



九龍建業有限公司  
Kowloon Development Company Limited

(Stock Code 股份代號 : 34)



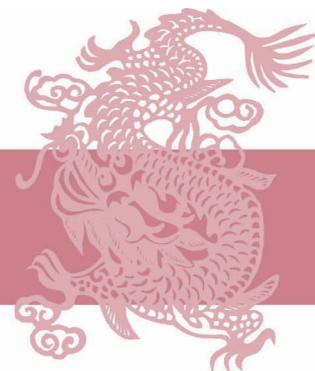
INTERIM REPORT  
2007 中期報告

# CONTENTS

## 目錄

Highlights	1
Chairman's Statement	2
Financial Review	11
Consolidated Income Statement	13
Consolidated Balance Sheet	14
Consolidated Statement of Changes in Equity	16
Condensed Consolidated Cash Flow Statement	18
Notes on the Unaudited Interim Financial Report	19
Independent Review Report of the Auditors	39
Other Information	40
Corporate Information	46
摘要	47
主席報告書	48
財務回顧	57
綜合收益計算表	59
綜合資產負債表	60
綜合權益變動表	62
簡明綜合現金流量表	64
未經審核中期財務報告附註	65
核數師獨立審閱報告	85
其他資料	86
公司資料	92

# HIGHLIGHTS



- **Group's 2007 interim net profit rises to HK\$712 million; excluding property revaluations net of deferred tax, underlying net profit increases 135% to HK\$606 million.**
- **Underlying earnings per share, which excludes property revaluation effects, for the first half of 2007 amounts to HK\$0.57, an increase of 36% over the same period in 2006.**
- **The Group will accelerate the pace of its business development in China.**

<i>(HK\$ million)</i>	For the six months ended 30 June		
	2007	2006	Change
<b>Turnover</b>	<b>3,180</b>	1,312	+142%
<b>Profit attributable to Company's shareholders</b>	<b>712</b>	318	+124%
<b><i>Excluding property revaluations</i></b>	<b>606</b>	258	+135%
<b>Earnings per share, Basic (HK\$)*</b>	<b>0.67</b>	0.52 <i>(restated)</i>	+29%
<b><i>Excluding property revaluations (HK\$)*</i></b>	<b>0.57</b>	0.42 <i>(restated)</i>	+36%
<b>Interim dividend per share (HK\$)</b>	<b>0.17</b>	0.13	+31%

\* Earnings per share for the six months ended 30 June have taken the rights issue during the period into account.

# CHAIRMAN'S STATEMENT

## INTERIM RESULTS AND DIVIDENDS

The Group's unaudited profit attributable to shareholders for the first six months of 2007 rose to HK\$712 million from HK\$318 million in the same period of last year. Excluding investment property revaluation gains net of deferred tax, underlying net profit amounted to HK\$606 million, an increase of 135% over the first half of 2006.

In February 2007, the Company issued 383,560,425 new shares at HK\$13.80 per share through a one-for-two rights issue, raising a total of HK\$5,293 million. Taking account of this effect, the underlying interim earnings per share excluding investment property revaluations for the period amounted to HK\$0.57, representing an increase of 36% over the corresponding period of last year. The interim results have been reviewed by the Company's Audit Committee and auditors.

The Board of Directors has declared an interim dividend of HK\$0.17 per share, which represents an increase of 31% over the corresponding period. The interim dividend will be payable on 11 October 2007 to shareholders registered as at 5 October 2007.

## BUSINESS REVIEW

We have just delivered another record interim profit for the first half of 2007. The substantial increase in net profit for the period was mainly due to the recognition of profits from our 80% interest of the Macau project, La Baie Du Noble, together with strong investment income.

On 18 January 2007, to facilitate the rights issue, shareholders approved an increase in the authorized share capital of the Company to HK\$500 million by the creation of 4,000,000,000 new shares at HK\$0.10 each.

To further strengthen the Group's earnings base over the medium-term to long-term, on 22 August 2007, the Group entered into an agreement to acquire 50% of a non-performing loan portfolio ("NPLs") with a principal value of approximately RMB35,500 million for a total consideration of RMB2,190 million from China Orient Asset Management Corporation ("China Orient"), one of the four state asset management companies set up by the Ministry of Finance in 1999 to acquire the non-performing loans of China's four largest state-owned banks and financial institutions.

At the same time, the Group will form a joint venture company ("JV") with China Orient, which will inject the remaining 50% of the NPLs into the newly formed JV, to manage the recovery of the whole NPLs. The Company and China Orient will take 75.1% and 24.9% stakes respectively in the JV. The NPLs are mainly located in Guangdong and Hainan provinces.



