,522</u>
At 1 January 2006	<b>4,147,630</b>	<b>270,206</b>	<b>33,060</b>	<b>36,626</b>	<b>4,487,522</b>
Additions	392	–	–	4,356	4,748
Disposals	–	–	–	(1,519)	(1,519)
Revaluation surplus	346,608	–	–	–	346,608
At 31 December 2006	<u>4,494,630</u>	<u>270,206</u>	<u>33,060</u>	<u>39,463</u>	<u>4,837,359</u>
<i>Representing</i>					
Professional valuation	4,494,630	–	–	–	4,494,630
Cost	–	270,206	33,060	39,463	342,729
	<u>4,494,630</u>	<u>270,206</u>	<u>33,060</u>	<u>39,463</u>	<u>4,837,359</u>

## 10 Fixed assets (continued)

### (a) Group (continued)

	Investment properties \$'000	Leasehold land held for own use \$'000	Other property, plant and equipment		Total \$'000
			Buildings \$'000	Others \$'000	
<b>Aggregate depreciation and amortization</b>					
At 1 January 2005	–	4,386	1,409	29,240	35,035
Charge for the year	–	267	80	957	1,304
Written back on disposals	–	–	–	(1,503)	(1,503)
At 31 December 2005	–	4,653	1,489	28,694	34,836
At 1 January 2006	–	<b>4,653</b>	<b>1,489</b>	<b>28,694</b>	<b>34,836</b>
Charge for the year	–	<b>6,531</b>	<b>785</b>	<b>2,330</b>	<b>9,646</b>
Written back on disposals	–	–	–	(1,515)	(1,515)
At 31 December 2006	–	<b>11,184</b>	<b>2,274</b>	<b>29,509</b>	<b>42,967</b>
<b>Carrying value</b>					
At 31 December 2006	<b>4,494,630</b>	<b>259,022</b>	<b>30,786</b>	<b>9,954</b>	<b>4,794,392</b>
At 31 December 2005	4,147,630	265,553	31,571	7,932	4,452,686

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 10 Fixed assets (continued)

### (b) Company

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

## 10 Fixed assets *(continued)*

### (b) **Company** *(continued)*

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 10 Fixed assets (continued)

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

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

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

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

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

## 10 Fixed assets *(continued)*

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

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

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 11 Goodwill

	Group	
	2006	2005
	\$'000	\$'000
At 1 January	16,994	–
Through acquisition of subsidiaries	–	16,994
At 31 December	<b>16,994</b>	<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 attributable to the goodwill.

## 12 Interest in subsidiaries

	Company	
	2006	2005
	\$'000	\$'000
Unlisted shares, at cost	1,530,460	1,530,460
Loans to subsidiaries		
– interest free	4,767,864	944,573
– interest bearing	1,422,513	1,292,194
Loans from subsidiaries		
– interest free	(736,917)	(567,265)
– interest bearing	(110,864)	(297,221)
Amounts due from/(to) subsidiaries	368	(7)
Impairment losses on subsidiaries	(165,064)	(204,581)
	<b>6,708,360</b>	<b>2,698,153</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 30.

## 13 Interests in property development

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

## 14 Interest in jointly controlled entities

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

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

Details of the jointly controlled entities are as follows:

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 14 Interest in jointly controlled entities (continued)

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

	2006	2005
	\$'000	\$'000
<b>Income Statement</b>		
Revenue	12,371	116
Expenses	(7,421)	(254)
<b>Balance Sheet</b>		
Non-current assets	426,864	403,618
Current assets	1,556,951	223
Current liabilities	(702,657)	(134,264)
Non-current liabilities	(653,178)	(45,339)
Net assets	627,980	224,238

## 15 Interest in associated companies

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

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

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

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

Details of the associated companies are shown as follows:

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

Summary of financial information on significant associated companies:

	<b>Assets \$'000</b>	<b>Liabilities \$'000</b>	<b>Equity \$'000</b>	<b>Revenue \$'000</b>	<b>Profit \$'000</b>
<b>2006</b>					
Aggregate on associated companies' accounts	<b>31,331</b>	<b>15,124</b>	<b>16,207</b>	<b>56,362</b>	<b>1,930</b>
Group's effective interest	<b>15,353</b>	<b>7,411</b>	<b>7,942</b>	<b>27,617</b>	<b>946</b>
<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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 16 Investments in securities