The acquisition and the formation of the JV are subject to the approval from relevant PRC governmental authorities including but not limited to the National Development and Reform Commission and the Ministry of Commerce.

### Property Development

The Group's operating profits from property development amounted to HK\$131 million for the first six months of 2007, majority of the profits are generated from the recognition of profits from the Group's investment in La Baie Du Noble, an 80% interest residential and commercial property development project in Macau.

The status of the Group's major projects under development and the details of major land held for future development are listed below.

#### *Status of the Group's Major Projects under Development*

Location	Usage	Group's Interest (%)	Approx. Total Gross Floor Area (sq. m.)	Status
<b>MAINLAND CHINA</b>				
West of Daba Road Dong Ning District Shenyang PRC	Residential and Commercial	100	2,900,000	Site clearance work in progress
Heshun Meijing Shuiku Sector Lishui Town Nanhai District Foshan PRC	Residential and Commercial	50	1,600,000	Overall layout design and site formation in progress

# CHAIRMAN'S STATEMENT

Location	Usage	Group's Interest (%)	Approx. Total Gross Floor Area (sq. m.)	Status
<b>MACAU</b>				
<i>Villa de Mer</i> (Notes 1, 2) The Orient Pearl District Novos Aterros da Areia Preta Macau	Residential and Commercial	48	126,400	Foundation work in progress and completion of development expected in 2009/2010
<i>Pacifica Garden</i> (Note 1) Taipa Macau	Residential and Commercial	35	35,900	Superstructure work in progress and completion expected by the end of 2008 or early 2009
<b>HONG KONG</b>				
No. 31 Robinson Road Mid-Levels Hong Kong	Residential	100	11,900	Superstructure work in progress and completion expected in December 2007
No. 35 Clear Water Bay Road Ngau Chi Wan Kowloon Hong Kong	Residential and Commercial	100	196,400	Land exchange under process
Nos. 150-162 Belcher's Street Kennedy Town Hong Kong	Residential and Commercial	100	5,600	Demolition work in progress
<b>TOTAL</b>			<b>4,876,200</b>	

*Notes:*

1. Owned by the Group's 59.52% owned subsidiary Polytec Asset Holdings Limited ("Polytec Asset").
2. The development of these properties are under the co-investment agreements with wholly owned subsidiaries of the ultimate holding company.



### **Details of the Group's Major Land Held for Development**

Location	Usage	Group's Interest (%)	Approx. Total Gross Floor Area (sq. m.)
<b>MAINLAND CHINA</b>			
Lot No. Jin Dong Liu 2004-066 Intersection of Shiyijing Road and Liuwei Road Hedong District Tianjin PRC	Residential and Commercial	61	930,000
<b>MACAU</b>			
Lotes T and T1 <i>(Notes 1, 2)</i> The Orient Pearl District Novos Aterros da Areia Preta Macau	Residential and Commercial	48	164,200
Lote P <i>(Notes 1, 2)</i> The Orient Pearl District Novos Aterros da Areia Preta Macau	Residential and Commercial	48	687,700
<b>TOTAL</b>			<b>1,781,900</b>

*Notes:*

1. *Owned by the Group's 59.52% owned subsidiary Polytec Asset.*
2. *The development of these properties are under the co-investment agreements with wholly owned subsidiaries of the ultimate holding company.*

# CHAIRMAN'S STATEMENT

## ***Shenyang Dong Ning District, PRC***

Shenyang is the capital city of Liaoning province in Northern China. The development site is located in the eastern part of Shenyang, benefiting in its close proximity to the heart of the metropolitan area. The first phase of development is planned to be commenced in the first half of 2008.

## ***Foshan Nanhai District, PRC***

The Foshan project is a 50/50 joint venture with CITIC South China (Group) Co., Ltd. Total site area is approximately 4 million sq. m. with a gross floor area of about 1.6 million sq. m. The project will consist of residential, recreational facilities and hotel development. Construction of a golf course is planned to commence soon. Development will be commenced upon the completion of the golf course.

## ***Tianjin Hedong District, PRC***

The Tianjin project, located in the central business district of Hedong, was acquired in December 2006. The site was previously a logistics centre of a railway corporation and the clearance of the existing railway network is required before the development commences.

## ***No. 31 Robinson Road, Mid-Levels, Hong Kong***

Planning of marketing and sales are now underway and the project is expected to launch in the fourth quarter of 2007.

## ***Belcher's Street, Hong Kong***

The Group's redevelopment project at Belcher's Street, Kennedy Town, will be developed into multi-storey high-end residential blocks with retail, recreational and car parking spaces.