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

	Group	
	2006	2005
	\$'000	\$'000
Market value of investments in securities		
– Listed in Hong Kong	1,178,034	128,634
– Listed outside Hong Kong	188,798	30,823
	1,366,832	159,457

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

## 17 Inventories

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 17 Inventories *(continued)*

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

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

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

## 18 Trade and other receivables

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

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

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

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

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 19 Derivative financial instruments

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

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

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

(b) **Interest rate swaps**

(i) **Hong Kong Dollar Swap**

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

## 19 Derivative financial instruments *(continued)*

### (b) Interest rate swaps *(continued)*

#### (ii) US Dollar Swap

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

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

## 20 Trade and other payables

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 20 Trade and other payables (continued)

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

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

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

## 21 Amounts due to minority shareholders

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

## 22 Loan from ultimate holding company

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

## 23 Bank loans

At 31 December, bank loans were repayable as follows:

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

## 23 Bank loans *(continued)*

Bank loans were classified in the balance sheets as follows:

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 24 Total equity

### (a) Group

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

## 24 Total equity *(continued)*

### (a) Group *(continued)*

	Note	Attributable to shareholders of the Company					Minority interests	Total equity	
		Share capital	Share premium	Capital reserve	Fair value reserves	Retained profits			
		\$'000	\$'000	\$'000	\$'000	\$'000			
At 1 January 2005		56,677	557,916	2,154	169,324	3,282,840	4,068,911	1,208	4,070,119
Changes in fair value of equity securities available-for-sale		-	-	-	(1,310)	-	(1,310)	-	(1,310)
Changes in fair value of interests in property development		-	-	-	462,456	-	462,456	-	462,456
Transfer to income statement upon disposal of equity securities available-for-sale		-	-	-	(11,156)	-	(11,156)	-	(11,156)
Transfer to income statement upon recognition of interest in property development		-	-	-	(282,273)	-	(282,273)	-	(282,273)
Final dividend declared and paid	8(b)	-	-	-	-	(141,692)	(141,692)	-	(141,692)
Interim dividend declared and paid	8(a)	-	-	-	-	(56,677)	(56,677)	-	(56,677)
Loan from a minority shareholder		-	-	-	-	-	-	26,625	26,625
Minority interests of subsidiaries acquired during the year	26(b)	-	-	-	-	-	-	857,093	857,093
Profit for the year		-	-	-	-	1,059,153	1,059,153	4,251	1,063,404
At 31 December 2005		<u>56,677</u>	<u>557,916</u>	<u>2,154</u>	<u>337,041</u>	<u>4,143,624</u>	<u>5,097,412</u>	<u>889,177</u>	<u>5,986,589</u>

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)

## 24 Total equity (continued)

### (b) Company

	Note	Share capital \$'000	Share premium \$'000	Retained profits \$'000	Total \$'000
At 1 January 2006		56,677	557,916	3,130,934	3,745,527
Issue of shares		20,035	–	–	20,035
Premium on issue of shares		–	2,549,602	–	2,549,602
Expenses on issue of shares		–	(58,109)	–	(58,109)
Final dividend declared and paid	8(b)	–	–	(198,369)	(198,369)
Interim dividend declared and paid	8(a)	–	–	(88,416)	(88,416)
Profit for the year		–	–	282,378	282,378
At 31 December 2006		<b>76,712</b>	<b>3,049,409</b>	<b>3,126,527</b>	<b>6,252,648</b>
At 1 January 2005		56,677	557,916	2,894,414	3,509,007
Final dividend declared and paid	8(b)	–	–	(141,692)	(141,692)
Interim dividend declared and paid	8(a)	–	–	(56,677)	(56,677)
Profit for the year		–	–	434,889	434,889
At 31 December 2005		<b>56,677</b>	<b>557,916</b>	<b>3,130,934</b>	<b>3,745,527</b>

The Group's share of profits retained in the accounts of the associated companies at 31 December 2006 after minority interests were \$54,772 (2005: \$19,896,912).