## ***Ngau Chi Wan, Hong Kong***

The site will be developed into a residential and commercial complex with retail and community facilities.



## **Property Investment**

The gross rental income generated by the Group's investment property portfolio in the first half of year 2007 amounted to HK\$115 million, an increase of 6.5% over the same period in 2006. Overall occupancy rate of the Group's property portfolio remained high for the first six months of 2007, with the average occupancy rate of both the retail spaces and offices at Pioneer Centre, the Group's flagship property, at over 98% and 97% respectively.

## **Property Management**

For the six months ended 30 June 2007, the Group and its associated companies jointly managed properties with a total area of approximately 479,300 sq. m. which included luxury residential, serviced apartments, public housing estates and commercial centres.

## **Finance and Investments**

The finance and investments segment continued to outperform, with the combined activities contributing HK\$393 million to the Group's net profit in the first half of 2007, compared with HK\$19 million in the corresponding period last year.

## **Shenzhen Properties**

In regard to progress of acquisition of Shenzhen Properties & Resources Development (Group) Limited ("Shenzhen Properties"), a notice of termination dated 19 April 2007 was received from the vendor. Upon receipt of the notice, the Company has applied to the China International Economic and Trade Arbitration Commission for arbitration. Whether the Company could proceed with the acquisition depends on the results of arbitration, which are expected to be released by the Commission by the end of this year.

# CHAIRMAN'S STATEMENT

## Polytec Asset

Polytec Asset Holdings Limited ("Polytec Asset"), a 59.52% owned listed subsidiary of the Company, recorded an after-tax profit of HK\$112 million during the period under review. The profit of Polytec Asset attributable to the Group amounted to HK\$58 million for the period, as compared with HK\$11 million in the same period of 2006. The improvement in net profit for the first six months of the year was mainly due to the rising rental income from the property investment portfolio and strong investment income.

Looking forward, the Group believes Macau's large infrastructure development projects, together with strong investment in gaming and tourism related industries, will continue to support economic growth and hence to create sustainable demand for housing, buoying the territory's property market in the years ahead. As one of the leading property developers in Macau with sizeable landbank and development projects, we will continue to benefit favourably from this promising prospects of economic environment.

## OUTLOOK

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

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



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

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

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

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

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

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

# CHAIRMAN'S STATEMENT

## APPRECIATION

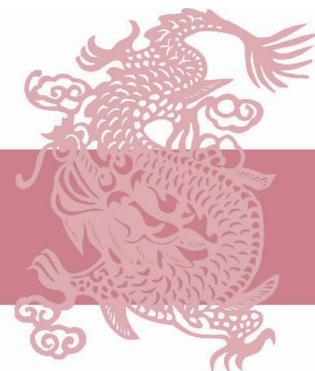
I would like to take this opportunity to express my gratitude to my fellow directors for their guidance and to all our staff for their hardwork, dedication and professionalism.

**Or Wai Sheun**

*Chairman*

Hong Kong, 13 September 2007

# FINANCIAL REVIEW



## FINANCIAL RESOURCES AND BANK BORROWINGS

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

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

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

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

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

# FINANCIAL REVIEW

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

## CAPITAL COMMITMENTS

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

## PLEDGE OF ASSETS

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

# CONSOLIDATED INCOME STATEMENT

(Expressed in Hong Kong dollars)



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

The notes on pages 19 to 38 form part of the interim financial report.

# CONSOLIDATED BALANCE SHEET

(Expressed in Hong Kong dollars)

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



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

Approved and authorized for issue by the board of directors on 13 September 2007.

The notes on pages 19 to 38 form part of the interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Expressed in Hong Kong dollars)

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



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

The notes on pages 19 to 38 form part of the interim financial report.

# CONDENSED CONSOLIDATED CASH FLOW STATEMENT

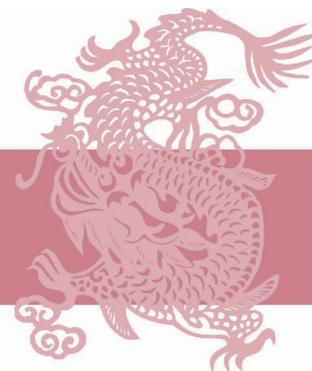
(Expressed in Hong Kong dollars)

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

The notes on pages 19 to 38 form part of the interim financial report.

# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)



## 1 BASIS OF PREPARATION

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410 “Review of interim financial information performed by the independent auditor of the entity”, issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). KPMG’s independent review report to the Board of Directors is included on page 39. In addition, this interim financial report has been reviewed by the Company’s Audit Committee.

The interim financial report has been prepared on a basis consistent with the accounting policies adopted in the 2006 annual financial statements except for the adoption of certain new standards, amendments and interpretations issued by the HKICPA, which are effective for accounting periods beginning on or after 1 January 2007. The adoption of the new standards, amendments and interpretations had no material effect on the Group’s results of operation and financial position.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard 34, “Interim financial reporting”, issued by the HKICPA.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2006 annual financial statements.

The financial information relating to the financial year ended 31 December 2006 included in the condensed interim financial statements does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. The auditors have expressed an unqualified opinion on those financial statements in their report dated 15 March 2007.

## 2 SEGMENT INFORMATION

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

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

# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

## 2 SEGMENT INFORMATION (continued)

### (a) Business segments

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



## 2 SEGMENT INFORMATION *(continued)*

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

	Six months ended 30 June 2006				
	Consolidated \$'000	Property development \$'000	Property investment \$'000	Finance and investments \$'000	Others \$'000
Turnover	1,312,418	597,841	107,931	579,270	27,376
Contribution from operations	304,371	172,324	97,088	27,558	7,401
Fair value changes on investment properties	72,210	—	72,210	—	—
Unallocated group expenses	(20,627)				
Profit from operations	355,954				
Finance costs	(34,203)				
Profit on disposal of an associated company	47,090				
Share of profits of associated companies	588	—	—	—	588
Share of profits of jointly controlled entities	3,273	—	3,273	—	—
Profit before taxation	372,702				
Income tax	(43,470)				
Profit for the period	329,232				

# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

## 2 SEGMENT INFORMATION (continued)

### (b) Geographical segments

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



### 3 PROFIT BEFORE TAXATION

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

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

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

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

# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

## 3 PROFIT BEFORE TAXATION (continued)

### (c) Other items

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

(d) The Group's share of profits of the associated companies for the period, after minority interests and taxation, attributable to shareholders of the Company was \$1,161,000 (six months ended 30 June 2006: \$588,000).

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



## 4 INCOME TAX

Taxation in the consolidated income statement represents:

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

Hong Kong profits tax is calculated at 17.5% (six months ended 30 June 2006: 17.5%) on the estimated assessable profits of the period. Overseas tax is calculated at the applicable tax rates ruling in the respective jurisdictions.

# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

## 5 DIVIDENDS

### (a) Dividends attributable to the interim period

	Six months ended 30 June	
	2007	2006
	\$'000	\$'000
Interim dividend declared after the interim period of \$0.17 (2006: \$0.13) per share on 1,150,681,275 shares (2006: 680,120,850 shares)	<b>195,616</b>	88,416

The interim dividend declared after the interim period end has not been recognized as a liability at the interim period end date.

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

	Six months ended 30 June	
	2007	2006
	\$'000	\$'000
Final dividend in respect of the previous financial year, approved and paid during the interim period, of \$0.42 (2006: \$0.35) per share on 1,150,681,275 shares (2006: 566,767,850 shares)	<b>483,286</b>	198,369



## 6 EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders of the Company of \$711,746,000 (six months ended 30 June 2006: \$317,835,000) and weighted average number of ordinary shares in issue during the period of 1,065,307,711 (2006: 607,719,138 as restated).

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

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

### (c) Diluted earnings per share

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

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

## 7 FIXED ASSETS

The investment properties of the Group were revalued at 30 June 2007 by Vigers Appraisal and Consulting Limited and DTZ Debenham Tie Leung Ltd, independent qualified professional valuers, who have appropriate qualifications and experiences in the valuation of similar properties in the relevant locations, on an open market value basis calculated by reference to net rental income allowing for reversionary income potential. A revaluation gain of \$128,438,000 (six months ended 30 June 2006: \$72,210,000) and deferred tax thereon of \$22,477,000 (six months ended 30 June 2006: \$12,637,000) have been included in the consolidated income statement.

# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

## 8 INTERESTS IN PROPERTY DEVELOPMENT

Interests in property development represent the Group's interests in the development of various properties at Macau under the co-investment agreements with wholly owned subsidiaries of the ultimate holding company, Polytec Holdings International Limited ("Polytec Holdings").

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

## 9 FINANCIAL INVESTMENTS

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



## 9 FINANCIAL INVESTMENTS (continued)

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

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

### Risk management

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

## 10 INVENTORIES

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

# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

## 10 INVENTORIES (continued)

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

## 11 TRADE AND OTHER RECEIVABLES

The following is an ageing analysis of trade receivables:

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



## 11 TRADE AND OTHER RECEIVABLES *(continued)*

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

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

Prepayments of the Group of an amount of \$345,743,000 (at 31 December 2006: \$345,743,000) represents the deposit paid for the acquisition of approximately 70.3% of the issued shares and the general offer for the acquisition of the remaining shares of Shenzhen Properties & Resources Development (Group) Limited.