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

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

## 24 Total equity *(continued)*

### (b) **Company** *(continued)*

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

### (c) **Share capital**

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

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 25 Warrants of a subsidiary

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

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

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

## 26 Notes to consolidated cash flow statement

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

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 26 Notes to consolidated cash flow statement (continued)

### (b) Acquisition of subsidiaries

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

	2006 \$'000
<hr/>	
<i>Fair value of assets of the subsidiary acquired:</i>	
Interests in property development	<b>8,448,000</b>
<i>Satisfied by:</i>	
Loan from ultimate holding company	<b>2,194,040</b>
Amount payable to ultimate holding company	<b>2,958,450</b>
Cash	<b>3,295,510</b>
	<hr/> <b>8,448,000</b> <hr/>

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

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

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

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

	2005 \$'000
<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	<u>1,494,216</u>
Negative goodwill arising on consolidation	(26,482)
Amount of net assets attributable to minority shareholders	<u>(641,672)</u>
Cash consideration on acquisition of subsidiaries	826,062
Cash and bank balances acquired	(61,841)
Consideration outstanding to the major shareholder	<u>(140,791)</u>
Cash outflow on acquisition of the subsidiaries	<u><u>623,430</u></u>

# Notes on the Accounts

(Expressed in Hong Kong dollars)

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

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

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

## 27 Capital commitments

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

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

## 28 Contingent liabilities

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

## 29 Pledge of assets

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

## 30 Subsidiaries

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

Subsidiary	Place of incorporation/ operation	Nominal value of issued ordinary share capital	Proportion of nominal value of shares held		Principal activities
			Direct	Indirect	
Atlantic Capital Limited	Hong Kong	\$10,000	100%	–	Investment holding
Country House Property Management Limited	Hong Kong	\$10,000	–	100%	Property management and security services
Elegant Florist Limited	British Virgin Islands	US\$1,000	100%	–	Investment holding
Eversound Investments Limited	Hong Kong	\$1,000,000	–	100%	Property investment
Future Star International Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Gargantuan Investment Limited	Hong Kong	\$2	100%	–	Financial investment
Good Companion Investments Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Jumbo Power Enterprises Limited	Hong Kong	\$2	–	100%	Property development
Jumbo Star Limited	British Virgin Islands	US\$1	100%	–	Investment holding

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 30 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	
King's City Holdings Limited	Hong Kong	\$2	–	100%	Property development
Kowloon Development Engineering Limited	Hong Kong	\$2	100%	–	Construction
Kowloon Development Finance Limited	Hong Kong	\$2,000,000	100%	–	Financial Services
Lucky City Investments Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Manor House Holdings Limited	Hong Kong	\$264,529,125	100%	–	Investment holding
Marble King International Limited	British Virgin Islands	US\$2	100%	–	Investment holding
Pak Hop Shing Company, Limited	Hong Kong	\$1,300,000	–	100%	Property development
Polytec Property Good Companion (Shenyang) Limited	People's Republic of China	US\$60,000,000 (Note)	–	100%	Property development
Polytec Property Lucky City (Shenyang) Limited	People's Republic of China	\$118,600,000 (Note)	–	100%	Property development
Roe Investment Limited	Hong Kong	\$500,000	100%	–	Investment holding
Searson (Hong Kong) Limited	Hong Kong	\$2	100%	–	Property development

Note: Amount represented the registered and paid up capital.

### 30 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	
Spark Team Limited	Hong Kong	\$2	100%	–	Retail
To Kwa Wan Properties Limited	Hong Kong	\$2	–	100%	Property investment
Top Milestone Developments Limited	British Virgin Islands/Macau	US\$100	–	100%	Project and financial investment
Town House Development Limited	Hong Kong	\$10,000	100%	–	Property investment
Triumph Glory Investments Limited	British Virgin Islands	US\$1	100%	–	Investment holding
Tyleelord Development & Agency Company Limited	Hong Kong	\$100,000	–	100%	Property investment
Un Chau Properties Limited	Hong Kong	\$2	–	100%	Property investment
Units Properties Limited	Hong Kong	\$2	–	100%	Property investment
Union Way Management Limited	Hong Kong	\$2	–	100%	Investment holding
Wealrise Investments Limited	Hong Kong	\$2	–	100%	Property development and investment
Brilliant Idea Investments Limited	British Virgin Islands	US\$100	85%	–	Investment holding