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

The Group maintains a defined credit policy. An ageing analysis of trade receivables is prepared on a regular basis and is closely monitored to minimize any credit risk associated with receivables.

# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

## 12 DERIVATIVE FINANCIAL INSTRUMENTS

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

## 13 TRADE AND OTHER PAYABLES

The following is an ageing analysis of trade payables:

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



### **13 TRADE AND OTHER PAYABLES (continued)**

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

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

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

### **14 LOAN FROM ULTIMATE HOLDING COMPANY**

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

### **15 AMOUNT PAYABLE TO ULTIMATE HOLDING COMPANY**

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

# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

## 16 TOTAL EQUITY

### (a) Total equity

	<i>Note</i>	<b>Share capital \$'000</b>	<b>Share premium \$'000</b>
At 1 January 2006		56,677	557,916
Issue of shares		20,035	—
Premium on issue of shares		—	2,549,602
Expenses on issue of shares		—	(58,109)
Issue of shares of a subsidiary attributable to minority interests		—	—
Exchange differences on translation of accounts of overseas subsidiaries and jointly controlled entities		—	—
Changes in fair value of available-for-sale investments		—	—
Changes in fair value of interests in property development		—	—
Transfer to income statement upon disposal of available-for-sale investments		—	—
Transfer to income statement upon recognition from interest in property development		—	—
Final dividend declared and paid	5(b)	—	—
Interim dividend declared and paid	5(a)	—	—
Dividend paid to minority interests		—	—
Loan from a minority shareholder		—	—
Decrease in minority interests attributable to an increase in shareholding of a subsidiary		—	—
Profit for the year		—	—
Others		—	—
		<b>76,712</b>	<b>3,049,409</b>
At 31 December 2006		76,712	3,049,409
At 1 January 2007		<b>76,712</b>	<b>3,049,409</b>
Issue of shares		<b>38,356</b>	—
Premium on issue of shares		—	5,254,777
Expenses on issue of shares		—	(1,645)
Exchange differences on translation of accounts of overseas subsidiaries and jointly controlled entities		—	—
Changes in fair value of available-for-sale investments		—	—
Changes in fair value of interests in property development		—	—
Transfer to income statement upon recognition from interest in property development		—	—
Final dividend declared and paid	5(b)	—	—
Dividend paid to minority interests		—	—
Loan from a minority shareholder		—	—
Increase in minority interests upon the subscription of shares under warrants of a subsidiary		—	—
Profit for the period		—	—
		<b>115,068</b>	<b>8,302,541</b>
At 30 June 2007		115,068	8,302,541

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



Attributable to shareholders of the Company

Capital reserve \$'000	Fair value reserves \$'000	Exchange reserves \$'000	Retained profits \$'000	Total \$'000	Minority interests \$'000	Total equity \$'000
2,154	337,041	—	4,143,624	5,097,412	889,177	5,986,589
—	—	—	—	20,035	—	20,035
—	—	—	—	2,549,602	—	2,549,602
—	—	—	—	(58,109)	—	(58,109)
—	—	—	—	—	2,383,492	2,383,492
—	—	15,148	—	15,148	—	15,148
—	32,201	—	—	32,201	—	32,201
—	808,037	—	—	808,037	421,098	1,229,135
—	(1,870)	—	—	(1,870)	—	(1,870)
—	(444,144)	—	—	(444,144)	—	(444,144)
—	—	—	(198,369)	(198,369)	—	(198,369)
—	—	—	(88,416)	(88,416)	—	(88,416)
—	—	—	—	—	(32,554)	(32,554)
—	—	—	—	—	1,665	1,665
—	—	—	—	—	(162,876)	(162,876)
—	—	—	1,346,261	1,346,261	19,745	1,366,006
—	—	—	(25,004)	(25,004)	—	(25,004)
2,154	731,265	15,148	5,178,096	9,052,784	3,519,747	12,572,531
<b>2,154</b>	<b>731,265</b>	<b>15,148</b>	<b>5,178,096</b>	<b>9,052,784</b>	<b>3,519,747</b>	<b>12,572,531</b>
—	—	—	—	38,356	—	38,356
—	—	—	—	5,254,777	—	5,254,777
—	—	—	—	(1,645)	—	(1,645)
—	—	29,862	—	29,862	—	29,862
—	(9,982)	—	—	(9,982)	—	(9,982)
—	692,358	—	—	692,358	411,121	1,103,479
—	(136,972)	—	—	(136,972)	—	(136,972)
—	—	—	(483,286)	(483,286)	—	(483,286)
—	—	—	—	—	(26,623)	(26,623)
—	—	—	—	—	1,945	1,945
—	—	—	—	—	104,938	104,938
—	—	—	711,746	711,746	58,843	770,589
2,154	1,276,669	45,010	5,406,556	15,147,998	4,069,971	19,217,969

# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

## 16 TOTAL EQUITY (continued)

### (b) Share capital

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

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

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



## 17 CAPITAL COMMITMENTS

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

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

## 18 PLEDGE OF ASSETS

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

# NOTES ON THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in Hong Kong dollars)

## 19 MATERIAL RELATED PARTY TRANSACTIONS

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

- (a) Polytec Holdings has guaranteed the due performance of a subsidiary of the Group in respect of its obligations under the development agreement as stated in note 10.
- (b) Polytec Holdings has guaranteed the due performance of the obligations of the Company in respect of its obligations in the property development project in Tianjin, PRC.
- (c) At 30 June 2007, an amount of \$1,348,000,000 was received from a subsidiary of Polytec Holdings in respect of the Group's interests in property development in Macau and was recorded under "Other payable" of non-current liabilities.
- (d) At 30 June 2007, a director has granted a guarantee to a bank to secure the liabilities of the Group to the extent of \$42,718,000.
- (e) During the period ended 30 June 2007, the Group has recognized entitlement of one of the Group's interest in property development in Macau. As at 30 June 2007, entitlement of \$191,675,000 is receivable from a subsidiary of Polytec Holdings.
- (f) At 30 June 2007, the Group has given guarantees to insurance companies in respect of performance bonds entered into by certain associated companies to the extent of \$6,027,000.

## 20 POST BALANCE SHEET EVENT

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

# INDEPENDENT REVIEW REPORT OF THE AUDITORS



## INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF KOWLOON DEVELOPMENT COMPANY LIMITED



### Introduction

We have reviewed the interim financial report set out on pages 13 to 38 which comprises the consolidated balance sheet of Kowloon Development Company Limited as of 30 June 2007 and the related consolidated income statement, and the consolidated statement of changes in equity and the condensed consolidated cash flow statement for the six month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim financial reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

### Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of interim financial information performed by the independent auditor of the entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2007 is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim financial reporting".

### KPMG

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

Hong Kong, 13 September 2007

## OTHER INFORMATION

### SHARE OPTION SCHEME

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

The Share Option Scheme was adopted by the Company on 21 May 2003 and complies with the requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”). Unless otherwise terminated or amended, the Share Option Scheme will remain in force for a period of 10 years.

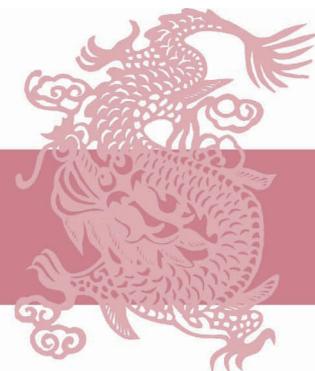
The total number of shares which may be issued pursuant to the Share Option Scheme is 48,376,785 shares, being 10% of the total number of shares of the Company in issue as at the date of approval of the Share Option Scheme. No option has been granted under the Share Option Scheme to any person since its adoption and the total number of shares available for issue remains at 48,376,785 representing 4.2% of the issued share capital of the Company at the date of this report.

### CORPORATE GOVERNANCE

#### Compliance with the Code on Corporate Governance Practices

The Company has complied with all code provisions set out in Appendix 14 Code on Corporate Governance Practices of the Listing Rules throughout the accounting period for the six months ended 30 June 2007, save for code provision A.2.1.

Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual. Under the existing corporate structure, both the positions of the Chairman and chief executive officer are held by Mr. Or Wai Sheun. On viewing this structure, the Board considers that it is beneficial to the Company as it enables the Company to make prompt and efficient decisions. Moreover, all major decisions are made in consultation with members of the Board and appropriate board committees comprising experienced and high caliber individuals. Hence, the operations of the board committees ensure the balance of power and authority. The corporate governance principles of the Company emphasize the importance of a quality Board and accountability to all shareholders.



## CODES FOR DEALING IN THE COMPANY'S SECURITIES

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code during the period under review and they have all confirmed that they had fully complied with the required standard set out in the Model Code. Specific employees who are likely to be in possession of unpublished price sensitive information have also been requested to comply with the provisions of the Model Code. No incident of non-compliance was noted by the Company.

## PURCHASE, SALE OR REDEMPTION OF SHARES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed shares during the six months ended 30 June 2007.