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 30 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	
Golden Princess Amusement Company Limited	Hong Kong	\$100,000	85%	–	Film distribution
Cinema City Company Limited	Hong Kong	\$1,000,000	–	85%	Film distribution
Cinema City (Film Production) Company Limited	Hong Kong	\$5,000,000	–	85%	Film distribution
Golden Princess Film Production Limited	Hong Kong	\$10,000	–	85%	Film distribution
Polytec Asset Holdings Limited	Cayman Islands/ Hong Kong and Macau	\$431,642,530	–	59.59%	Investment holding
Genius Star Investments Limited	British Virgin Islands/Macau	US\$1	–	59.59%	Financial investment
Glentech International Company Limited	Hong Kong	\$2	–	59.59%	Provision of consultancy services
Imperial Profit Investment Limited	British Virgin Islands/Hong Kong	US\$1	–	59.59%	Financial investment
New Bedford Properties Limited	British Virgin Islands	US\$1	–	59.59%	Investment holding
Newcott Limited	British Virgin Islands	US\$10,000	–	59.59%	Investment holding
Noble Prime International Limited	British Virgin Islands	US\$1	–	59.59%	Investment holding

### 30 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	
Power Charm International Limited	British Virgin Islands	US\$1	–	59.59%	Investment holding
Power Giant Limited	British Virgin Islands/Macau	US\$1	–	59.59%	Property trading and investment
Profit Sphere International Limited	British Virgin Islands	US\$1	–	59.59%	Investment holding
Sheen Concord Enterprises Limited	Hong Kong	\$2	–	59.59%	Property investment and development
Sinocharm Trading Limited	British Virgin Islands	US\$1	–	59.59%	Investment holding
Success Ever Limited	British Virgin Islands	US\$1	–	59.59%	Investment holding
The Hong Kong Ice & Cold Storage Company Limited	Hong Kong	\$500,000	–	59.59%	Ice manufacturing and provision of cold storage
Top Vision Assets Limited	British Virgin Islands	US\$1	–	59.59%	Investment holding
Century Leader Profits Limited	British Virgin Islands/People's Republic of China	US\$100	–	54.23%	Property trading and investment
Acestart Investments Limited	British Virgin Islands/Macau	US\$1	–	42.01%	Property trading and investment
Think Bright Limited	British Virgin Islands/Macau	US\$200	–	42.01%	Property trading and investment

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 30 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	
Hin Rich International Limited	British Virgin Islands/Macau	US\$1	–	34.56%	Financial investment
Kam Yuen Property Investment Limited	Macau	MOP30,000	–	34.56%	Property investment and development
New Cosmos Holdings Limited	British Virgin Islands	US\$100	–	34.56%	Investment holding

## 31 Staff retirement scheme

The Group operates a defined contribution staff retirement scheme. Contributions under the scheme are charged to the income statement as incurred. The amount of contributions is based on a specified percentage of the basic salary of the eligible employees. Forfeited contributions in respect of unvested benefits of staff leavers utilized to reduce the Group's ongoing contributions during the year amounted to \$44,732 (2005: \$38,354). There were no unutilized forfeited contributions at the balance sheet date of both years. The Group's annual contribution for the year was \$608,865 (2005: \$615,120).