## DIRECTORS' INTERESTS AND SHORT POSITIONS

As at 30 June 2007, the following Directors of the Company were interested, or deemed to be interested in, the following long and short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under Part XV (s.352) of the SFO:

### 1. Interests in Shares, Underlying Shares and Debentures of the Company

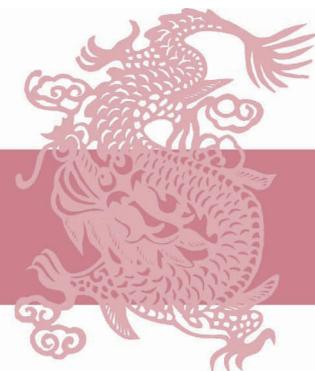
Name of directors	Nature of interest	Number of shares		Approx. percentage of total issued shares (Note 1)	Note(s)
		Long position	Short position		
Or Wai Sheun	Beneficiary	689,649,124	—	59.93%	2
	Corporate	277,500	—	0.02%	3
Ng Chi Man	Beneficiary	689,649,124	—	59.93%	4
Or Pui Kwan	Beneficiary	689,649,124	—	59.93%	5
	Personal	10,500	—	0.00%	5

## OTHER INFORMATION

Name of directors	Nature of interest	Number of shares		Approx. percentage of total issued shares (Note 1)	Note(s)
		Long position	Short position		
Lok Kung Chin, Hardy	Under trust	1,425,000	—	0.12%	6
Keith Alan Holman	Personal	560,000	—	0.05%	7
Tam Hee Chung	Corporate	500,000	—	0.04%	8
Lai Ka Fai	Personal	468,000	—	0.04%	7
David John Shaw	Personal	133,500	—	0.01%	7
	Family	66,000	—	0.01%	9
Yeung Kwok Kwong	Personal	165,000	—	0.01%	7

*Notes:*

- The percentage holding is calculated based on the total number of 1,150,681,275 ordinary shares in issue as at 30 June 2007.
- Mr Or Wai Sheun was interested in 689,649,124 shares ultimately and wholly-owned by a discretionary family trust of which Mr Or Wai Sheun is the founder and a beneficiary. These shares were the shares disclosed under Ms Ng Chi Man and Mr Or Pui Kwan in the above table and in the section on “Interests of Substantial Shareholders and Other Persons” below.
- Mr Or Wai Sheun was also interested in 277,500 shares owned by China Dragon Limited due to his corporate interest therein.
- Ms Ng Chi Man is the spouse of Mr Or Wai Sheun. Ms Ng was deemed to be interested in 689,649,124 shares as a beneficiary of the discretionary family trust referred in Note 2 above.
- Mr Or Pui Kwan is the son of Mr Or Wai Sheun and Ms Ng Chi Man. Mr Or Pui Kwan was the beneficial owner of 10,500 shares and was also deemed to be interested in 689,649,124 shares as a beneficiary of the discretionary family trust referred in Note 2 above.
- Mr Lok Kung Chin, Hardy was taken to be interested in 1,425,000 shares owned by discretionary trusts of which Mr Lok is the founder and a beneficiary respectively.
- Shares were held by the respective Directors in their capacity as beneficial owners.
- Mr Tam Hee Chung was deemed to be interested in 500,000 shares owned by Larry H.C. Tam & Associates Limited by virtue of his 48% interest therein.
- Shares were held through the family interest of Mr David John Shaw.



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

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

*Notes:*

1. The percentage holding is calculated based on the total number of 4,438,967,838 ordinary shares in issue of Polytec Asset as at 30 June 2007.
2. Through their respective interests in the Company disclosed under the subsection on “Interests in Shares, Underlying Shares and Debentures of the Company”, and by virtue of 100% interest in Marble King International Limited, an immediate holding company of Polytec Asset, by the Company, Mr Or Wai Sheun, Ms Ng Chi Man and Mr Or Pui Kwan were deemed to be interested in 2,642,064,812 ordinary shares.
3. By virtue of a 48% interest in Larry H.C. Tam & Associates Limited which owns such 1,100,000 ordinary shares.

## OTHER INFORMATION

Other than the holdings disclosed above, no interests and short positions were held or deemed or taken to be held under Part XV of the SFO by any Director of the Company or their respective associates in the shares, underlying shares and debentures of the Company or any of its associated corporations which were required to be notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to Part XV of the SFO or pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers or which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein. Save as disclosed above, none of the Directors (including their spouses and children under the age of 18) had, as at 30 June 2007, any interest in, or had been granted any right to subscribe for the shares and options of the Company and its associated corporations within the meaning of the SFO, or had exercised any such rights.

### INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS

As at 30 June 2007, the interests and short positions of persons, other than Directors, in the shares, underlying shares and debentures of the Company as recorded in the register required to be kept under Part XV (s.336) of the SFO, or otherwise known to the Directors, were as follows:

Name of shareholders	Nature of interest	Number of shares		Approx. percentage of total issued shares (Note 1)	Note(s)
		Long position	Short position		
HSBC International Trustee Limited	Trustee	690,331,624	–	59.99%	2
Or Family Trustee Limited Inc.	Trust	689,649,124	–	59.93%	2



*Notes:*

1. The percentage holding is calculated based on the total number of 1,150,681,275 shares in issue of the Company as at 30 June 2007.
2. Out of the 690,331,624 shares in which HSBC International Trustee Limited was interested as trustee of certain discretionary trusts that it manages, 689,649,124 shares were the shares held by the Or Family Trustee Limited Inc. as trustee disclosed in the above table and referred in the section "Directors' Interests and Short Positions". Mr Or Wai Sheun and Mr Keith Alan Holman are directors of Or Family Trustee Limited Inc.

## HUMAN RESOURCES

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

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from Wednesday, 3 October 2007 to Friday, 5 October 2007, both days inclusive. To qualify for interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, at 1712-6, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 2 October 2007.

## CORPORATE CITIZENSHIP

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



# CORPORATE INFORMATION

## KOWLOON DEVELOPMENT COMPANY LIMITED

*A member of the Polytec Group*

### BOARD OF DIRECTORS

#### Executive Directors

Or Wai Sheun (*Chairman*)

Ng Chi Man

Lai Ka Fai

Or Pui Kwan

#### Non-executive Directors

Keith Alan Holman (*Deputy Chairman*)

Tam Hee Chung

Yeung Kwok Kwong

#### Independent Non-executive Directors

Li Kwok Sing, Aubrey

Lok Kung Chin, Hardy

Seto Gin Chung, John

David John Shaw

### AUDIT COMMITTEE

Li Kwok Sing, Aubrey (*Chairman*)

Lok Kung Chin, Hardy

Seto Gin Chung, John

Yeung Kwok Kwong

### EXECUTIVE COMMITTEE

Or Wai Sheun (*Chairman*)

Ng Chi Man

Lai Ka Fai

Or Pui Kwan

Yeung Kwok Kwong

### REMUNERATION COMMITTEE

Seto Gin Chung, John (*Chairman*)

Lai Ka Fai

Li Kwok Sing, Aubrey

Lok Kung Chin, Hardy

### COMPANY SECRETARY

Wai Yuk Hing, Monica

### AUTHORIZED REPRESENTATIVES

Lai Ka Fai

Wai Yuk Hing, Monica

### PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

China Construction Bank Corporation

Hang Seng Bank Limited

The Hongkong and Shanghai Banking  
Corporation Limited

Wing Lung Bank Limited

### AUDITORS

KPMG

### SHARE REGISTRARS

Computershare Hong Kong Investor  
Services Limited

### REGISTERED OFFICE

23rd Floor, Pioneer Centre

750 Nathan Road, Kowloon, Hong Kong

Tel: (852) 2396 2112

Fax: (852) 2789 1370

### STOCK CODE

The Hong Kong Stock Exchange: 34

### WEBSITE

[www.kdc.com.hk](http://www.kdc.com.hk)



由精雅印刷有限公司承印，於香港註冊。

用紙：9Lives55 Silk, 在意大利製造。油墨含植物油。紙張成份包括：45% 原纖維, 及55%再循環纖維(包括30%車間損紙及25% 已脫墨之用後廢料)。紙張不含氯。

FSC標誌表示產品所含的木料及原纖維組源自良好管理森林,該等森林已獲得Forest Stewardship Council 的規例認證。Printed by Elegance Printing Company Limited, Hong Kong.

Printed on 9Lives55 Silk Paper, made in Italy and using vegetable-oil based inks. The paper comprises 45% virgin fibre and 55% recycled fibre. The recycled fibre consists of 30% pre-consumer waste and 25% de-inked post-consumer waste. Pulps used are elemental chlorine free.

The FSC logo identifies products which contain wood and virgin fibre from well-managed forests certified in accordance with the rules of the Forest Stewardship Council.



九龍建業有限公司  
**Kowloon Development Company Limited**

(Stock Code 股份代號 : 34)

23rd Floor, Pioneer Centre, 750 Nathan Road, Kowloon, Hong Kong  
香港九龍彌敦道750號始創中心23樓

Website 網址 : [www.kdc.com.hk](http://www.kdc.com.hk)

Tel 電話 : (852) 2396 2112 Fax 傳真 : (852) 2789 1370