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

## 32 Material related party transactions

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

- (a) Polytec Holdings has guaranteed the due performance of a subsidiary of the Group in respect of its obligations under the development agreement as stated in note 17.
- (b) Details of the acquisition of a subsidiary from Polytec Holdings during the year was set out in note 26(b). Balance payable to Polytec Holdings for the acquisition together with accrued interest was \$3,026,230,979 as at 31 December 2006. Such transaction is considered to be related party transaction and also constitutes connected transactions as defined under the Listing Rules.
- (c) Loan amounting to \$2,194,040,000 has been obtained from Polytec Holdings during the year for the subscription payments of new shares issued by Polytec Asset. The proceeds of the subscription payments were utilized by Polytec Asset to settle partially the consideration for the acquisition of the subsidiary as stated in note 26(b). Such transaction is considered to be related party transaction and also constitutes connected transactions as defined under the Listing Rules.
- (d) During the year, amounts of \$600,000,000 was received and \$40,246,056 was receivable from a subsidiary of Polytec Holdings being distribution of one of the Group's interest in property development in Macau (note 13).
- (e) During the year, interest of \$149,177,934 was paid to Polytec Holdings.
- (f) During the year, arranger's fee and commission fee of \$33,788,856 was paid to a related company for the placement and subscription of shares of the Company and Polytec Asset. Such transaction is considered to be related party transaction and also constitutes connected transactions as defined under the Listing Rules.

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 32 Material related party transactions *(continued)*

- (g) In May 2006, the Company issued and allotted 113,353,000 new shares to its major shareholder at a price of \$12.40 per share after the placement of 113,353,000 old shares by the major shareholder at a price of \$12.40 per share to independent third parties.
- (h) In September 2006, the Company issued and allotted 87,000,000 new shares to its major shareholder at a price of \$13.25 per share after the placement of 87,000,000 old shares by the major shareholder at a price of \$13.25 per share to independent third parties.
- (i) On 5 May 2006, a subsidiary of the Company entered into a subscription agreement with Polytec Asset for the subscription of 1,598,000,000 shares of Polytec Asset at a subscription price of \$1.98 each, totalling \$3,164,040,000. Such transaction is considered to be related party transaction and also constitutes connected transactions as defined under the Listing Rules.
- (j) During the year, Polytec Asset had a bonus issue of 69,897,537 units of warrants to a subsidiary of the Company on the basis of one unit of warrants for every ten shares then held by the subsidiary (note 25). The subsidiary has not exercised the warrants as at 31 December 2006.
- (k) During the year, a subsidiary of the Company has fully paid up the convertible preference shares of Polytec Asset with amount of \$66,664,621 and converted into 275,191,901 ordinary shares that resulted in an increase of 2.75% interests in Polytec Asset and a negative goodwill of \$162,876,069 was arisen thereon.
- (l) In December 2006, Intellinsight Holdings Limited (“Intellinsight”), the parent company of the Company and certain directors of the Company, entered into an underwriting agreement pursuant to which Intellinsight and the directors have undertaken to the Company to subscribe for 224,119,041 and 1,211,000 rights shares respectively provisionally allotted to them under the two for one rights issue at a price of \$13.8 per rights share.
- (m) During the year, the Company has fully repaid the amount due to a major shareholder of \$140,791,092.

### 32 Material related party transactions *(continued)*

- (n) As at 31 December 2006, a director of the Company granted a guarantee to a bank to secure the liabilities of a subsidiary to the extent of \$42,718,000.
- (o) As at 31 December 2006, the Group has given guarantees to insurance companies in respect of performance bonds entered into by certain associated companies to the extent of \$11,020,000.
- (p) During the year, the remuneration for key management personnel being short term employee benefits amounted to \$12,071,342 (2005: \$9,883,894) as disclosed in notes 4(a) and 4(b). The remuneration of directors and senior management is determined by the Remuneration Committee having regard to the performance and responsibilities of individuals and market trends.

### 33 Post balance sheet event

- (a) On 18 January 2007, the authorized share capital of the Company was increased to \$500 million by the creation of 4,000,000,000 new shares of \$0.10 each.
- (b) On 5 February 2007, 383,560,425 fully paid rights shares were issued at a price of \$13.80 per rights share on the basis of one rights share for every two shares held on 18 January 2007.

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

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

(a) **Depreciation and amortization**

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

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

(b) **Allowances for bad and doubtful debts**

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

(c) **Estimated impairment of goodwill**

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

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

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

## 35 Financial risk management objectives and policies

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

(a) **Interest rate risk**

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

(b) **Credit risk**

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

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

(c) **Liquidity risk**

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

# Notes on the Accounts

(Expressed in Hong Kong dollars)

## 35 Financial risk management objectives and policies *(continued)*

### (d) Foreign currency risk

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

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

### (e) Price risk

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

## 36 Parent and ultimate holding company

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

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

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

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